

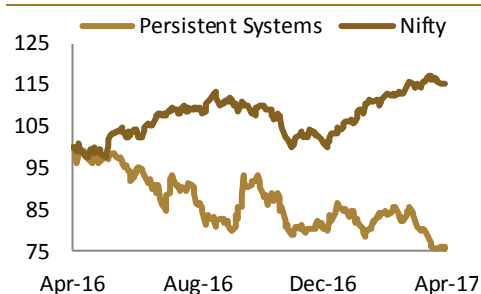
### Market statistics

Current stock price ( ` )	568
Shares O/S (cr.)	8.0
Mcap ( ` cr)	4,542
52W H/L ( ` )	758/501
6m avg. volume	113,542
Bloomberg	PSYS IN

### Shareholding pattern

Promoters	35.02
Domestic Institution	14.28
Foreign Institution	20.77
Non-institution	29.93
of which more than 1%	
Saif India Iv Fii Holdings Limited	5.33
HDFC Trustee Company	1.85

### Persistent Systems vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	17.7	18.3	18.5
EPS ( ` )	39.1	46.4	53.7
CEPS ( ` )	57.7	67.3	76.8
P/E (x)	15.3	12.2	10.6
P/BV (x)	2.5	2.1	1.8
EV/EBITDA (x)	9.4	6.9	5.6
Income growth (%)	24.5	10.0	12.6
EBITDA growth (%)	18.9	20.6	14.0
PAT growth (%)	12.8	18.7	15.7

**Persistent Systems reported 0.9% QoQ revenue decrease in US\$ terms, while margins increased 199bps 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 revenue, margins and rich valuations play spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

**Revenue decrease of 0.9% QoQ in US\$ terms:** The company reported US\$ revenue decline of 0.9% QoQ driven by a decrease of 3.9% QoQ from IP-Led solutions (27.6% revenue share) and a 0.3% increase from Services. PSYS has changed its strategy to leave non-strategic clients from the 2Q. There was a volume decline of 0.8% QoQ in the Services (onsite +2.1% QoQ and offshore -1.3%), while onsite pricing was up 1.3% QoQ and offshore pricing down 0.3%.

**EBITDA Margin increased by 199bps QoQ:** Margins were up on account of much-lower-than-expected wage costs, partially dented by decrease in utilization (down 110bps QoQ) and dented by lower offshorization (down 30bps QoQ). Margin was higher-than-expected and is aided by doubtful debt written back. Profits at Rs728mn (-11% QoQ, -10% YoY) was lower than our estimates due to lower other income, helped by lower tax expense. The company incurred a one-time expense of Rs114mn (out of court settlement for IP settlement). We see offshore-mix, and SG&A efficiency to drive tailwind for operating margin from Q4FY17.

**Structural weakness** - Persistent's 4QFY17 performance continued to confirm structural weakness in ISV business (decreased by 2.3% QoQ) after a series of QoQ declines. Revenue from the Top client (IBM) was down 9.9% QoQ. Clients billed in both the segments, Services and IP-led business were down 2 and 30 QoQ respectively to 313 and 308.

**FY18 margins to see better margins:** The costs associated with the IBM deal were upfront and was expected to weigh heavy upon margins to the tune of ~200bps in FY17. Margins in FY18 would be higher than FY17. The recovery to margins is on account of revenue from the IBM deal has reached a point where it exceeds the cost associated with it.

**Other details:** Top client revenue was down 9.9% QoQ at US\$20.9mn. 231 employees on a net basis joined PSYS QoQ taking total head-count to 9,460. Attrition was down 10bps QoQ at 15.7%. Utilization (blended) decreased to 77.8% (Q3FY17: 78.9%). DSO days were down by 5 to 65 QoQ in 4QFY17. Industry classification wise, ISV was up 2.3% QoQ while Enterprise was up 3.9%. Geographically, North America was up 0.2%, APAC was up 1.5%, while Europe increased 0.3%. PSYS billed 2 clients less (net) QoQ in the Services division to take the total to 313, while it billed 30 clients less in the IP-Led business to take the total to 308. The company added 5 clients QoQ in the US\$1mn+ bracket QoQ to take the list to 55. Alliance was down 10.6% QoQ, while Accelerite was up a similar amount. Digital grew 10.8% QoQ, while Services was down 0.3%. Client #2-4 grew 2.1% QoQ while #6-10 grew 6.1%.

**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

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**Exhibit 1: Quarterly details**

` mn	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>100.4</b>	<b>110.0</b>	<b>109.0</b>	<b>(0.9)</b>	<b>8.6</b>	Volume decrease of 0.8% QoQ in the Services (onsite +2.1% QoQ and offshore -1.3%). IP-led solutions decreased 3.7%.
<b>Revenues</b>	<b>6,771</b>	<b>7,455</b>	<b>7,271</b>	<b>(2.5)</b>	<b>7.4</b>	
- Operating costs	5,704	6,269	5,969	(4.8)	4.6	
<b>EBITDA</b>	<b>1,067</b>	<b>1,187</b>	<b>1,302</b>	<b>9.7</b>	<b>22.0</b>	
<b>EBITDA margin (%)</b>	<b>15.8</b>	<b>15.9</b>	<b>17.9</b>	<b>199bps</b>	<b>215bps</b>	Margins were up on account of lower-than-expected wage costs, partially dented by decrease in utilization (down 110bps QoQ) and dented by lower offshorization (down 30bps QoQ).
- Interest expense	0	0	0	(5.6)	(15.0)	
- Depreciation	256	387	394	2.0	54.0	
+ Other income, net (incl forex)	217	318	143	(54.9)	(34.1)	
<b>PBT</b>	<b>1,028</b>	<b>1,118</b>	<b>1,051</b>	<b>(6.0)</b>	<b>2.2</b>	
- Taxes	220	299	209	(30.2)	(5.1)	
Effective tax rate (%)	21.4	26.7	19.9	(689)bps	(154)bps	Effective tax rate for FY18 to be between ~25%
<b>PAT</b>	<b>808</b>	<b>819</b>	<b>842</b>	<b>2.8</b>	<b>4.2</b>	
<b>Net Margin</b>	<b>11.9</b>	<b>11.0</b>	<b>11.6</b>	<b>60bps</b>	<b>(35)bps</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	491	480	(2.2)	553	540	(2.4)
Revenue	32,402	31,660	(2.3)	36,468	35,659	(2.2)
EBITDA margin (%)	16.7	17.7	95bps	17.0	17.9	85bps
EPS (`)	46.4	46.4	-	54.8	53.7	(2.0)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
US	85.4	84.4	86.2	85.3	86.1	87.0	85.4	86.6	86.5
Europe	6.8	6.3	6.8	6.3	6.7	5.2	6.1	5.3	5.3
APAC	7.8	9.3	7.0	8.4	7.2	7.8	8.5	8.1	8.2
<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	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Top client (%)	16.5	18.1	17.6	17.4	25.4	29.0	28.4	29.5	26.5
Top 5 clients (%)	34.1	36.0	35.4	34.3	40.8	44.7	44.3	46.0	43.3
Top 10 clients (%)	43.2	45.6	44.7	44.1	49.6	52.7	52.8	54.6	52.4
Large >US\$3mn	14	15	17	19	18	15	15	15	15
Medium > US\$1m <US\$3m	48	52	46	44	42	50	51	50	55
Clients billed (Services)	268	277	311	337	319	340	314	315	313
Clients billed (IP Led)	326	310	299	291	353	338	335	338	308

Source: Company



**Human Resources:** 231 employees on a net basis joined PSYS QoQ taking total head-count to 9,460. Attrition was down 10bps QoQ at 15.7%. Utilization (blended) decreased to 77.8% (Q3FY17: 78.9%).

#### Exhibit 5: Employee strength at PSYS

(Nos)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Billable Personnel – onsite	1,551	1,623	1,854	2,097	2,108	2,121	2,048	2,109	2,236
Billable Personnel - offshore	14,512	14,515	14,212	14,621	14,523	14,909	15,426	14,968	14,942
<b>Total billable employees</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>	<b>17,178</b>
Billed Personnel - onsite	1,383	1,374	1,621	1,817	1,811	1,786	1,720	1,867	1,907
Billed Personnel - offshore	10,616	10,390	10,605	10,640	10,693	11,030	11,246	11,610	11,459
<b>Total billed employees</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>13,366</b>
<b>Utilisation details</b>									
Utilisation (blended, %)	74.7	72.9	76.1	74.5	75.2	75.3	74.2	78.9	77.8
Utilisation (onsite, %)	89.2	84.7	87.4	86.6	85.9	84.2	84.0	88.5	85.3
Utilisation (offshore, %)	73.2	71.6	74.6	72.8	73.6	74.0	72.9	77.6	76.6
<b>Employees</b>									
Technical	7,861	7,810	7,905	8,334	8,618	8,698	8,612	8,562	8,808
Sales & Business Development	224	216	208	203	201	204	207	200	193
Others	421	428	432	429	445	487	486	467	459
<b>Total</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>	<b>9,460</b>

Source: Company

#### Exhibit 6: Billing rates

US\$/ppm	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Onsite	15,159	15,321	15,075	14,717	14,574	15,437	16,101	15,704	91415
Offshore	4,199	4,146	4,251	4,217	4,275	4,325	4,288	4,257	4,244

Source: Company

#### Exhibit 7: Other details

Revenue mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Onsite	26.2	26.8	29.5	29.8	26.3	26.3	26.3	26.7	27.8
Offshore	55.7	54.8	54.3	50.1	45.5	45.5	45.9	44.9	44.6
IP Led	18.1	18.4	16.2	20.1	28.2	28.2	27.8	28.4	27.6
<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	64	67	68	69	62	63	66	70	65
Attrition (%)	15.5	16.4	17.1	17.1	16.4	16.7	15.9	15.8	15.7

Source: Company



## Financials

### Income Statement ( ` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>18,913</b>	<b>23,123</b>	<b>28,784</b>	<b>31,660</b>	<b>35,659</b>
Op. Expenses	15,041	18,985	24,131	26,050	29,260
<b>EBITDA</b>	<b>3,871</b>	<b>4,138</b>	<b>4,654</b>	<b>5,610</b>	<b>6,398</b>
Other Income	970	784	958	1,010	1,179
Depreciation	939	965	1,490	1,667	1,846
<b>EBIT</b>	<b>3,903</b>	<b>3,957</b>	<b>4,122</b>	<b>4,953</b>	<b>5,731</b>
Interest	3	1	1	1	1
<b>PBT</b>	<b>3,900</b>	<b>3,956</b>	<b>4,121</b>	<b>4,953</b>	<b>5,731</b>
Tax	993	983	992	1,238	1,433
<b>PAT</b>	<b>2,906</b>	<b>2,974</b>	<b>3,129</b>	<b>3,715</b>	<b>4,298</b>
Minority	-	-	-	-	-
<b>Adj Pat</b>	<b>2,906</b>	<b>2,974</b>	<b>3,129</b>	<b>3,715</b>	<b>4,298</b>

### Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share ( ` )</b>					
EPS	36.3	37.2	39.1	46.4	53.7
CEPS	48.1	49.2	57.7	67.3	76.8
BVPS	175.7	204.9	237.4	271.0	310.7
DPS	10.0	8.0	9.0	11.0	12.0
Payout (%)	32.2	25.2	26.9	27.7	26.1
<b>Valuation (x)</b>					
P/E	19.7	20.5	15.3	12.2	10.6
P/BV	4.1	3.7	2.5	2.1	1.8
EV/EBITDA	5.3	12.6	9.4	6.9	5.6
Dividend Yield (%)	1.4	1.0	1.5	1.9	2.1
<b>Return ratio (%)</b>					
EBITDA Margin	20.5	17.9	16.2	17.7	17.9
PAT Margin	15.4	12.9	11.3	11.7	12.1
ROAE	22.1	19.5	17.7	18.3	18.5
ROACE	29.7	25.9	23.3	24.3	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)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.1	2.9	3.8	4.1	4.4
<b>Growth Ratios (%)</b>					
Income growth	13.3	22.3	24.5	10.0	12.6
EBITDA growth	(9.2)	6.9	18.9	20.6	14.0
PAT growth	16.6	2.3	12.8	18.7	15.7
<b>Turnover Ratios</b>					
F.A Turnover x	6.1	7.1	10.2	10.1	10.3
Debtors Days	74	74	67	65	64
Payable days	14	35	20	19	19

### Balance Sheet ( ` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Sources of Funds</b>					
Equity Share Capital	800	800	800	800	800
Reserves & Surplus	13,255	15,593	18,193	20,878	24,052
<b>Total Shareholders Fund</b>	<b>14,055</b>	<b>16,393</b>	<b>18,993</b>	<b>21,678</b>	<b>24,852</b>
Non- current liabilities	(171)	(77)	445	464	477
Long term Borrowings	25	26	22	22	22
Deferred tax liabilities	(313)	(228)	277	277	277
Other LT liabilities & prov	117	126	146	165	178
<b>Current Liabilities</b>	<b>3,549</b>	<b>4,517</b>	<b>3,720</b>	<b>3,997</b>	<b>4,489</b>
Trade payables	529	1,651	1,210	1,285	1,443
Other cur liabilities & Prov	3,020	2,866	2,510	2,712	3,046
<b>Total Liabilities</b>	<b>17,433</b>	<b>20,833</b>	<b>23,157</b>	<b>26,138</b>	<b>29,819</b>
<b>Assets</b>					
<b>Non- current Assets</b>					
Fixed assets	3,097	3,273	2,817	3,137	3,457
Non-current investments	3,135	2,703	5,172	5,172	5,172
Long-term loans & adv	123	851	131	173	195
Other non-current assets	13	870	994	1,128	1,270
<b>Current assets</b>	<b>11,065</b>	<b>13,136</b>	<b>14,043</b>	<b>16,528</b>	<b>19,724</b>
Current investments	4,620	4,828	4,500	4,500	4,500
Trade receivables	3,586	4,275	4,754	5,204	5,862
Cash & bank balances	1,416	1,432	1,461	3,094	5,162
Short-term loans & adv	407	812	14	87	98
Other current assets	1,035	1,788	3,314	3,643	4,103
<b>Total Assets</b>	<b>17,433</b>	<b>20,833</b>	<b>23,157</b>	<b>26,138</b>	<b>29,819</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	3,900	3,956	4,121	4,953	5,731
Depreciation	886	1,050	1,995	1,667	1,846
Interest expense	3	1	1	1	1
<b>CF before W.cap</b>	<b>4,789</b>	<b>5,007</b>	<b>6,117</b>	<b>6,620</b>	<b>7,578</b>
Inc/dec in W.cap	(260)	2,455	1,387	732	787
<b>Op CF after W.cap</b>	<b>5,049</b>	<b>2,552</b>	<b>4,730</b>	<b>5,889</b>	<b>6,791</b>
Less Taxes	993	983	992	1,238	1,433
<b>Net CF From Operations</b>	<b>4,056</b>	<b>1,569</b>	<b>3,738</b>	<b>4,650</b>	<b>5,358</b>
Inc/(dec) in F.A + CWIP	943	1,141	1,034	1,987	2,166
(Pur)/sale of investments	1,568	(224)	2,141	-	-
Others	(3)	(1)	(1)	(1)	(1)
<b>CF from Invst Activities</b>	<b>(2,514)</b>	<b>(918)</b>	<b>(3,176)</b>	<b>(1,988)</b>	<b>(2,167)</b>
Loan raised	(7)	1	(4)	-	-
Equity Raised	(138)	113	313	0	0
Dividend	936	749	842	1,030	1,123
<b>CF from Fin Activities</b>	<b>(1,082)</b>	<b>(635)</b>	<b>(533)</b>	<b>(1,030)</b>	<b>(1,123)</b>
<b>Net inc /(dec) in cash</b>	<b>460</b>	<b>16</b>	<b>29</b>	<b>1,633</b>	<b>2,068</b>
Op. bal of cash	957	1,416	1,432	1,461	3,094
<b>Cl. balance of cash</b>	<b>1,416</b>	<b>1,432</b>	<b>1,461</b>	<b>3,094</b>	<b>5,162</b>



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**Recommendation**      **Expected absolute returns (%) over 12 months**

Buy                              More than 15%

Hold                             15% to -15%

Sell                              Less than -15%

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