



ENAM Securities  
India Research

CMP: Rs 390  
Target Price: Rs 540  
Potential Upside: 39%  
Absolute Rating: BUY

# Persistent Systems Ltd

Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

|                        |                  |
|------------------------|------------------|
| No. of shares          | : 40 mn          |
| Market cap             | : Rs 15.6 bn     |
| 52 week high/low       | : Rs 505/ Rs 308 |
| Avg. daily vol. (6mth) | : 105,500 shares |
| Bloomberg code         | : PSYS IB        |
| Reuters code           | : PERS.BO        |

| Shareholding (%) | Dec-10 | QoQ chg |
|------------------|--------|---------|
| Promoters        | : 38.9 | 0.0     |
| FIs              | : 4.6  | 1.2     |
| MFs / UTI        | : 4.9  | 0.1     |
| Banks / FIs      | : 0.0  | 0.0     |
| Others           | : 51.6 | (1.3)   |

\*OPD: Offshore Product Development

## Financial summary

| Y/E Mar | Sales (Rs mn) | Adj. PAT (Rs mn) | Consensus EPS* (Rs) | Adj. EPS (Rs) | Change YoY (%) | P/E (x) | RoE (%) | RoCE (%) | EV/EBITDA (x) |
|---------|---------------|------------------|---------------------|---------------|----------------|---------|---------|----------|---------------|
| 2009    | 5,938         | 676              | -                   | 18.8          | (22)           | -       | 18.7    | 18.9     | -             |
| 2010    | 6,012         | 1,150            | -                   | 32.1          | 70             | -       | 22.3    | 24.0     | -             |
| 2011E   | 7,674         | 1,372            | 35.9                | 34.3          | 7              | 11.4    | 19.6    | 21.4     | 7.1           |
| 2012E   | 10,147        | 1,441            | 36.0                | 36.0          | 5              | 10.8    | 17.4    | 24.9     | 4.6           |

Source: \*Consensus broker estimates, Company, ENAM estimates. FY09 forex loss was Rs 874 mn and FY10 forex gain was Rs 32 mn. Our INR/USD exchange rate assumption for Q4FY11E is Rs 45.3 and for FY12E is Rs 44.1

## BROADENING ITS SPECTRUM PERSISTENTLY

Persistent (PSYS) announced acquisition of OPD\* biz of Infospectrum Inc. Infospectrum commenced operations in Los Angeles in 1996, has a development center in Nagpur & an office in Oslo (Norway).

- **Acquisition price:** All-cash deal of ~USD 6 mn (~1x current rev base). With similar profitability margins as PSYS (~18% NPM), the deal is valued at ~6x PE. The deal value will be paid over next 18 months.
- **About Infospectrum & employee intake:** It is a product engineering & technology svcs co. Persistent would absorb ~200 employees.
- **Value Proposition:**
  - ▶ **Rich clientele acquisition and minimum overlap:** The acquisition adds 20 clients with just 2 clients in common btw the 2 entities. 3 / 20 clients have > USD 1 bn topline, taking the combined entity's clientele to more than 40 clients with > USD 1 bn topline. Typically, these clients spend ~13-23% of sales on R&D. Top client revenue contribution at ~17% (~ USD 1 mn).
  - ▶ **Stronger supply chain:** Infospectrum has traditionally operated at ~6-8% attrition. We believe acquisition by a large vendor with broader domain expertise augurs well for the ~200 employees from Infospectrum integrating into Persistent.
  - ▶ **Help strengthen European presence:** Infospectrum derives ~50% of revenues from Europe vs. ~5% for Persistent (Q3FY11). It would provide Persistent access to European clients and diversify the client portfolio from a geographic perspective.
  - ▶ **Access to niche verticals:** Infospectrum caters to niche verticals viz Aerospace, Defence (combined rev share of ~15%), Maritime Systems, Network Surveillance & Monitoring (rev share of ~35%). We believe PSYS is well positioned to cross sell its core offerings like cloud computing and analytics into these verticals.
  - ▶ **Better DSO but lower billing rates vs. Persistent**

**Est./Valuations:** We have revised our FY12E topline upward by ~2% & PAT by ~1.4% to factor in: 1) rev stream from the acquisition; 2) lower other income on a/c of cash outgo; & 3) integration-related expenses in the first year of operations. Our revised TP of Rs 540 (vs. Rs 533 earlier) at 15x FY12E EPS implies an upside of 39% from CMP. **Maintain BUY.**

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