

## Persistent Systems

### Performance highlights

| Y/E March (₹ cr)   | 2QFY12     | 1QFY12     | % chg (qoq) | 2QFY11     | % chg (yoy)  |
|--------------------|------------|------------|-------------|------------|--------------|
| <b>Net revenue</b> | <b>238</b> | <b>224</b> | <b>6.4</b>  | <b>187</b> | <b>27.4</b>  |
| EBITDA             | 45         | 40         | 13.1        | 43         | 5.4          |
| EBITDA margin (%)  | 19.0       | 17.9       | 112bp       | 23.0       | (397)bp      |
| <b>PAT</b>         | <b>32</b>  | <b>28</b>  | <b>17.6</b> | <b>36</b>  | <b>(9.5)</b> |

Source: Company, Angel Research

For 2QFY2012, Persistent Systems (Persistent) reported numbers that were almost in-line with our as well as street expectations on the revenue front; however, it outperformed the street as well as our expectations on the operating and profitability front. Though management has maintained its PAT guidance for FY2012 of having it at least flat yoy despite the surge in tax rates to 31% from 7% in FY2011, but its commentary has turned highly cautious. Persistent is into pure-play offshore product development (OPD), which is highly discretionary in nature and, thus, poses a huge risk for the company if any slowdown kicks in the economies. **We recommend Neutral on the stock.**

**Quarterly highlights:** For 2QFY2012, Persistent reported revenue of US\$51.5mn, up 3.1% qoq, majorly led by volume growth. In INR terms, revenue came in at ₹238.2cr, up by whopping 6.4% qoq. Despite giving wage hikes, EBITDA margin grew by 112bp qoq to 19.0%, aided by higher INR revenue growth due to qoq depreciating INR, lower SG&A expenses and wage hikes not applicable for the full employee base. PAT came in at ₹32.4cr, aided by higher other income due to tax-free dividend of ₹1.2cr, which led to lower tax outgo as well.

**Outlook and valuation:** Persistent, due to its niche focus on OPD, is exposed to a high amount of risk if any slowdown kicks in the developed economies. This, along with the cautious commentary by management, poses a downside risk to management's guidance of 29% yoy revenue growth in FY2012. Thus, we have trimmed our USD revenue growth estimates for FY2012 to 24.1% from 30.0% earlier. Over FY2011-13E, the company is expected to record USD and INR revenue CAGR of 18.9% and 19.4%, respectively. On the EBITDA margin front, we expect margin to dip to 19.9% for FY2012 and remain at 20.0% in FY2013 from 20.4% in FY2011, as we do not expect higher growth in high-margin IP-led revenue (due to its lumpy nature). Thus, over FY2011-13E, we expect the company to record EBITDA and PAT CAGR of 18.2% and 2.5%, respectively. **We value the stock at 9x FY2013 EPS, which gives us a target price of ₹330, and recommend Neutral on the stock.**

### Key financials (Indian GAAP, Consolidated)

| Y/E March (₹ cr)  | FY2010      | FY2011      | FY2012E     | FY2013E      |
|-------------------|-------------|-------------|-------------|--------------|
| <b>Net sales</b>  | <b>601</b>  | <b>776</b>  | <b>983</b>  | <b>1,107</b> |
| % chg             | 1.2         | 29.1        | 26.7        | 12.6         |
| <b>Net profit</b> | <b>115</b>  | <b>140</b>  | <b>125</b>  | <b>147</b>   |
| % chg             | 74.0        | 21.5        | (10.4)      | 17.2         |
| EBITDA margin (%) | 24.3        | 20.4        | 19.9        | 20.0         |
| <b>EPS (₹)</b>    | <b>32.1</b> | <b>34.9</b> | <b>31.3</b> | <b>36.7</b>  |
| P/E (x)           | 10.1        | 9.3         | 10.3        | 8.8          |
| P/BV (x)          | 1.8         | 1.7         | 1.5         | 1.3          |
| RoE (%)           | 18.0        | 18.7        | 14.6        | 14.8         |
| RoCE (%)          | 17.5        | 15.5        | 16.1        | 15.8         |
| EV/Sales (x)      | 1.6         | 1.2         | 1.0         | 0.8          |
| EV/EBITDA (x)     | 6.5         | 6.0         | 5.0         | 4.2          |

Source: Company, Angel Research

## NEUTRAL

|              |      |
|--------------|------|
| CMP          | ₹324 |
| Target Price | -    |

|                   |           |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

### Stock Info

|                    |         |
|--------------------|---------|
| Sector             | IT      |
| Market Cap (₹ cr)  | 1,295   |
| Beta               | 0.7     |
| 52 Week High / Low | 504/337 |
| Avg. Daily Volume  | 35,272  |
| Face Value (₹)     | 10      |
| BSE Sensex         | 17,025  |
| Nifty              | 5,118   |
| Reuters Code       | PERS.BO |
| Bloomberg Code     | PSYS@IN |

### Shareholding Pattern (%)

|                         |      |
|-------------------------|------|
| Promoters               | 39.0 |
| MF / Banks / Indian FIs | 26.5 |
| FII / NRIs / OCBs       | 5.7  |
| Indian Public / Others  | 28.9 |

| Abs. (%)   | 3m     | 1yr    | 3yr  |
|------------|--------|--------|------|
| Sensex     | (8.3)  | (15.4) | 70.7 |
| Persistent | (14.9) | (24.1) | -    |

Note: Listed on April 6, 2010

### Srishti Anand

+91 22 39357800 Ext: 6820  
srishti.anand@angelbroking.com

### Ankita Somani

+91 22 39357800 Ext: 6819  
ankita.somani@angelbroking.com

**Exhibit 1: 2QFY2012 performance (Indian GAAP, Consolidated)**

| Y/E March (₹ cr)   | 2QFY12     | 1QFY12     | % chg (qoq) | 2QFY11     | % chg (yoy)  | 1HFY12     | 1HFY11     | % chg (yoy)   |
|--------------------|------------|------------|-------------|------------|--------------|------------|------------|---------------|
| <b>Net revenue</b> | <b>238</b> | <b>224</b> | <b>6.4</b>  | <b>187</b> | <b>27.4</b>  | <b>462</b> | <b>368</b> | <b>25.5</b>   |
| Cost of revenue    | 150        | 140        | 6.5         | 108        | 38.4         | 290        | 220        | 31.6          |
| Gross profit       | 89         | 83         | 6.4         | 79         | 12.3         | 172        | 148        | 16.5          |
| S&M expenses       | 17         | 18         | (5.7)       | 17         | (1.7)        | 34         | 31         | 9.9           |
| G&A expenses       | 27         | 26         | 4.2         | 19         | 40.5         | 52         | 39         | 33.8          |
| <b>EBITDA</b>      | <b>45</b>  | <b>40</b>  | <b>13.1</b> | <b>43</b>  | <b>5.4</b>   | <b>85</b>  | <b>77</b>  | <b>10.4</b>   |
| Depreciation       | 14         | 13         | 10.3        | 10         | 38.6         | 27         | 20         | 34.2          |
| EBIT               | 31         | 27         | 14.4        | 33         | (4.7)        | 59         | 58         | 2.2           |
| Other income       | 7          | 6          |             | 4          |              | 14         | 7          |               |
| Forex gain/(loss)  | 6          | 6          |             | 2          |              | 13         | 11         |               |
| PBT                | 45         | 40         | 12.7        | 39         | 16.0         | 85         | 76         | 12.0          |
| Income tax         | 13         | 12         | 1.9         | 3          | 313.4        | 25         | 6          | 345.0         |
| <b>PAT</b>         | <b>32</b>  | <b>28</b>  | <b>17.6</b> | <b>36</b>  | <b>(9.5)</b> | <b>60</b>  | <b>70</b>  | <b>(14.7)</b> |
| EPS                | 8.1        | 6.9        | 17.6        | 9.0        | (9.6)        | 15.0       | 17.6       | (14.6)        |
| Gross margin (%)   | 37.2       | 37.3       | (3)bp       | 42.2       | (500)bp      | 37.2       | 40.1       | (289)bp       |
| EBITDA margin (%)  | 19.0       | 17.9       | 112bp       | 23.0       | (397)bp      | 18.5       | 21.0       | (254)bp       |
| EBIT margin (%)    | 13.2       | 12.3       | 91bp        | 17.6       | (444)bp      | 12.7       | 15.7       | (291)bp       |
| PAT margin (%)     | 12.9       | 11.7       | 121bp       | 18.6       | (570)bp      | 12.3       | 18.2       | (592)bp       |

Source: Company, Angel Research

**Exhibit 2: Actual vs. Angel estimates**

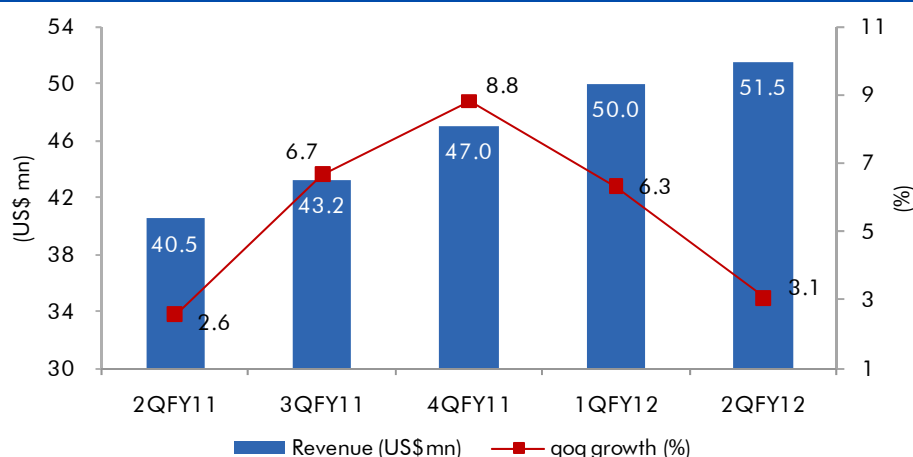
| (₹ cr)             | Actual | Estimate | % Var |
|--------------------|--------|----------|-------|
| <b>Net revenue</b> | 238    | 241      | (1.2) |
| EBITDA margin (%)  | 19.0   | 15.4     | 364bp |
| <b>PAT</b>         | 32     | 26       | 24.1  |

Source: Company, Angel Research

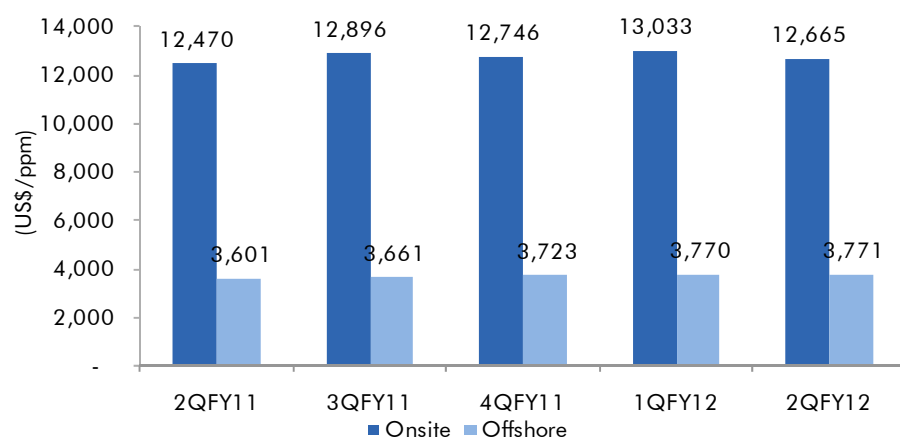
**Revenue momentum continues**

For 2QFY2012, Persistent reported revenue of US\$51.5mn, up 3.1% qoq, primarily led by volume growth of ~2.4% qoq. The company's offshore billing rate was flat qoq at US\$3,771 per person per month (ppm); however, there was a slight decrease in onsite billing rates to US\$12,665 ppm from US\$13,033 ppm due to higher fixed price contracts. As such, management indicated that pricing will be stable going ahead.

In INR terms, revenue growth was robust at 6.4% qoq to ₹238.2cr – higher growth as against USD revenue due to qoq INR depreciation against USD in 2QFY2012.

**Exhibit 3: Trend in revenue growth (qoq)**


Source: Company, Angel Research

**Exhibit 4: Trend in billing rates (qoq)**


Source: Company, Angel Research

Industry wise, the company's growth was led by the lifesciences and healthcare segment (contributing 10.6% to revenue), revenue of which grew by 10.4% qoq. Revenue from the telecom and wireless segment (contributing 22.0% to revenue) grew by 2.1% qoq, majorly led by European clients. The anchor industry segment – infrastructure and systems (contributed 67.4% to revenue) continued its revenue traction and grew by 2.3% qoq.

**Exhibit 5: Growth trend in industry segments**

|                             | % to revenue | % chg (qoq) | % chg (yoy) |
|-----------------------------|--------------|-------------|-------------|
| Infrastructure and systems  | 67.4         | 2.3         | 23.5        |
| Telecom and wireless        | 22.0         | 2.1         | 39.9        |
| Lifesciences and healthcare | 10.6         | 10.4        | 27.2        |

Source: Company, Angel Research

Geography wise, the company's growth was again led by Europe, revenue from which grew by 8.9% qoq as ramp-ups happened in revenue from few European clients. North America continued to grow during this quarter as well at 2.1% qoq.

**Exhibit 6: Growth trend in geographies**

|               | % to revenue | % chg (qoq) | % chg (yoy) |
|---------------|--------------|-------------|-------------|
| North America | 82.0         | 2.1         | 22.0        |
| Europe        | 7.8          | 8.9         | 65.8        |
| Asia-Pacific  | 10.2         | 6.9         | 52.0        |

Source: Company, Angel Research

Revenue contribution from IP-led services increased in 2QFY2012 to 7.6% from 6.1% in 1QFY2012. Management indicated that it foresees IP-led revenue to be substantially higher in 2HFY2012 as compared to 1HFY2012 and expects IP-led revenue to touch US\$25mn by the end of FY2012 i.e., whopping 68% yoy growth.

**Hiring and utilization**

Persistent continued its modest hiring trend and added 280 net employees during the quarter. In the technical employee base of the company, 291 net employees were added; however, there was a slight reduction in sales and support employee base. Attrition rate (LTM basis) declined significantly in 2QFY2012 to 17.7% from 18.4% in 1QFY2012. The company added 632 new graduates during the quarter.

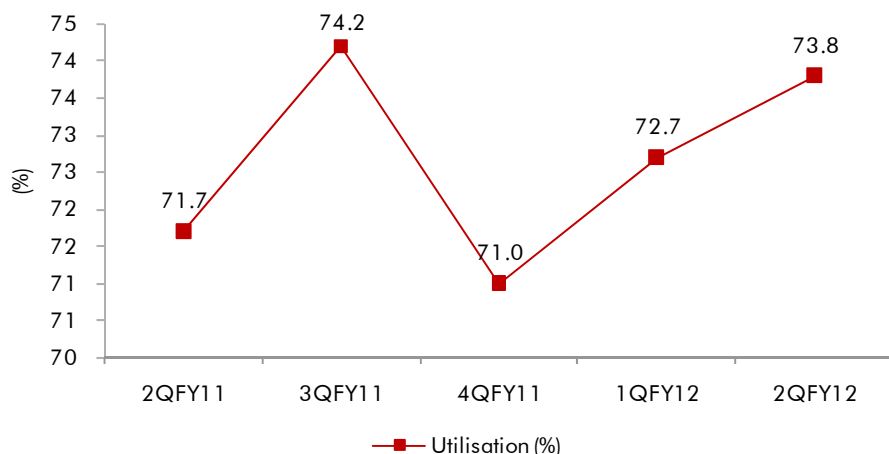
**Exhibit 7: Employee metrics**

| Particulars         | 2QFY11       | 3QFY11       | 4QFY11       | 1QFY12       | 2QFY12       |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Technical           | 4,907        | 5,070        | 5,950        | 6,178        | 6,469        |
| Sales               | 87           | 94           | 108          | 119          | 113          |
| Rest                | 287          | 296          | 302          | 323          | 318          |
| <b>Total</b>        | <b>5,281</b> | <b>5,460</b> | <b>6,360</b> | <b>6,620</b> | <b>6,900</b> |
| Net addition        | 370          | 179          | 900          | 260          | 280          |
| Attrition – LTM (%) | 18.6         | 21.5         | 19.6         | 18.4         | 17.7         |

Source: Company, Angel Research

Net utilization (excluding resources in IP-led work) increased by 110bp qoq to 73.8%. For computing utilization, the company does not account for freshers added till they complete three months in the company. So despite adding freshers in 2QFY2012, the company's utilization level increased on a qoq basis. However, in 3QFY2012, we expect utilization to dip due to intake of freshers in the system. Management expects utilization to inch up and reach 75–77% over the next 3-4 quarters.

**Exhibit 8: Utilization trend**

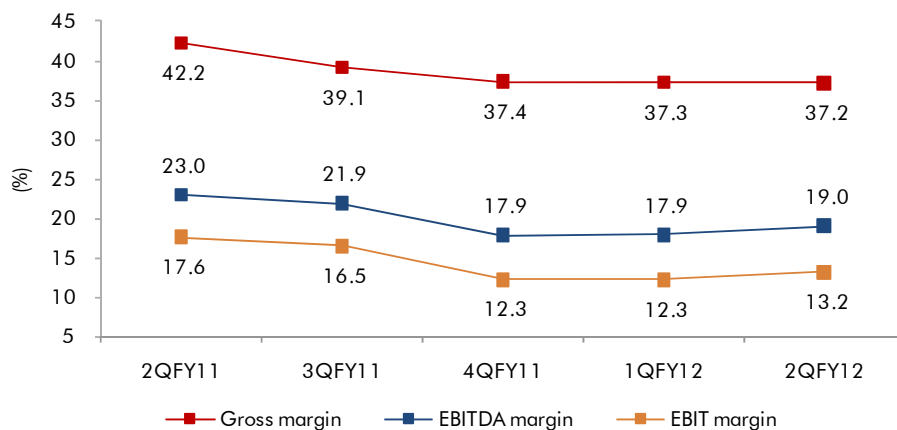


Source: Company, Angel Research

**Margin profile**

In 2QFY2012, the company’s EBITDA and EBIT margins increased by 112bp and 91bp qoq to 19.0% and 13.2%, respectively, despite giving wage hikes (7-8% for offshore employees and 4% for onsite employees) from July 1, 2011. This was because of higher INR revenue growth due to qoq depreciating INR, lower SG&A expenses and wage hikes not applicable for the full employee base. For the full year, the company expects margins to remain stable at FY2011 levels.

**Exhibit 9: Margin profile**



Source: Company, Angel Research

For 2QFY2012, PAT came in at ₹32.4cr, up by whopping 17.6% qoq on the back of higher other income due to tax-free dividend of ₹1.2cr. This along with slight write-backs led to lower tax outgo keeping the effective tax rate for the quarter at 28.2% vs. 31.1% in 1QFY2012. For FY2012, the company expects tax rate to be at 30%.

## Client pyramid

The client metrics of the company saw a qualitative movement with one new client getting added in the <US\$1mn revenue bracket and 13 new clients getting added in the US\$1mn–3mn revenue bracket.

In 2QFY2012, Persistent added 37 new clients. The total active client base of the company increased to 253 from 239 in 1QFY2012.

### Exhibit 10: Client metrics

| Particulars      | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 | 2QFY12 |
|------------------|--------|--------|--------|--------|--------|
| Customers billed | 201    | 207    | 229    | 239    | 253    |
| <US\$1mn         | 171    | 169    | 194    | 198    | 211    |
| US\$1mn-3mn      | 21     | 29     | 26     | 32     | 32     |
| >US\$3mn         | 9      | 9      | 9      | 9      | 10     |

Source: Company, Angel Research

## Outlook and valuation

Persistent, due to its niche focus on OPD, is exposed to a high amount of risk as most of its revenue is discretionary in nature and, therefore, it is a threat to the company's revenue profile if any slowdown kicks in the developed economies. This, along with the cautious commentary by management, poses a downside risk to management's guidance of 29% yoy revenue growth in FY2012. Thus, we have trimmed our USD revenue growth for FY2012 to 24.1% from 30.0% earlier. Over, FY2011-13E, the company is expected to record USD and INR revenue CAGR of 18.9% and 19.4%, respectively.

On the EBITDA margin front, we expect margin to dip to 19.9% for FY2012 and remain flat yoy to 20.0% in FY2013 from 20.4% in FY2011, as we do not expect higher growth in IP-led revenue (due to its lumpy nature), which is a high-margin business. On the bottom-line front, the company maintained its guidance of flat yoy PAT for FY2012, despite higher tax rates of 30% from 7.1% in FY2011, which we expect is tough to achieve without higher growth in IP-led revenue. Management expects IP-led revenue to touch US\$25mn by the end of FY2012 i.e., whopping 68% yoy growth, which appears very difficult to be achieved given that the company has got only US\$9.7mn revenue from IPs in 1HFY2012, considering management's watchful commentary on deal renewals. Thus, over FY2011-13E, we expect the company to record EBITDA and PAT CAGR of 18.2% and 2.5%, respectively. **At the CMP of ₹324, the stock is trading at 8.8x FY2013E EPS of ₹36.7. We value the stock at 9x FY2013 EPS i.e., 50% discount to Infosys, which gives us a target price of ₹330, and recommend Neutral on the stock.**

**Exhibit 11: Key assumptions**

|                                | FY2012 | FY2013 |
|--------------------------------|--------|--------|
| Revenue growth – USD terms (%) | 24.1   | 13.9   |
| USD-INR rate                   | 46.5   | 46.0   |
| Revenue growth – INR terms (%) | 8.1    | 8.2    |
| EBITDA margin (%)              | 19.9   | 20.0   |
| Tax rate (%)                   | 30.3   | 31.0   |
| EPS growth (%)                 | (10.3) | 17.2   |

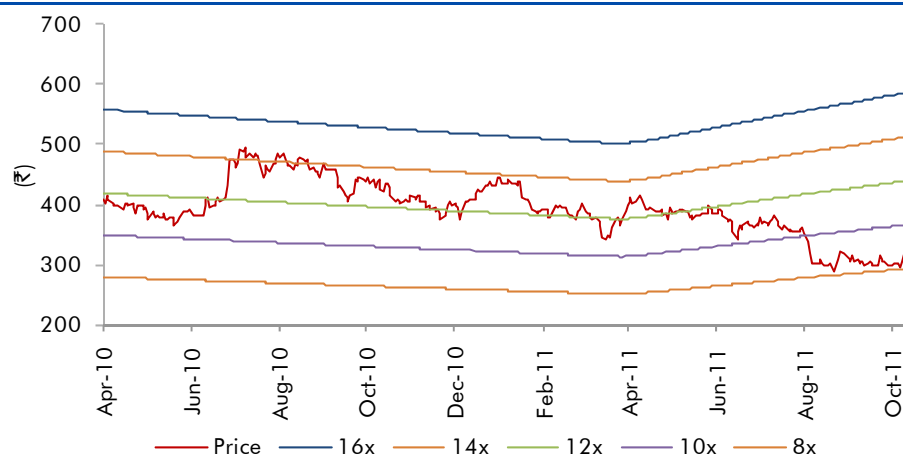
Source: Company, Angel Research

**Exhibit 12: Change in estimates**

| Parameter<br>(₹ cr) | FY2012E           |                   |               | FY2013E           |                   |               |
|---------------------|-------------------|-------------------|---------------|-------------------|-------------------|---------------|
|                     | Earlier estimates | Revised estimates | Variation (%) | Earlier estimates | Revised estimates | Variation (%) |
| <b>Net revenue</b>  | <b>980</b>        | <b>983</b>        | <b>0.3</b>    | <b>1,117</b>      | <b>1,107</b>      | <b>(0.9)</b>  |
| EBITDA              | 180               | 196               | 8.7           | 213               | 221               | 4.0           |
| Other income        | 40                | 28                |               | 36                | 43                |               |
| PBT                 | 186               | 180               | (3.3)         | 197               | 213               | 7.8           |
| Tax                 | 58                | 55                | (5.5)         | 61                | 66                | 7.8           |
| <b>PAT</b>          | <b>128</b>        | <b>125</b>        | <b>(2.3)</b>  | <b>136</b>        | <b>147</b>        | <b>7.8</b>    |

Source: Company, Angel Research

**Exhibit 13: One-year forward PE(x) chart**



Source: Company, Angel Research

**Exhibit 14: Recommendation summary**

| Company              | Reco           | CMP<br>(₹) | Tgt. price<br>(₹) | Upside<br>(%) | Target<br>P/E (x) | FY2013E<br>EBITDA (%) | FY2013E<br>P/E (x) | FY2011-13E<br>EPS CAGR (%) | FY2013E<br>RoCE (%) | FY2013E<br>RoE (%) |
|----------------------|----------------|------------|-------------------|---------------|-------------------|-----------------------|--------------------|----------------------------|---------------------|--------------------|
| HCL Tech             | Buy            | 439        | 558               | 27.2          | 15.0              | 17.2                  | 11.6               | 24.3                       | 20.3                | 22.4               |
| Hexaware             | Neutral        | 90         | -                 | -             | 11.0              | 15.3                  | 11.4               | 66.0                       | 16.2                | 18.0               |
| Infosys              | Neutral        | 2,747      | 2,837             | -             | 18.0              | 30.6                  | 17.4               | 14.8                       | 24.0                | 22.5               |
| Infotech Enterprises | Neutral        | 118        | -                 | -             | 8.0               | 15.1                  | 7.9                | 8.8                        | 9.0                 | 8.1                |
| KPIT Cummins         | Reduce         | 169        | 154               | (9.0)         | 10.0              | 15.3                  | 11.0               | 16.5                       | 18.7                | 16.4               |
| Mahindra Satyam      | Accumulate     | 73         | 79                | 7.9           | 11.0              | 14.6                  | 10.2               | 30.4                       | 10.8                | 13.5               |
| Mindtree             | Accumulate     | 387        | 414               | 7.1           | 10.0              | 13.9                  | 9.4                | 28.4                       | 17.1                | 15.5               |
| Mphasis              | Accumulate     | 340        | 382               | 12.3          | 11.5              | 15.5                  | 8.6                | 0.4                        | 13.4                | 14.5               |
| NIIT                 | Accumulate     | 50         | 57                | 14.3          | 8.2               | 13.8                  | 7.2                | 11.2                       | 12.4                | 16.6               |
| <b>Persistent</b>    | <b>Neutral</b> | <b>324</b> | <b>-</b>          | <b>-</b>      | <b>9.0</b>        | <b>20.0</b>           | <b>8.8</b>         | <b>2.5</b>                 | <b>15.8</b>         | <b>14.8</b>        |
| TCS                  | Accumulate     | 1,120      | 1,220             | 8.9           | 20.0              | 28.7                  | 18.4               | 17.0                       | 29.8                | 30.9               |
| Tech Mahindra        | Buy            | 586        | 734               | 25.4          | 9.0               | 16.3                  | 7.2                | 28.5                       | 13.6                | 20.2               |
| Wipro                | Neutral        | 357        | -                 | -             | 15.3              | 18.3                  | 14.6               | 6.1                        | 12.9                | 18.7               |

Source: Company, Angel Research



**Profit and loss statement (Indian GAAP, Consolidated)**

| Y/E March (₹ cr)       | FY2010      | FY2011      | FY2012E     | FY2013E      |
|------------------------|-------------|-------------|-------------|--------------|
| <b>Net sales</b>       | <b>601</b>  | <b>776</b>  | <b>983</b>  | <b>1,107</b> |
| Direct costs           | 337         | 472         | 611         | 697          |
| <i>% of net sales</i>  | <i>56.1</i> | <i>60.9</i> | <i>62.2</i> | <i>62.9</i>  |
| Gross profit           | 264         | 304         | 372         | 410          |
| <i>% of net sales</i>  | <i>43.9</i> | <i>39.1</i> | <i>37.8</i> | <i>37.1</i>  |
| S&M expenses           | 46          | 62          | 71          | 81           |
| <i>% of net sales</i>  | <i>7.7</i>  | <i>8.0</i>  | <i>7.2</i>  | <i>7.3</i>   |
| G&A expenses           | 71          | 83          | 106         | 108          |
| <i>% of net sales</i>  | <i>11.9</i> | <i>10.8</i> | <i>10.7</i> | <i>9.7</i>   |
| <b>EBITDA</b>          | <b>146</b>  | <b>158</b>  | <b>196</b>  | <b>221</b>   |
| <i>% of net sales</i>  | <i>24.3</i> | <i>20.4</i> | <i>19.9</i> | <i>20.0</i>  |
| Depreciation           | 34          | 42          | 56          | 64           |
| EBIT                   | 113         | 116         | 139         | 157          |
| Other income           | 8           | 17          | 28          | 43           |
| Forex gain/(loss)      | 3           | 17          | 12          | 13           |
| Profit before tax      | 124         | 150         | 180         | 213          |
| Provision for tax      | 9           | 11          | 55          | 66           |
| <i>% of PBT</i>        | <i>7.3</i>  | <i>7.1</i>  | <i>30.3</i> | <i>31.0</i>  |
| <b>PAT</b>             | <b>115</b>  | <b>140</b>  | <b>125</b>  | <b>147</b>   |
| Extraordinary expenses | -           | -           | -           | -            |
| <b>Final PAT</b>       | <b>115</b>  | <b>140</b>  | <b>125</b>  | <b>147</b>   |
| EPS (₹)                | 32.1        | 34.9        | 31.3        | 36.7         |

**Balance sheet (Indian GAAP, Consolidated)**

| Y/E March (₹ cr)                            | FY2010     | FY2011     | FY2012E    | FY2013E    |
|---|------------|------------|------------|------------|
| <b>Liabilities</b>                          |            |            |            |            |
| Share capital                               | 40         | 40         | 40         | 40         |
| ESOP outstanding                            | 3          | 3          | 4          | 4          |
| Reserves and surplus                        | 580        | 696        | 805        | 935        |
| Hedge reserves                              | 16         | 8          | 13         | 12         |
| <b>Total shareholders' funds</b>            | <b>639</b> | <b>747</b> | <b>861</b> | <b>991</b> |
| Deferred payment liability                  | 5          | 3          | 3          | 3          |
| <b>Total liabilities</b>                    | <b>644</b> | <b>750</b> | <b>864</b> | <b>994</b> |
| <b>Assets</b>                               |            |            |            |            |
| Gross block - fixed assets                  | 371        | 454        | 654        | 804        |
| Accumulated depreciation                    | 188        | 228        | 284        | 348        |
| Net block                                   | 183        | 226        | 370        | 456        |
| Capital work-in-progress                    | 48         | 60         | 68         | 68         |
| <b>Total fixed assets</b>                   | <b>232</b> | <b>287</b> | <b>438</b> | <b>524</b> |
| Investments                                 | 156        | 250        | 250        | 250        |
| Deferred tax assets, net                    | 1          | 6          | 6          | 0          |
| <b>Current assets</b>                       |            |            |            |            |
| Sundry debtors                              | 136        | 158        | 194        | 212        |
| Cash and bank balance                       | 192        | 100        | 65         | 109        |
| Other current assets                        | 34         | 23         | 25         | 28         |
| Loans and advances                          | 72         | 87         | 110        | 124        |
| <b>Less: - Current liab. and provisions</b> |            |            |            |            |
| Current liabilities                         | 148        | 121        | 174        | 197        |
| Provisions                                  | 32         | 40         | 50         | 58         |
| <b>Net current assets</b>                   | <b>255</b> | <b>207</b> | <b>170</b> | <b>219</b> |
| <b>Total assets</b>                         | <b>644</b> | <b>750</b> | <b>864</b> | <b>994</b> |

**Cash flow statement (Indian GAAP, Consolidated)**

| Y/E March (₹ cr)                          | FY2010       | FY2011       | FY2012E      | FY2013E      |
|---|--------------|--------------|--------------|--------------|
| Pre tax profit from operations            | 113          | 116          | 139          | 157          |
| Depreciation                              | 34           | 42           | 56           | 64           |
| Pre tax cash from operations              | 146          | 158          | 196          | 221          |
| Other income/prior period ad              | 11           | 34           | 41           | 55           |
| Net cash from operations                  | 158          | 193          | 236          | 276          |
| Tax                                       | 9            | 11           | 55           | 66           |
| <b>Cash profits</b>                       | <b>149</b>   | <b>182</b>   | <b>182</b>   | <b>210</b>   |
| (Inc)/dec in                              |              |              |              |              |
| Current assets                            | (81)         | (25)         | (61)         | (35)         |
| Current liabilities                       | 88           | (19)         | 64           | 30           |
| Net trade working capital                 | 7            | (44)         | 3            | (5)          |
| <b>Cashflow from operating activities</b> | <b>156</b>   | <b>138</b>   | <b>184</b>   | <b>206</b>   |
| (Inc)/dec in fixed assets                 | (48)         | (97)         | (207)        | (150)        |
| (Inc)/dec in investments                  | (68)         | (94)         | 0            | -            |
| (Inc)/dec in deferred tax assets          | 1            | (5)          | (0)          | 6            |
| Inc/(dec) in deferred payment liab.       | 5            | (2)          | (0)          | -            |
| <b>Cashflow from investing activities</b> | <b>(110)</b> | <b>(198)</b> | <b>(207)</b> | <b>(145)</b> |
| Inc/(dec) in debt                         | -            | -            | -            | -            |
| Inc/(dec) in equity/premium               | 132          | (6)          | 5            | (1)          |
| Dividends                                 | (2)          | (26)         | (16)         | (16)         |
| <b>Cashflow from financing activities</b> | <b>129</b>   | <b>(32)</b>  | <b>(12)</b>  | <b>(17)</b>  |
| <b>Cash generated/(utilised)</b>          | <b>175</b>   | <b>(92)</b>  | <b>(35)</b>  | <b>44</b>    |
| Cash at start of the year                 | 17           | 192          | 100          | 65           |
| Cash at end of the year                   | 192          | 100          | 65           | 109          |

**Key ratios**

| Y/E March                           | FY2010 | FY2011 | FY2012E | FY2013E |
|-------------------------------------|--------|--------|---------|---------|
| <b>Valuation ratio (x)</b>          |        |        |         |         |
| P/E (on FDEPS)                      | 10.1   | 9.3    | 10.3    | 8.8     |
| P/CEPS                              | 7.8    | 7.1    | 7.1     | 6.2     |
| P/BVPS                              | 1.8    | 1.7    | 1.5     | 1.3     |
| Dividend yield (%)                  | 0.2    | 1.7    | 1.1     | 1.1     |
| EV/Sales                            | 1.6    | 1.2    | 1.0     | 0.8     |
| EV/EBITDA                           | 6.5    | 6.0    | 5.0     | 4.2     |
| EV/Total assets                     | 1.5    | 1.3    | 1.1     | 0.9     |
| <b>Per share data (₹)</b>           |        |        |         |         |
| EPS                                 | 32.1   | 34.9   | 31.3    | 36.7    |
| Cash EPS                            | 41.4   | 45.5   | 45.4    | 52.6    |
| Dividend                            | 0.6    | 5.5    | 3.5     | 3.5     |
| Book value                          | 178.1  | 186.8  | 215.2   | 247.6   |
| <b>Dupont analysis</b>              |        |        |         |         |
| Tax retention ratio (PAT/PBT)       | 0.9    | 0.9    | 0.7     | 0.7     |
| Cost of debt (PBT/EBIT)             | 1.1    | 1.3    | 1.3     | 1.4     |
| EBIT margin (EBIT/Sales)            | 0.2    | 0.1    | 0.1     | 0.1     |
| Asset turnover ratio (Sales/Assets) | 0.9    | 1.0    | 1.1     | 1.1     |
| Leverage ratio (Assets/Equity)      | 1.0    | 1.0    | 1.0     | 1.0     |
| Operating ROE                       | 18.0   | 18.7   | 14.6    | 14.8    |
| <b>Return ratios (%)</b>            |        |        |         |         |
| RoCE (pre-tax)                      | 17.5   | 15.5   | 16.1    | 15.8    |
| Angel RoIC                          | 45.7   | 34.1   | 29.0    | 27.8    |
| RoE                                 | 18.0   | 18.7   | 14.6    | 14.8    |
| <b>Turnover ratios (x)</b>          |        |        |         |         |
| Asset turnover (fixed assets)       | 2.7    | 3.0    | 2.7     | 2.3     |
| Receivables days                    | 73     | 69     | 72      | 70      |
| Payable days                        | 120    | 104    | 104     | 103     |

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

## DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

**Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.**

### Disclosure of Interest Statement

### Persistent

|  |    |
|--|----|
| 1. Analyst ownership of the stock                                  | No |
| 2. Angel and its Group companies ownership of the stock            | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered                       | No |

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

### Ratings (Returns):

Buy (&gt; 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)