

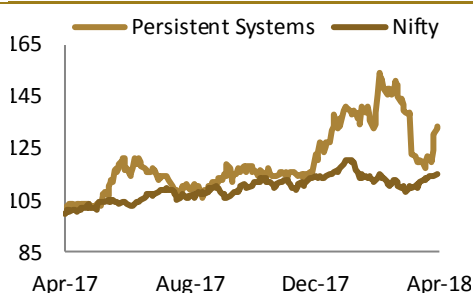
### Market statistics

Current stock price (₹)	726
Shares O/S (cr.)	8.0
Mcap (₹ cr)	5,807
52W H/L (₹)	878/558
6m avg. volume	212,267
Bloomberg	PSYS IN

### Shareholding pattern

Promoters	30.49
Domestic Institution	14.14
Foreign Institution	26.47
Non-institution	28.90
of which more than 1%	
Shridhar Bhalchandra Shukla	1.71
Ashutosh Vinayak Joshi	1.40

### Persistent Systems vs Nifty



### Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	16.0	16.7	16.2
EPS (₹)	40.4	47.0	51.4
CEPS (₹)	60.2	69.1	75.5
P/E (x)	17.1	15.4	14.1
P/BV (x)	2.6	2.4	2.2
EV/EBITDA (x)	10.8	9.1	7.7
Income growth (%)	5.4	10.1	11.0
EBITDA growth (%)	0.1	20.9	13.9
PAT growth (%)	3.2	16.5	9.3

Persistent Systems reported a decline 4.6% QoQ revenue decrease in US\$ terms, while margins decreased 296bps QoQ. The drop in revenue was on account of 20.6% QoQ decline in the IP revenue QoQ, which PSYS management says is difficult to forecast. 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. However, 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 4.6% QoQ in US\$ terms:** The company reported US\$ revenue decrease of 4.6% QoQ driven by a decrease of 20.6% QoQ from IP-Led Solutions and a growth of 1.3% in Services (77.7% revenue share). PSYS has changed its strategy to leave non-strategic clients from the 2Q and shut RCloud business in 4Q (which ensured it lost quite a few small customers). Volume declined 1.5% QoQ in the Services (onsite: 0.9% QoQ and offshore: 1.6%). The dip in IP revenue attributed to the 22% QoQ drop in Alliance business (management noted this as a one-off event). Accelerite revenue declined by 9% QoQ due to shut down of RCloud business. PARX reported revenue of US\$3.5mn in Q4FY18 and US\$8.8mn for FY18.

**EBITDA Margin decreased by 296bps QoQ:** Margins were lower on account of weak IP revenues partially helped by higher utilization, higher pricing and lower headcount this quarter. Utilisation improved 130bps QoQ to 81.2%.

**Structural weakness** - Persistent's 4QFY18 performance continued to confirm structural weakness in ISV business (increased by just 0.7% QoQ) after a series of QoQ declines, reflect our concerns on medium term challenges. Revenue from the Top client (IBM) was down 21.5% QoQ. Clients billed in both the segments, Services and IP-led business were down 5 and down 91 QoQ respectively to 426 and 177 respectively.

**Expect better FY19:** Management highlighted that the co-creation business model in digital services will provide better yield in 2HFY19. Persistent Systems has significant wins in NEURO (continuous risk-based authentication) with its collaboration with USAA, while the platform created with its Healthcare Partner has already gained acceptance from first user. Further, it added 19 new customers (two large customers in the healthcare and financial vertical each) during Q4FY18. Management expects to deliver better performance in FY19, given healthy deal pipelines (including PARX), addition of new customers, traction in European region, reseller agreement with IBM, expansion into new markets and recoup of Alliance revenue (in the next three quarters). The company has been investing in sales resources (especially in Europe) to accelerate revenue from IP business as well as European region. On the margins front, the company expects to improve profitability in FY19 through better operational efficiencies and higher IP revenue.

**Other details:** #2-4 and #6-10 clients grew 6.3% and 1.3% QoQ. 133 employees on a net basis left PSYS QoQ taking total head-count to 8,976. Attrition was flat QoQ at 14.7%. DSO days were flat QoQ in 4QFY18. Industry classification wise, ISV was up 0.7% QoQ while Enterprise was up 2%. Geographically, North America was down 2.9%, APAC was up 33.1%, while Europe increased 13.8%. The company added 2 clients QoQ in the US\$1mn-US\$3mn bracket QoQ to take the list to 53. Digital revenue was up 4.1% QoQ.

**Outlook & Valuation:** 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. PSYS is trading at a PE(x) of 15.4x/14.1x FY19E/FY20E earnings.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



**Exhibit 1: Quarterly details**

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>109.0</b>	<b>122.5</b>	<b>117.0</b>	<b>(4.6)</b>	<b>7.3</b>	Volume declined 1.5% QoQ in the Services (onsite: 0.9% QoQ and offshore: 1.6%). IP-led solutions was down 20.6%
<b>Revenues</b>	<b>7,271</b>	<b>7,919</b>	<b>7,525</b>	<b>(5.0)</b>	<b>3.5</b>	
- Operating costs	5,969	6,544	6,442	(1.6)	7.9	
<b>EBITDA</b>	<b>1,302</b>	<b>1,375</b>	<b>1,084</b>	<b>(21.2)</b>	<b>(16.7)</b>	
<b>EBITDA margin (%)</b>	<b>17.9</b>	<b>17.4</b>	<b>14.4</b>	<b>(296)bps</b>	<b>(350)bps</b>	Margins were lower on account of weak IP revenues partially helped by higher utilization, higher pricing and lower headcount this quarter
- Interest expense	0	0	0	128.6	88.2	
- Depreciation	394	393	421	7.2	6.8	
+ Other income, net (incl forex)	143	193	321	66.5	123.9	
<b>PBT</b>	<b>1,051</b>	<b>1,175</b>	<b>983</b>	<b>(16.3)</b>	<b>(6.4)</b>	
- Taxes	209	258	246	(4.7)	18.2	
Effective tax rate (%)	19.9	22.0	25.1	306bps	521bps	Effective tax rate for FY19 to be between ~25-27%
<b>PAT</b>	<b>842</b>	<b>917</b>	<b>737</b>	<b>(19.6)</b>	<b>(12.5)</b>	
<b>Net Margin</b>	<b>11.6</b>	<b>11.6</b>	<b>9.8</b>	<b>(178)</b>	<b>(179)</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	545	514	(5.7)	608	571	(6.1)
Revenue	35,396	33,414	(5.6)	39,549	37,089	(6.2)
EBITDA margin (%)	17.3	16.9	(35)bps	17.4	17.3	(10)bps
EPS (`)	49.4	47.0	(4.9)	56.5	51.4	(9.0)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
US	86.1	87.0	85.4	86.6	86.5	85.5	83.4	84.4	80.9
Europe	6.7	5.2	6.1	5.3	5.3	5.9	8.5	7.3	8.2
APAC	7.2	7.8	8.5	8.1	8.2	8.6	8.1	8.3	10.9
<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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Top client (%)	25.4	29.0	28.4	29.5	26.5	27.9	25.9	28.0	21.7
Top 5 clients (%)	40.8	44.7	44.3	46.0	43.3	45.7	43.8	46.3	40.9
Top 10 clients (%)	49.6	52.7	52.8	54.6	52.4	55.2	53.5	55.3	49.9
Large >US\$3mn	18	15	15	15	15	18	19	19	18
Medium > US\$1m <US\$3m	42	50	51	50	55	52	49	51	53
Clients billed (Services)	319	340	314	315	313	303	419	431	426
Clients billed (IP Led)	353	338	335	338	308	306	277	268	177

Source: Company



**Human Resources:** 133 employees on a net basis left PSYS QoQ taking total head-count to 8,976. Attrition was flat QoQ at 14.7%. Utilisation improved 130bps QoQ to 81.2%.

#### Exhibit 5: Employee strength at PSYS

(Nos)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Billable Personnel – onsite	2,108	2,121	2,048	2,109	2,236	2,431	2,689	2,777	2,713
Billable Personnel - offshore	14,523	14,909	15,426	14,968	14,942	15,205	15,556	15,166	14,669
<b>Total billable employees</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>	<b>17,943</b>	<b>17,382</b>
Billed Personnel - onsite	1,811	1,786	1,720	1,867	1,907	2,104	2,346	2,413	2,391
Billed Personnel - offshore	10,693	11,030	11,246	11,610	11,459	11,507	11,994	11,922	11,728
<b>Total billed employees</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>14,335</b>	<b>14,119</b>
<b>Utilisation details</b>									
Utilisation (blended, %)	75.2	75.3	74.2	78.9	77.8	77.2	78.6	79.9	81.2
Utilisation (onsite, %)	85.9	84.2	84.0	88.5	85.3	86.5	87.2	87.2	88.1
Utilisation (offshore, %)	73.6	74.0	72.9	77.6	76.6	75.7	77.1	77.1	80.0
<b>Employees</b>									
Technical	8,618	8,698	8,612	8,562	8,808	8,744	8,599	8,460	8,329
Sales & Business Development	201	204	207	200	193	210	208	206	211
Others	445	487	486	467	459	447	439	443	436
<b>Total</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>	<b>9,109</b>	<b>8,976</b>

Source: Company

#### Exhibit 6: Billing rates

US\$/ppm	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Onsite	14,574	15,437	16,101	15,704	15,914	16,307	16,023	16,314	16,662
Offshore	4,275	4,325	4,288	4,257	4,244	4,212	4,148	4,220	4,349

Source: Company

#### Exhibit 7: Other details

Revenue mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Onsite	26.3	26.3	26.3	26.7	27.8	29.9	31.9	32.1	34.1
Offshore	45.5	45.5	45.9	44.9	44.6	42.9	42.1	41.1	43.6
IP Led	28.2	28.2	27.8	28.4	27.6	27.2	26.0	26.8	22.3
<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	62	63	66	70	65	64	66	66	66
Attrition (%)	16.4	16.7	15.9	15.8	15.7	15.5	15.5	14.7	14.7

Source: Company



## Financials

### Income Statement ( ` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>23,123</b>	<b>28,784</b>	<b>30,337</b>	<b>33,414</b>	<b>37,089</b>
Op. Expenses	18,985	24,131	25,677	27,780	30,674
<b>EBITDA</b>	<b>4,138</b>	<b>4,654</b>	<b>4,660</b>	<b>5,634</b>	<b>6,414</b>
Other Income	784	958	1,217	1,221	1,150
Depreciation	965	1,490	1,585	1,770	1,930
<b>EBIT</b>	<b>3,957</b>	<b>4,122</b>	<b>4,293</b>	<b>5,085</b>	<b>5,635</b>
Interest	1	1	1	1	1
<b>PBT</b>	<b>3,956</b>	<b>4,121</b>	<b>4,292</b>	<b>5,084</b>	<b>5,634</b>
Tax	983	992	1,062	1,322	1,521
<b>PAT</b>	<b>2,974</b>	<b>3,129</b>	<b>3,230</b>	<b>3,762</b>	<b>4,113</b>
Minority	-	-	-	-	-
<b>Adj Pat</b>	<b>2,974</b>	<b>3,129</b>	<b>3,230</b>	<b>3,762</b>	<b>4,113</b>

### Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share ( ` )</b>					
EPS	37.2	39.1	40.4	47.0	51.4
CEPS	49.2	57.7	60.2	69.1	75.5
BVPS	204.9	237.4	265.9	298.9	335.1
DPS	8.0	9.0	10.0	12.0	13.0
Payout (%)	25.2	26.9	29.0	29.9	29.6
<b>Valuation (x)</b>					
P/E	20.5	15.3	17.1	15.4	14.1
P/BV	3.7	2.5	2.6	2.4	2.2
EV/EBITDA	12.6	9.4	10.8	9.1	7.7
Dividend Yield (%)	1.0	1.5	1.4	1.7	1.8
<b>Return ratio (%)</b>					
EBITDA Margin	17.9	16.2	15.4	16.9	17.3
PAT Margin	12.9	11.3	10.6	11.3	11.1
ROAE	19.5	17.7	16.0	16.7	16.2
ROACE	25.9	23.3	21.3	22.5	22.2
<b>Leverage Ratios (x)</b>					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.9	3.8	3.9	4.2	4.4
<b>Growth Ratios (%)</b>					
Income growth	22.3	24.5	5.4	10.1	11.0
EBITDA growth	6.9	18.9	0.1	20.9	13.9
PAT growth	2.3	12.8	3.2	16.5	9.3
<b>Turnover Ratios</b>					
F.A Turnover x	7.1	10.2	11.7	11.5	12.4
Debtors Days	74	67	65	64	63
Payable days	35	20	23	22	21

### Balance Sheet ( ` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Sources of Funds</b>					
Equity Share Capital	800	800	800	800	800
Reserves & Surplus	15,593	18,193	20,472	23,111	26,007
<b>Total Shareholders Fund</b>	<b>16,393</b>	<b>18,993</b>	<b>21,272</b>	<b>23,911</b>	<b>26,807</b>
Non- current liabilities	(77)	445	201	217	232
Long term Borrowings	26	22	17	17	17
Deferred tax liabilities	(228)	277	25	25	25
Other LT liabilities & prov	126	146	160	176	190
<b>Current Liabilities</b>	<b>4,517</b>	<b>3,720</b>	<b>4,474</b>	<b>4,871</b>	<b>5,378</b>
Trade payables	1,651	1,210	1,673	1,827	2,017
Other cur liabilities & Prov	2,866	2,510	2,801	3,044	3,362
<b>Total Liabilities</b>	<b>20,833</b>	<b>23,157</b>	<b>25,947</b>	<b>28,999</b>	<b>32,417</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>7,697</b>	<b>9,114</b>	<b>8,327</b>	<b>8,741</b>	<b>8,852</b>
Fixed assets	3,273	2,817	2,589	2,909	2,979
Non-current investments	2,703	5,172	5,466	5,466	5,466
Long-term loans & adv	851	131	143	183	203
Other non-current assets	870	994	129	183	203
<b>Current assets</b>	<b>13,136</b>	<b>14,043</b>	<b>17,620</b>	<b>20,258</b>	<b>23,565</b>
Current investments	4,828	4,500	5,916	5,916	5,916
Trade receivables	4,275	4,754	4,847	5,310	5,894
Cash & bank balances	1,432	1,461	1,344	2,981	5,038
Short-term loans & adv	812	14	7	9	10
Other current assets	1,788	3,314	5,506	6,042	6,706
<b>Total Assets</b>	<b>20,833</b>	<b>23,157</b>	<b>25,947</b>	<b>28,999</b>	<b>32,417</b>

### Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	3,956	4,121	4,292	5,084	5,634
Depreciation	1,050	1,995	1,333	1,770	1,930
Interest expense	1	1	1	1	1
<b>CF before W.cap</b>	<b>5,007</b>	<b>6,117</b>	<b>5,626</b>	<b>6,855</b>	<b>7,564</b>
Inc/dec in W.cap	2,455	1,387	657	682	768
<b>Op CF after W.cap</b>	<b>2,552</b>	<b>4,730</b>	<b>4,969</b>	<b>6,173</b>	<b>6,797</b>
Less Taxes	983	992	1,062	1,322	1,521
<b>Net CF From Operations</b>	<b>1,569</b>	<b>3,738</b>	<b>3,907</b>	<b>4,851</b>	<b>5,275</b>
Inc/(dec) in F.A + CWIP	1,141	1,034	1,357	2,090	2,000
(Pur)/sale of investments	(224)	2,141	1,711	-	-
Others	(1)	(1)	(1)	(1)	(1)
<b>CF from Invst Activities</b>	<b>(918)</b>	<b>(3,176)</b>	<b>(3,069)</b>	<b>(2,091)</b>	<b>(2,001)</b>
Loan raised	1	(4)	(5)	-	-
Equity Raised	113	313	(15)	(0)	0
Dividend	749	842	936	1,123	1,217
<b>CF from Fin Activities</b>	<b>(635)</b>	<b>(533)</b>	<b>(956)</b>	<b>(1,123)</b>	<b>(1,217)</b>
<b>Net inc /(dec) in cash</b>	<b>16</b>	<b>29</b>	<b>(118)</b>	<b>1,637</b>	<b>2,057</b>
Op. bal of cash	1,416	1,432	1,461	1,344	2,981
<b>Cl. balance of cash</b>	<b>1,432</b>	<b>1,461</b>	<b>1,344</b>	<b>2,981</b>	<b>5,038</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>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
<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
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/or sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.