



PERSISTENT SYSTEMS LIMITED

SUBSCRIBE

16 March 2010

Bloomberg N.A.

IPO Price Band: Rs.290-310

IPO KEY DETAILS

Issue Size*

Issue Size (m shares)	:	5.4
IPO size (Rs. mn)	:	1,283
IPO Band	:	Rs. 290-310/sh
Face Value (Rs)	:	10 each
Issue Route	:	100% book built issue
Issue Opens	:	March 17, 2010
Issue Closes	:	March 19, 2010
Post Issue Equity (m shares)	:	40.0

POST ISSUE MARKET CAP (RS B)

At a price band of Rs.290/sh	:	11.6
At a price band of Rs.310/sh	:	12.4

Bid Lots

Minimum of 20 shares and in multiples of 20 shares thereafter.

POST ISSUE SHARE HOLDING PATTERN (%)

Promoter and Promoter Group	:	43.3	38.9
Employess & ESOP Trust	:	31.6	25.1
Public & Others	:	25.1	36.1
Total	:	100.0	100.0

FINANCIAL SUMMARY (RS M)

	FY10E	FY11E	FY12E
Revenue	5,725	8,015	11,222
EBITDA	1,346	1,885	2,639
PBT	1,016	1,475	2,159
APAT	923	1,328	1,446
<i>growth(%)</i>	<i>40</i>	<i>44</i>	<i>9</i>
ROE (%)	17	19	17
ROCE (%)	18	21	26

Rating:

The Issue has been graded as 4/5 by CRISIL, indicating the fundamentals of Issue as average, relative to other listed securities in India.

Valuation:

Between 2006 and 2009, PSL's total revenues have grown at 40% CAGR and EBITDA has grown at 18% CAGR. Also, we feel that the company would be able to maintain the EBITDA margin in the range of 25% & PAT margin in excess of 13%. At the upper price band of Rs. 310, the stock will trade at 13.2x FY10 E EPS & 9.3x FY11 E EPS.

BUSINESS OVERVIEW:

Persistent Systems Limited (PSL) is an OPD (Outsourced software product department) specialty company, offering its customers the benefits of offshore delivery. The firm designs, develops and maintains software systems and solutions, creates new applications and enhances the functionality of its customers' existing software products. The company delivers services across all stages of the product life-cycle, which enables it to work with a wide-range of customers and allows it to develop, enhance and deploy its customers' software products. The company's products cater to the following verticals:

- Telecom and Wireless
- Life Sciences and Healthcare
- Infrastructure and Systems

KEY GROWTH DRIVERS:

Consolidate position in the niche OPD space

PSL's goal is to maintain its position as an OPD specialist. The focus is to continue to deliver services across all stages of the product life-cycle, thus enabling it to work with a wide-range of customers, allowing it to improve the efficiency of the PE process. This contributes to the productivity of customers thereby allowing them to deliver a reliable product faster.

Growing the business through intellectual property capabilities

The company regularly invests in the creation of new intellectual property rights. It monetizes its investment in intellectual property by charging a premium for services and by licensing its proprietary software solutions to the customers, which provides another revenue stream to PSL.

Investment in new technology areas

PSL has aligned its existing areas of expertise and created focused initiatives in cloud computing, analytics, enterprise mobility and enterprise collaboration. These initiatives enable it to establish thought leadership and deliver specialized services to the customers. These investments will allow the company to remain competitive and help provide its customers a competitive edge.

STRENGTHS:

Long-term relationships with customers

PSL has long-standing relationships with customers built on successful execution of prior engagements. Majority of PSL's clients (37 customers) have annual revenue of over \$1 billion. PSL's track record of delivering robust solutions, extensive product development experience and demonstrated industry and technology expertise has helped in forging strong relationships with major customers and gaining increased business from them.

Strong team of highly skilled professionals and management and sound recruitment strategies

PSL has a large pool of highly skilled and well-trained employees. As of January 31, 2010, it had 4,639 employees (including contractual employees & trainees) including over 3,700 software professionals. The no. of employees have grown at 40% CAGR between FY07 and FY9.

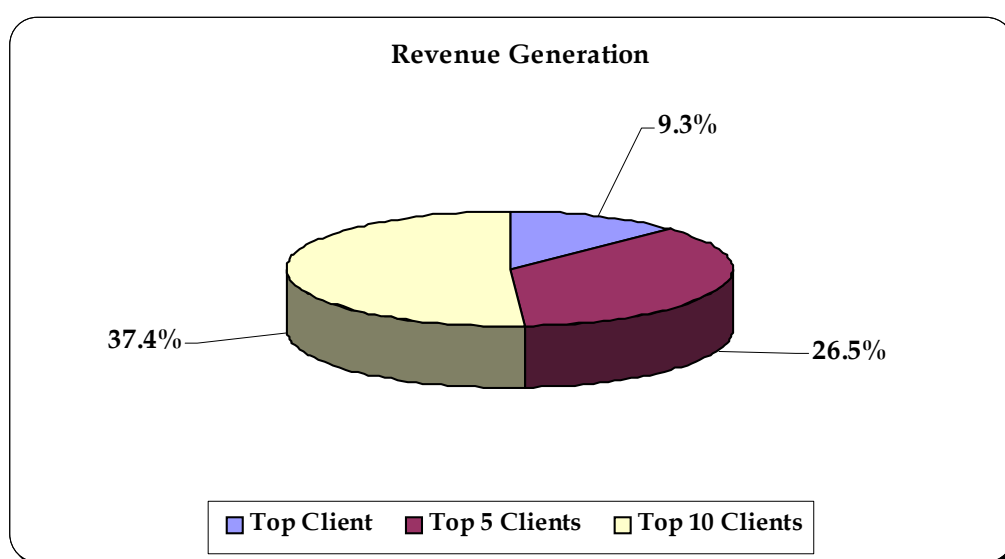
Complete product offering:

PSL provides a broad range of services to customers that support their software products throughout the full product life-cycle. At each stage of the product life-cycle, it offers services designed to address the customers' specific needs as products move from different stages of maturity across early to end-of-life. These offerings are suitable for companies of all sizes.

PSL offers innovative financial terms for its products and services at various stages of the product life cycle. Some of these terms include revenue sharing, performance based fees and royalty arrangements.

Higher client retention:

PSL's high customer retention helps in generating a significant proportion of revenue from repeat business. It has a diversified customer base and there is no overdependence on any single client. The following chart explains the same:

**CONCERNS:****Withdrawal of Tax benefits :**

PSL is entitled to tax exemption with respect to profits derived from export of software services and products from its software development centers registered under the STPI Scheme, the benefit of which is available till 31st March 2011. From FY12 onwards, the tax liability of company will increase and have effect on its earnings.

Increasing wage bill:

The increasing wage pressures in India might prevent the company from sustaining its competitive advantage and may have impact on its profit margins.

Revenue Concentration:

PSL's significant proportions (~85%) of revenues are derived from customers located in the United States. It also derives a large proportion of revenues from customers that operate in the Telecom industry. For the period FY 07-FY09, it derived more than 20% of its total revenues from the Telecom Industry. We believe that any material adverse change in these concentration areas may affect the company's growth prospects.

New products and services developed by the firm may not be profitable:

PSL's growth depends on its ability to innovate by offering new, and adding value to the existing software and service offerings. The Company has identified strategic areas to support specifically in the fields of cloud computing, analytics, enterprise mobility and enterprise collaboration. The Company will continue to make significant investments in research, development and marketing for new products, services and technologies in these areas. However, the commercial viability of all the products under development can not be established at this time.

VALUATION & VIEW:

Between 2006 and 2009, PSL's total revenues have grown at 40% CAGR and EBITDA has grown at 18% CAGR. Also, we feel that the company would be able to maintain the EBITDA margin in the range of 25% & PAT margin in excess of 13%. At the upper price band of Rs. 310, the stock will trade at 13.2x FY10 E EPS & 9.3x FY11 E EPS.

The similar company in the sector is Mindtree consulting, which is trading at 17x FY10 E EPS. We feel that the company will command premium in the valuation, compared to its peers. We, therefore recommend SUBSCRIBE to this issue.

FINANCIAL HIGHLIGHTS:

INCOME STATEMENT: (Consolidated)						(RS MILLION)					
Y/E MARCH	FY08	FY09	FY10E	FY11E	FY12E						
Net Sales	4,249	5,938	5,725	8,015	11,222						
growth (%)	35	40	-4	40	40						
Other Income	256	68	128	180	251						
Total Income	4,505	6,006	5,853	8,195	11,473						
- EXPENSES											
Staff Costs	2,712	3,324	3,395	4,753	6,654						
Op. & other expenses	624	1,700	1,054	1,475	2,064						
Admn S&D Exp.	0	0	29	41	57						
Other Exp.	0	0	29	41	57						
Total Expenditure	3,336	5,024	4,507	6,310	8,834						
EBITDA	1,169	982	1,346	1,885	2,639						
% of net Sales	28	17	24	24	24						
Depreciation/Amortization	280	297	330	410	480						
Finance Charges	0	0	0	0	0						
PBT	889	685	1,016	1,475	2,159						
- TAX	22	10	94	148	712						
PAT	867	675	922	1,327	1,447						
APAT	832	661	923	1,328	1,446						
growth (%)	50	-21	40	44	9						

Source - RHP

RATIOS:

Y/E MARCH	FY08	FY09	FY10E	FY11E	FY12E					
Basic (Rs)										
EPS - Post Issue	20.8	16.5	23.1	33.2	36.2					
Growth (%)	50	-21	22	44	9					
Book Value	82.0	92.2	157.6	190.8	227.0					
Valuation (x)										
PE	14.9	18.8	13.4	9.3	8.6					
EV/EBITDA	11.1	13.3	9.8	7.2	5.3					
EV/Sales	3.1	2.2	2.3	1.7	1.2					
Price/Book Value	3.8	3.4	2.0	1.6	1.4					
Profitability Ratios (%)										
RoE	28	19	17	19	17					
RoCE	30	20	18	21	26					

Source - RHP

BALANCE SHEET: (Consolidated)						(RS MILLION)					
Y/E MARCH	FY08	FY09	FY10E	FY11E	FY12E						
Share Capital	359	359	400	400	400						
Reserves	2,921	3,329	5,963	7,364	8,887						
Shareholders' Funds	3,280	3,688	6,363	7,764	9,287						
Gross Block	2,902	3,372	3,700	4,300	4,700						
Less: Depreciation	1,261	1,572	2,125	2,535	3,015						
Net Block	1,641	1,800	1,575	1,765	1,685						
Capital WIP	331	377	0	0	0						
Net Fixed Assets	1,972	2,177	1,575	1,765	1,685						
Investments	692	881	3,998	4,893	6,053						
Current Assets	1,347	1,797	1,961	2,745	3,843						
Other Current Assets	90	130	176	246	344						
Sundry Debtors	745	1,043	1,053	1,474	2,065						
Cash and Bank Balances	113	165	176	246	344						
Loans and Advances	399	438	527	738	1,033						
Deferred Tax Assets	0	20	29	41	57						
Liabilities & Provisions	731	1,167	1,171	1,639	2,294						
Secured Loans	-	-	-	-	-						
Unsecured Loans	-	-	-	-	-						
Current Liabilities	575	997	995	1,393	1,950						
Deferred Tax Liabilities	2	-	-	-	-						
Provisions	154	170	176	246	344						
Net current assets	616	630	790	1,106	1,549						
Application of Funds	3,280	3,688	6,363	7,764	9,287						

Source - RHP

OBJECTS OF THE ISSUE:		(RS MILLION)	
Particulars	Amount		
Establishment of development facilities	790		
Procuring Hardware	235		
General Corporate Purpose	[•]		
Public issue expenses	[•]		
Total	[•]		

MEANS OF FINANCE:		(RS MILLION)	
Particulars	Amount		
Proceeds of Public Issue	[•]		
Internal Accruals	[•]		
Total	[•]		



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