

Persistent Systems

Topline Growth to Offset Medium Term Setbacks

Persistent's topline was driven by strong growth in focus areas (cloud computing, analytics, enterprise mobility & enterprise collaboration) with rev share of ~40%. Demand outlook is buoyant as ISVs* continue to spend on new prod. dev. It is reflected in strong new client addns (36), rise in billing rates, and ramp-up of S&M / biz dev. team, higher onsite rev mix & FY12 hiring plans. Pricing continues to improve as was reflected in strong pricing uptick in the current qtr. However, attrition spiked to 21.5% vs. 18.6% in Q2 (though Nov/Dec '10 had lower attrition). Further, the co. announced mid-term salary hikes (~10% with margin impact of ~2-2.5%). Persistent reported Rev of ~Rs 195 cr (↑~4% QoQ & ~23% YoY), EBITDA of Rs 42.8 cr (↓~1% QoQ & ~15% YoY) & PAT of Rs 36.2 cr (↑~1% QoQ & ~17% YoY).

Key highlights

- **Sales:** ~3.6% QoQ volume growth while pricing rose 4.7% QoQ for onsite and 2.1% QoQ for offshore.
- **EBITDA:** Write-back of excess bonus provision helped offset margin pressure from higher Visa cost and INR appreciation.
- **PAT:** Forex gain of Rs 3.5 cr helped PAT performance.

Strong topline to allay margin concerns: While margins are likely to be impacted over next 2 qtrs due to mid-term salary hike in Q4 & a possible normal annual salary hike in Q1FY12E, we expect strong topline growth in FY12E to offset near-to-medium margin headwinds. Topline growth to be driven by focus areas. Revs from focus areas to contribute ~45% to topline in FY12E vs. ~40% currently (positive from margin standpoint given their higher realizations). Addl margin levers include: 1) flattening of employee pyramid through higher fresher hiring, 2) utilization (Q3FY11 blended utz at 73.2%) and 3) offshore mix shift (currently rev mix is onsite tilted on account of project ramp-up with a major account).

Est./Valuations: We have marginally revised our FY11E and FY12E EPS est. downwards by ~1.2% and ~1.4% resp. Our revised TP of 533 (vs. Rs 541 earlier) implies an upside of 29%.

Maintain BUY rating.

Financial summary

Y/E Mar	Sales (Rs cr)	Adj. PAT (Rs cr)	Consensus EPS* (Rs)	Adj. EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2009	594	67.6	-	18.8	(22)	-	18.7	18.9	-
2010	601	115	-	32.1	70	-	22.3	24	-
2011E	767	137	36.2	34.3	7	12.0	19.6	21.4	8.1
2012E	999	142	37.2	35.5	4	11.5	17.2	24.6	5.3

Source: *Consensus broker estimates, Company, ENAM estimates. FY09 forex loss was Rs 87.4 cr and FY10 forex gain was Rs 3.2 cr. Our INR/USD exchange rate assumption for Q4FY11E is Rs 45.3 and for FY12E is Rs 44.1.

CMP (Rs)	410
Target price (Rs)	533
Potential upside	29%

Stock data

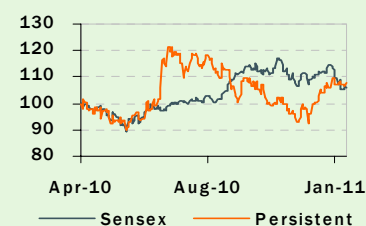
No. of shares (cr)	4
FV (Rs)	10/-
Market cap (Rs cr)	1,640
52 week high/low (Rs)	507/365
Avg. daily vol.* (shares)	123429
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg code	PSYS IB
Reuters Code	PERS.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Dec-10	QoQ Chg
Promoter	38.9	0.0
FIIIs	4.6	1.2
MFs / UTI	4.9	0.1
Banks / Fis	0.0	0.0
Others	51.6	(1.3)

Relative performance



Source: Cline, ENAM Direct Research

Results update - Persistent Systems

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	195	158	23.1	187	4.2	767	601	27.7
EBITDA	42.8	37.1	15.2	43	(0.6)	161	146	10.1
Other income	7.3	5.5	33.2	5.9	23.7	30.1	11.4	165.1
PBIDT	50.1	42.6	17.5	49	2.3	191	158	21.3
Depreciation	10.6	9	17.6	10.1	5.6	41.4	33.5	23.4
PBT	39.5	33.6	17.5	38.9	1.5	150	124	20.7
Tax	3.2	2.7	19.6	3.1	5.7	12.5	9	38.1
Adjusted PAT	36.2	30.9	17.3	35.8	1.1	137	115	19.3
Extra ordinary income/ (exp.)	-	-	-	-	-	(0.2)	-	-
Reported PAT	36.2	30.9	17.3	35.8	1.1	137	115	19.4
No. of shares (cr)	4	3.6	-	4	-	4	3.6	-
EBIDTA margin (%)	21.9	23.4	(151)bps	23	(107)bps	21	24.3	(335)bps
PBIDT margin (%)	25.7	26.9	(122)bps	26.2	(48)bps	24.9	26.2	(132)bps
EPS - annualized (Rs.)	36.2	34.5	5.2	35.8	1.1	34.3	32.1	7

Source: Company, ENAM Research.

Revenue Analysis

(Rs cr)	Q3FY11	Q3FY10	% chg YoY	Q2FY11	% chg QoQ
Revenue by Business Segments					
Telecom and Wireless	45	36	23	37	20
Infrastructure and Systems	127	105	21	130	(2)
Life Sciences and Healthcare	23	17	36	20	14
Total	195	158	23	187	4
Revenue by Geography					
	0	0		0	
North Americas	167	130	28	160	4
Europe	10	13	(21)	11	(8)
India, Asia-Pacific	18	16	16	16	14
Total	195	158	23	187	4
Revenue by Delivery Mix (%)					
Onsite	22.2	11.6		20.2	
Offshore	77.8	88.4		79.8	
Revenue by Contract Mix (%)					
Time & Expenses	78.6	74.2		81.1	
Fixed Price	13.9	16.9		10.7	
IP Driven	7.5	8.9		8.1	
Revenue Concentration (%)					
Top	14.4	10.1		16.3	
Top 5	36.8	33.7		38.0	
Top 10	48.0	46.0		49.0	

Source: Company, ENAM Research

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