

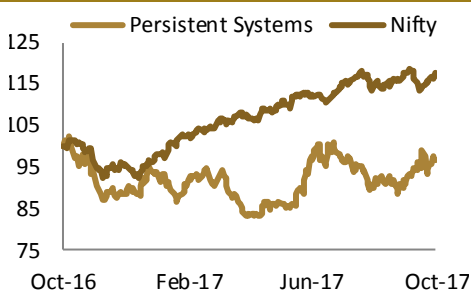
### Market statistics

Current stock price (`)	663
Shares O/S (cr.)	8.0
Mcap (` cr)	5,304
52W H/L (`)	703/558
6m avg. volume	160,636
Bloomberg	PSYS IN

### Shareholding pattern

Promoters	34.38
Domestic Institution	14.58
Foreign Institution	22.86
Non-institution	28.18
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	16.5	17.2
EPS (`)	39.1	41.3	48.2
CEPS (`)	57.7	60.6	69.3
P/E (x)	15.3	16.1	13.8
P/BV (x)	2.5	2.5	2.2
EV/EBITDA (x)	9.4	10.3	8.4
Income growth (%)	24.5	7.0	13.3
EBITDA growth (%)	18.9	(0.6)	17.2
PAT growth (%)	12.8	5.5	16.8

Persistent Systems reported 4.5% QoQ revenue increase in US\$ terms, while margins increased 87bps QoQ suggests that PSYS managed this quarter well. 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 increase of 4.5% QoQ in US\$ terms:** The company reported US\$ revenue increase of 4.5% QoQ driven by an increase of 6.2% QoQ from Services (74% revenue share) and a flat QoQ revenue from IP-Led Solutions. PSYS has changed its strategy to leave non-strategic clients from the 2Q. There was a volume increase of 5.4% QoQ in the Services (onsite +11.5% QoQ and offshore 4.2%). This quarter has US\$1.9mn come in from PARX.

**EBITDA Margin increased by 87bps QoQ:** Margins were up on account of better operational efficiencies this quarter. Utilisation improved 140bps QoQ to 78.6%. Profits at Rs826mn (up 10% QoQ) was higher than our estimates due to higher margin, helped by higher OI. We see offshore-mix, and SG&A efficiency to drive tailwind for operating margin from Q3FY18.

**Structural weakness** - Persistent's 2QFY18 performance continued to confirm structural weakness in ISV business (increased by just 2.2% QoQ) after a series of QoQ declines, reflect our concerns on medium term challenges. Revenue from the Top client (IBM) was down 1.4% QoQ. Clients billed in both the segments, Services and IP-led business were up 116 (primarily on account of acquisition of PARX) and down 29 QoQ respectively to 419 and 277 respectively.

**Announces acquisition of PARX** - Persistent had announced the acquisition of PARX Werk AG (PARX), a Salesforce platinum partner in the DACH region with 70+ employees and revenues of ~CHF8mn in CY16 (~28% CAGR over 2 years). The EV payable is ~CHF8.5mn, with additional CHF7.5mn payable over 3 years contingent on performance/retention of management employees. 2Q revenue had US\$1.9mn of contribution from PARX.

**Other details:** #2-4 and #6-10 clients grew 6.8% and 8.5% QoQ. 155 employees on a net basis left PSYS QoQ taking total head-count to 9,246. Attrition was flat QoQ at 15.5%. Utilization (blended) increased to 78.6% (Q1FY18: 77.2%). DSO days were up by 2 to 66 QoQ in 2QFY18. Industry classification wise, ISV was up 2.2% QoQ while Enterprise was up 11.4%. Geographically, North America was up 3.6%, APAC was up 0.1%, while Europe increased 53.1% (on account of the acquisition). The company added 1 client QoQ in the US\$3mn+ bracket QoQ to take the list to 19. Alliance was down 3.1% QoQ, while Accelerite was up 1.1% QoQ. Digital was up 20.3% QoQ, while Services was up 1.8%. Management continued to indicate revenue growth in low teens and better margins YoY at constant currency in FY18. Challenges remain in the traditional business of effort-based billing as effort required for same work is going down. Wage hikes will put pressure in 2HFY18.

**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.

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**Exhibit 1: Quarterly details**

` mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>105.2</b>	<b>113.0</b>	<b>118.1</b>	<b>4.5</b>	<b>12.3</b>	Volume increase of 5.4% QoQ in the Services (onsite +11.5% QoQ and offshore 4.2%). IP-led solutions was flat.
<b>Revenues</b>	<b>7,040</b>	<b>7,280</b>	<b>7,613</b>	<b>4.6</b>	<b>8.1</b>	
- Operating costs	5,932	6,237	6,455	3.5	8.8	
<b>EBITDA</b>	<b>1,108</b>	<b>1,044</b>	<b>1,158</b>	<b>10.9</b>	<b>4.5</b>	
<b>EBITDA margin (%)</b>	<b>15.7</b>	<b>14.3</b>	<b>15.2</b>	<b>87bps</b>	<b>(53)bps</b>	Margins were up on account of better operational efficiencies this quarter. Utilisation improved 140bps QoQ to 78.6%.
- Interest expense	0	0	0	(5.9)	(56.8)	
- Depreciation	367	392	379	(3.2)	3.5	
+ Other income, net (incl forex)	244	368	336	(8.7)	37.8	
<b>PBT</b>	<b>985</b>	<b>1,019</b>	<b>1,114</b>	<b>9.3</b>	<b>13.1</b>	
- Taxes	250	269	288	7.4	15.6	
Effective tax rate (%)	25.3	26.3	25.9	(46)bps	54bps	Effective tax rate for FY18 to be between ~25-27%
<b>PAT</b>	<b>735</b>	<b>751</b>	<b>826</b>	<b>10.0</b>	<b>12.3</b>	
<b>Net Margin</b>	<b>10.4</b>	<b>10.3</b>	<b>10.8</b>	<b>53bps</b>	<b>40bps</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	476	476	-	536	537	0.2
Revenue	30,896	30,798	(0.3)	34,849	34,889	0.1
EBITDA margin (%)	15.3	15.0	(25)bps	16.4	15.5	(85)bps
EPS (`)	39.8	41.3	3.8	48.4	48.2	(0.4)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
US	86.2	85.3	86.1	87.0	85.4	86.6	86.5	85.5	83.4
Europe	6.8	6.3	6.7	5.2	6.1	5.3	5.3	5.9	8.5
APAC	7.0	8.4	7.2	7.8	8.5	8.1	8.2	8.6	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	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Top client (%)	17.6	17.4	25.4	29.0	28.4	29.5	26.5	27.9	25.9
Top 5 clients (%)	35.4	34.3	40.8	44.7	44.3	46.0	43.3	45.7	43.8
Top 10 clients (%)	44.7	44.1	49.6	52.7	52.8	54.6	52.4	55.2	53.5
Large >US\$3mn	17	19	18	15	15	15	15	18	19
Medium > US\$1m <US\$3m	46	44	42	50	51	50	55	52	49
Clients billed (Services)	311	337	319	340	314	315	313	303	419
Clients billed (IP Led)	299	291	353	338	335	338	308	306	277

Source: Company



**Human Resources:** 155 employees on a net basis left PSYS QoQ taking total head-count to 9,246. Attrition was flat QoQ at 15.5%. Utilization (blended) increased to 78.6% (Q1FY18: 77.2%).

#### Exhibit 5: Employee strength at PSYS

(Nos)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Billable Personnel – onsite	1,854	2,097	2,108	2,121	2,048	2,109	2,236	2,431	2,689
Billable Personnel - offshore	14,212	14,621	14,523	14,909	15,426	14,968	14,942	15,205	15,556
<b>Total billable employees</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>	<b>17,636</b>	<b>18,245</b>
Billed Personnel - onsite	1,621	1,817	1,811	1,786	1,720	1,867	1,907	2,104	2,346
Billed Personnel - offshore	10,605	10,640	10,693	11,030	11,246	11,610	11,459	11,507	11,994
<b>Total billed employees</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>13,611</b>	<b>14,340</b>
<b>Utilisation details</b>									
Utilisation (blended, %)	76.1	74.5	75.2	75.3	74.2	78.9	77.8	77.2	78.6
Utilisation (onsite, %)	87.4	86.6	85.9	84.2	84.0	88.5	85.3	86.5	87.2
Utilisation (offshore, %)	74.6	72.8	73.6	74.0	72.9	77.6	76.6	75.7	77.1
<b>Employees</b>									
Technical	7,905	8,334	8,618	8,698	8,612	8,562	8,808	8,744	8,599
Sales & Business Development	208	203	201	204	207	200	193	210	208
Others	432	429	445	487	486	467	459	447	439
<b>Total</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>	<b>9,401</b>	<b>9,246</b>

Source: Company

#### Exhibit 6: Billing rates

US\$/ppm	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2Y18
Onsite	15,075	14,717	14,574	15,437	16,101	15,704	15,914	16,307	16,023
Offshore	4,251	4,217	4,275	4,325	4,288	4,257	4,244	4,212	4,148

Source: Company

#### Exhibit 7: Other details

Revenue mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Onsite	29.5	29.8	26.3	26.3	26.3	26.7	27.8	29.9	31.9
Offshore	54.3	50.1	45.5	45.5	45.9	44.9	44.6	42.9	42.1
IP Led	16.2	20.1	28.2	28.2	27.8	28.4	27.6	27.2	26.0
<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	68	69	62	63	66	70	65	64	66
Attrition (%)	17.1	17.1	16.4	16.7	15.9	15.8	15.7	15.5	15.5

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>30,798</b>	<b>34,889</b>
Op. Expenses	15,041	18,985	24,131	26,174	29,468
<b>EBITDA</b>	<b>3,871</b>	<b>4,138</b>	<b>4,654</b>	<b>4,624</b>	<b>5,421</b>
Other Income	970	784	958	1,390	1,553
Depreciation	939	965	1,490	1,549	1,690
<b>EBIT</b>	<b>3,903</b>	<b>3,957</b>	<b>4,122</b>	<b>4,465</b>	<b>5,284</b>
Interest	3	1	1	1	1
<b>PBT</b>	<b>3,900</b>	<b>3,956</b>	<b>4,121</b>	<b>4,464</b>	<b>5,283</b>
Tax	993	983	992	1,163	1,426
<b>PAT</b>	<b>2,906</b>	<b>2,974</b>	<b>3,129</b>	<b>3,301</b>	<b>3,857</b>
Minority	-	-	-	-	-
<b>Adj Pat</b>	<b>2,906</b>	<b>2,974</b>	<b>3,129</b>	<b>3,301</b>	<b>3,857</b>

### Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share (`)</b>					
EPS	36.3	37.2	39.1	41.3	48.2
CEPS	48.1	49.2	57.7	60.6	69.3
BVPS	175.7	204.9	237.4	263.1	297.2
DPS	10.0	8.0	9.0	10.0	12.0
Payout (%)	32.2	25.2	26.9	28.4	29.1
<b>Valuation (x)</b>					
P/E	19.7	20.5	15.3	16.1	13.8
P/BV	4.1	3.7	2.5	2.5	2.2
EV/EBITDA	5.3	12.6	9.4	10.3	8.4
Dividend Yield (%)	1.4	1.0	1.5	1.5	1.8
<b>Return ratio (%)</b>					
EBITDA Margin	20.5	17.9	16.2	15.0	15.5
PAT Margin	15.4	12.9	11.3	10.7	11.1
ROAE	22.1	19.5	17.7	16.5	17.2
ROACE	29.7	25.9	23.3	22.3	23.6
<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)	(0.4)	(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	4.3
<b>Growth Ratios (%)</b>					
Income growth	13.3	22.3	24.5	7.0	13.3
EBITDA growth	(9.2)	6.9	18.9	(0.6)	17.2
PAT growth	16.6	2.3	12.8	5.5	16.8
<b>Turnover Ratios</b>					
F.A Turnover x	6.1	7.1	10.2	10.8	11.0
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	20,558	23,291
<b>Total Shareholders Fund</b>	<b>14,055</b>	<b>16,393</b>	<b>18,993</b>	<b>21,358</b>	<b>24,091</b>
Non- current liabilities	(171)	(77)	445	464	478
Long term Borrowings	25	26	22	22	22
Deferred tax liabilities	(313)	(228)	277	277	277
Other LT liabilities & prov	117	126	146	165	179
<b>Current Liabilities</b>	<b>3,549</b>	<b>4,517</b>	<b>3,720</b>	<b>4,016</b>	<b>4,521</b>
Trade payables	529	1,651	1,210	1,291	1,453
Other cur liabilities & Prov	3,020	2,866	2,510	2,725	3,068
<b>Total Liabilities</b>	<b>17,433</b>	<b>20,833</b>	<b>23,157</b>	<b>25,837</b>	<b>29,090</b>
<b>Assets</b>					
<b>Non- current Assets</b>					
Fixed assets	3,097	3,273	2,817	2,858	3,178
Non-current investments	3,135	2,703	5,172	5,172	5,172
Long-term loans & adv	123	851	131	169	191
Other non-current assets	13	870	994	1,097	1,243
<b>Current assets</b>	<b>11,065</b>	<b>13,136</b>	<b>14,043</b>	<b>16,541</b>	<b>19,306</b>
Current investments	4,620	4,828	4,500	4,500	4,500
Trade receivables	3,586	4,275	4,754	5,063	5,735
Cash & bank balances	1,416	1,432	1,461	3,351	4,961
Short-term loans & adv	407	812	14	84	96
Other current assets	1,035	1,788	3,314	3,544	4,015
<b>Total Assets</b>	<b>17,433</b>	<b>20,833</b>	<b>23,157</b>	<b>25,837</b>	<b>29,090</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	3,900	3,956	4,121	4,464	5,283
Depreciation	886	1,050	1,995	1,549	1,690
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>6,014</b>	<b>6,974</b>
Inc/dec in W.cap	(260)	2,455	1,387	434	803
<b>Op CF after W.cap</b>	<b>5,049</b>	<b>2,552</b>	<b>4,730</b>	<b>5,580</b>	<b>6,171</b>
Less Taxes	993	983	992	1,163	1,426
<b>Net CF From Operations</b>	<b>4,056</b>	<b>1,569</b>	<b>3,738</b>	<b>4,417</b>	<b>4,744</b>
Inc/(dec) in F.A + CWIP	943	1,141	1,034	1,591	2,010
(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>(1,591)</b>	<b>(2,011)</b>
Loan raised	(7)	1	(4)	-	-
Equity Raised	(138)	113	313	(0)	(0)
Dividend	936	749	842	936	1,123
<b>CF from Fin Activities</b>	<b>(1,082)</b>	<b>(635)</b>	<b>(533)</b>	<b>(936)</b>	<b>(1,123)</b>
<b>Net inc /(dec) in cash</b>	<b>460</b>	<b>16</b>	<b>29</b>	<b>1,890</b>	<b>1,610</b>
Op. bal of cash	957	1,416	1,432	1,461	3,351
<b>Cl. balance of cash</b>	<b>1,416</b>	<b>1,432</b>	<b>1,461</b>	<b>3,351</b>	<b>4,961</b>

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