

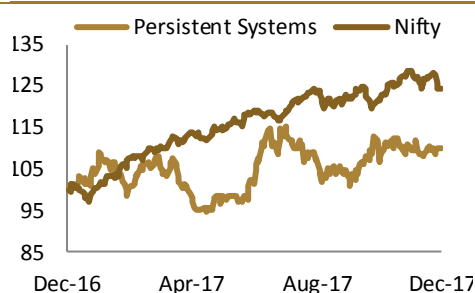
Market statistics

Current stock price (₹)	655
Shares O/S (cr.)	8.0
Mcap (₹ cr)	5,240
52W H/L (₹)	693/558
6m avg. volume	127,023
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	15.9	14.0
P/BV (x)	2.5	2.5	2.2
EV/EBITDA (x)	9.4	10.2	8.3
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 showcased the company's digital capabilities ranging from live hackathons and demos of multiple cases in blockchain technology and IoT. Persistent's Platform-centric strategy, API capabilities backed by tech alliances, Robust demand environment, Competitive strength and positioning, and IBM alliance are the key positive silver linings, according to our belief. However, 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.

A suite of ready solutions: PSYS demonstrated with use cases, some of the solutions that it has invested, which is according to the roadmap of its strategy of delineating revenue growth from headcount growth in the new services era. These included its solutions in IoT (Concert), Security (Sentient), clinical decisions support in Healthcare (with Partners Healthcare), Neuro - continuous risk-based authentication (in partnership with USAA). With every solution built in collaboration with a client, a ready reference will be in place to take it to more enterprises in the market; but these remain in very early stages of their sales life cycles

Digital to drive growth; rest of business going strong: We believe Persistent's strong capabilities in enterprise digital transformation services will help its digital revenues to grow in excess of 40% over next 2 years (growth of 45.9% YoY in 1HFY18), and solely drive 8-10% growth for the company. In its Accelerite product portfolio, majority of the products (Radia, Apoena and Cloud platform) are mature with stable revenues and high margins, while the newly developed in-house products have huge upside potential. In Alliance business, while OPD will remain stable, IoT services is expected to multiply going forward (on smaller scale of US\$1mn in FY17). The services business, which was flattish in FY17, is also expected to return to mid-single digit growth here on.

Margins bottomed out, but an uptick will take some time: In past 3 years, company's investments in realigning its ISV business has taken a toll on its margins. We believe margins trajectory is recouping as: 1) High investments phase is now broadly over; 2) Growth is returning; 3) Continuous restructuring of Alliance employees.

Expect the IBM IoT deal to see some progress going forward: While the product is doing along well, revenues has been slightly more difficult relative to expectations. Persistent has now signed up as a business partner and as a reseller and expects to get access to higher number of direct customers. While Persistent will look to optimize costs, growth should be a bigger driver of profitability betterment.

PSYS to continue looking at M&A opportunities: PSYS will continue to look at M&A opportunities as part of its strategy going ahead. Areas of focus include: (1) security, (2) salesforce implementation partners in verticals/geographies which can augment the company's footprints, (3) niche companies in new technologies.

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: 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
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 2: 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

Exhibit 3: 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
Total billable employees	16,066	16,718	16,631	17,030	17,474	17,077	17,178	17,636	18,245
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
Total billed employees	12,226	12,457	12,504	12,816	12,966	13,477	13,366	13,611	14,340
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
Employees									
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
Total	8,545	8,966	9,264	9,389	9,305	9,229	9,460	9,401	9,246

Source: Company

Exhibit 4: 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 5: 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
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
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
Revenues	18,913	23,123	28,784	30,798	34,889
Op. Expenses	15,041	18,985	24,131	26,174	29,468
EBITDA	3,871	4,138	4,654	4,624	5,421
Other Income	970	784	958	1,390	1,553
Depreciation	939	965	1,490	1,549	1,690
EBIT	3,903	3,957	4,122	4,465	5,284
Interest	3	1	1	1	1
PBT	3,900	3,956	4,121	4,464	5,283
Tax	993	983	992	1,163	1,426
PAT	2,906	2,974	3,129	3,301	3,857
Minority	-	-	-	-	-
Adj Pat	2,906	2,974	3,129	3,301	3,857

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
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
Valuation (x)					
P/E	19.7	20.5	15.3	15.9	14.0
P/BV	4.1	3.7	2.5	2.5	2.2
EV/EBITDA	5.3	12.6	9.4	10.2	8.3
Dividend Yield (%)	1.4	1.0	1.5	1.5	1.8
Return ratio (%)					
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
Leverage Ratios (x)					
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
Growth Ratios (%)					
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
Turnover Ratios					
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
Sources of Funds					
Equity Share Capital	800	800	800	800	800
Reserves & Surplus	13,255	15,593	18,193	20,558	23,291
Total Shareholders Fund	14,055	16,393	18,993	21,358	24,091
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
Current Liabilities	3,549	4,517	3,720	4,016	4,521
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
Total Liabilities	17,433	20,833	23,157	25,837	29,090
Assets					
Non- current Assets	6,369	7,697	9,114	9,296	9,784
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
Current assets	11,065	13,136	14,043	16,541	19,306
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
Total Assets	17,433	20,833	23,157	25,837	29,090

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
CF before W.cap	4,789	5,007	6,117	6,014	6,974
Inc/dec in W.cap	(260)	2,455	1,387	434	803
Op CF after W.cap	5,049	2,552	4,730	5,580	6,171
Less Taxes	993	983	992	1,163	1,426
Net CF From Operations	4,056	1,569	3,738	4,417	4,744
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)
CF from Invst Activities	(2,514)	(918)	(3,176)	(1,591)	(2,011)
Loan raised	(7)	1	(4)	-	-
Equity Raised	(138)	113	313	(0)	(0)
Dividend	936	749	842	936	1,123
CF from Fin Activities	(1,082)	(635)	(533)	(936)	(1,123)
Net inc /(dec) in cash	460	16	29	1,890	1,610
Op. bal of cash	957	1,416	1,432	1,461	3,351
Cl. balance of cash	1,416	1,432	1,461	3,351	4,961

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Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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