

**October 17, 2011**

 Shashi Bhusan  
 shashibhusan@plindia.com  
 +91-22-66322300

Rating	<b>BUY</b>
Price	Rs323
Target Price	Rs440
Implied Upside	36.2%
Sensex	17,025

*(Prices as on October 17, 2011)*
**Trading data**

Market Cap. (Rs bn)	12.8
Shares o/s (m)	40.0
3M Avg. Daily value (Rs m)	9.7

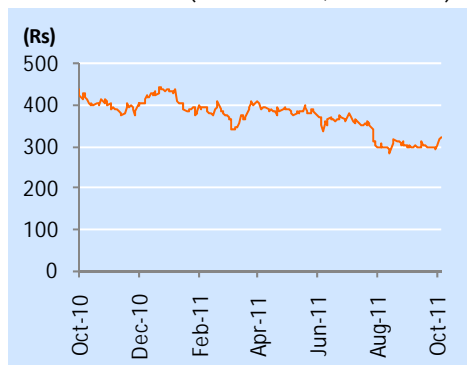
**Major shareholders**

Promot38.95%ers	38.89%
Foreign 5.66%	6.49%
Domestic Inst.26.45%	25.06%
Public & O28.94%ther	29.56%

**Stock Performance**

(%)	1M	6M	12M
Absolute	7.3	(20.8)	(23.6)
Relative 6.7	4.5	(9.1)	(10.3)

Price Performance (RIC: PERS.BO, BB: PSYS IN)



Source: Bloomberg

## Persistent Systems

### Quarter in line, Growth to pick-up in H2FY12

Persistent Systems (Persistent) reported in line quarter. The company cited tough environment ahead; however, retains guidance for FY12. We believe that the asking rate in H2FY12 is too high to meet guidance. We revise our estimates downwards as we see project delays in FY12. We reiterate **'BUY'** rating, with revised TP of **Rs440** (from Rs490), as we revise our multiples in line with discount to larger peers.

- Q2FY12 quarter in line:** Persistent's Q2FY12 results were in line with our expectation, but touch below consensus. Revenue grew 6.4% QoQ to Rs2.38bn (PLe: Rs2.38bn Cons: Rs2.40bn) and 3.1% QoQ in USD terms to \$51.5m (PLe: \$52m). EBITDA margins expanded by 112bps to 19% (PLe: 17.6%, Cons: 17.5%) due to currency depreciation, despite a wage hike of 9%. EPS grew by 17.6% QoQ to Rs8.06 (PLe: Rs6.02, Cons: Rs6.75) due to forex gain.
- Growth expectation lowered for FY12:** The management cited caution on the current guidance of USD revenue of ~\$220m (29% YoY growth), with flat PAT. We believe that Persistent would find it tough to meet targets despite a good deal pipeline. We lower our volume growth estimates by 400bps to 21% for FY12 and pricing by 200bps to 2%. We also revise our currency estimates for FY12 and FY13. Consequently, we revise our rupee revenue estimates by -0.5% and -2.9% and EPS estimates by 0.8% and -6.7% for FY12 and FY13, respectively.
- Other Highlights:** **1)** Entered partnership with *Salesforce*, *Cisco* and *Dassault Systemes* **2)** Fresher additions in Q2: 632 (FY12g: 1k, FY13g: 1k) **3)** Revenue from acquisition of *Agilent Technologies* at US\$0.45m (expect to contribute US\$2.5-3m) **4)** Rationalizing S&M cost by adding more technical guys in its sales team and using channel partners to save on cost **5)** Hedge US\$89.25m (@Rs47.4/\$) **6)** Delay in large project activities due to uncertainty and M&A activity of client.
- Valuation & Recommendation:** We remain optimistic about the volume momentum and realization improvement aiding cost absorption, from unutilized margin levers in H2FY12. We reiterate **'BUY'** rating, with revised TP to **Rs440**, 13x (from 14x) FY13e earnings estimates.

Key financials (Y/e MarchMarch)	2010	2011	2012E	2013E
Revenues (Rs m)	6,012	7,758	9,581	11,824
Growth (%)	1.2	29.1	23.5	23.4
EBITDA (Rs m)	1,464	1,583	2,015	2,126
PAT (Rs m)	1,150	1,396	1,270	1,366
EPS (Rs)	28.8	34.9	31.7	34.2
Growth (%)	59.6	21.3	(9.0)	7.6
Net DPS (Rs)	0.7	1.4	1.6	1.9

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	24.3	20.4	21.0	18.0
RoE (%)	22.2	19.7	15.2	14.2
RoCE (%)	22.2	19.7	15.2	14.2
EV / sales (x)	1.8	1.3	1.0	0.7
EV / EBITDA (x)	7.5	6.4	4.5	3.8
PE (x)	11.2	9.3	10.2	9.5
P / BV (x)	2.0	1.7	1.4	1.3
Net dividend yield (%)	0.2	0.4	0.5	0.6

Source: Company Data; PL Research

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**Exhibit 1: Currency depreciation yields positive surprise (Rs m)**

Y/e March	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY	Cons	PLe	Var (Act. Vs Est.)
Sales (\$ m)	51.5	50.0	3.1%	40.5	27.2%		52.0	-0.9%
Period Average Rate	46.22	44.76	3.3%	46.16	0.1%		45.80	
Sales	2,381.7	2,238	6.4%	1,870	27.4%	2,400	2,381.6	0.0%
EBITDA	453.5	401.1	13.1%	430.3	5.4%	419	419.2	8.2%
<i>EBITDA Margin</i>	<i>19.0%</i>	<i>17.9%</i>	<i>112 bps</i>	<i>23.0%</i>	<i>-397 bps</i>	<i>17.5%</i>	<i>17.6%</i>	<i>144 bps</i>
PBT	451.2	400.3	12.7%	389.0	16.0%	369.3	345.8	30.5%
Tax	127.0	124.7	1.9%	30.7	313.4%	104.2	103.7	22.5%
<i>Tax Rate</i>	<i>28.2%</i>	<i>31.1%</i>	<i>-298 bps</i>	<i>7.9%</i>	<i>2026 bps</i>	<i>28.2%</i>	<i>30.0%</i>	<i>-184 bps</i>
PAT	324	276	17.6%	358	-9.5%	265	242	33.9%
EPS (Rs)	8.06	6.86	17.6%	8.91	-9.5%	6.75	6.02	33.9%

Source: Company Data, Bloomberg, PL Research

**Exhibit 2: Downward revision of FY12 and FY13 estimates**

	New		Old		Revised	
	FY12	FY13	FY12	FY13	FY12	FY13
Volume	21.0%	24.0%	25.0%	24.0%	-400 bps	0 bps
Realization	2.0%	2.0%	4.0%	2.0%	-200 bps	0 bps
Revenue (US\$ m)	210.1	265.7	221.3	279.9	-5.1%	-5.1%
Revenue (Rs m)	9,580.6	11,823.7	9,626.6	12,175.7	-0.5%	-2.9%
EBTIDA Margin	21.0%	18.0%	20.8%	18.6%	24 bps	-66 bps
EPS	31.59	33.99	31.35	36.42	0.8%	-6.7%
Multiple	13.0x		14.0x		-7.1%	
<b>Target Price</b>	<b>440</b>		<b>490</b>		<b>-10.2%</b>	

Source: PL Research

**Exhibit 3: Europe and APAC contributed to growth, America disappoints**

By Geography (\$m)	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
America	42.3	41.4	2.1%	34.6	22.0%
Europe	4.0	3.7	8.9%	2.4	65.8%
APAC	5.2	4.9	6.8%	3.4	52.0%
<b>% of Total</b>					
America	82.0%	82.8%	-78 bps	85.5%	-348 bps
Europe	7.8%	7.4%	42 bps	6.0%	182 bps
APAC	10.2%	9.8%	36 bps	8.5%	166 bps

Source: Company Data, PL Research



**Exhibit 4: Strong growth in Life Sciences vertical**

By Vertical Offering (\$ m)	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
Telecom	11.3	11.1	2.1%	8.1	39.9%
Infrastructure and Systems	34.7	34.0	2.3%	28.1	23.5%
Life Sciences & Healthcare	5.5	5.0	10.3%	4.3	27.2%
<b>% of Total</b>					
Telecom	22.0%	22.2%	-20 bps	20.0%	200 bps
Infrastructure and Systems	67.4%	67.9%	-50 bps	69.4%	-200 bps
Life Sciences & Healthcare	10.6%	9.9%	70 bps	10.6%	0 bps

Source: Company Data, PL Research

**Exhibit 5: Oscillating revenues expected between FPP and T&E**

By Project Type (\$ m)	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
T&E	41.4	39.9	3.8%	32.9	26.1%
FPP	6.2	7.1	-12.3%	4.3	42.3%
IP Driven	3.9	3.1	28.4%	3.3	18.8%
<b>% of Total</b>					
T&E	80.4%	79.8%	60 bps	81.1%	-73 bps
FPP	12.0%	14.1%	-210 bps	10.7%	127 bps
IP Driven	7.6%	6.1%	150 bps	8.1%	-54 bps

Source: Company Data, PL Research

**Exhibit 6: Onsite pricing dips due to Offshore movement of large project**

Delivery Split	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
Onsite	11.2	11.3	-0.9%	8.2	36.9%
Offshore	40.3	38.7	4.2%	32.3	24.7%
<b>Fee Revenue</b>					
Onsite	21.7%	22.6%	-86 bps	20.2%	154 bps
Offshore	78.3%	77.4%	86 bps	79.8%	-154 bps
<b>Pricing (USD/ person month)</b>					
Onsite	12,665	13,033	-2.8%	12,516	1.2%
Offshore	3,771	3,770	0.0%	3,595	4.9%

Source: Company Data, PL Research



**Exhibit 7: Employee addition in line with volume growth**

Manpower details	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
Billable Person Months (Onsite)	885	867	2.0%	654	35.3%
Billable Person Months (Offshore)	10,694	10,265	4.2%	8,992	18.9%
Billable Person Months	11,579	11,132	4.0%	9,646	20.0%
Sales & Business Development	113	119	-5.0%	87	29.9%
Support	318	323	-1.5%	287	10.8%
Technical	6,469	6,178	4.7%	4,907	31.8%
<b>Total</b>	<b>6,900</b>	<b>6,620</b>	<b>4.2%</b>	<b>5,281</b>	<b>30.7%</b>
<i>Utilization</i>	<i>73.8%</i>	<i>72.7%</i>	<i>110 bps</i>	<i>71.7%</i>	<i>210 bps</i>
<i>Attrition (LTM)</i>	<i>17.7%</i>	<i>18.4%</i>	<i>-70 bps</i>	<i>18.6%</i>	<i>-90 bps</i>

Source: Company Data, PL Research

**Exhibit 8: Strong growth across top 10 clients' bucket**

Client Details	Q2FY12	Q1FY12	QoQ	Q4FY11	YoY
Large > \$ 3m	10	9	11.1%	9	11.1%
Medium > \$ 1m, < \$ 3m	32	32	0.0%	21	52.4%
Small up to \$ 1m	211	198	6.6%	171	23.4%
<b>Total</b>	<b>253</b>	<b>239</b>	<b>5.9%</b>	<b>201</b>	<b>25.9%</b>
Top Client	8.2	7.6	9.2%	6.6	24.9%
Top 5 Clients	19.9	18.8	5.8%	15.4	29.2%
Top 10 Clients	25.5	24.1	5.6%	19.8	28.2%
Non Top 10 Clients	26.1	25.9	0.7%	20.7	26.2%
<b>% of Total</b>					
Top Client	16.0%	15.1%	90 bps	16.3%	-30 bps
Top 5 Clients	38.6%	37.6%	100 bps	38.0%	60 bps
Top 10 Clients	49.4%	48.2%	120 bps	49.0%	40 bps
Non Top 10 Clients	50.6%	51.8%	-120 bps	51.0%	-40 bps
Revenue from repeat business	3.7	1.5	147.3%	2.2	69.6%
Non-repeat business	47.8	48.5	-1.4%	38.3	24.8%
<b>% of Total</b>					
New Business	7.2%	3.0%	420 bps	5.4%	180 bps
Repeat Business	92.8%	97.0%	-420 bps	94.6%	-180 bps

Source: Company Data, PL Research



**Income Statement (Rs m)**

Y/eMarch March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>6,012</b>	<b>7,758</b>	<b>9,581</b>	<b>11,824</b>
Raw Material Expenses	—	—	—	—
Gross Profit	6,012	7,758	9,581	11,824
Employee Cost	3,687	5,327	6,346	8,211
Other Expenses	860	849	1,219	1,487
<b>EBITDA</b>	<b>1,464</b>	<b>1,583</b>	<b>2,015</b>	<b>2,126</b>
Depr. & Amortization	335	424	529	602
Net Interest	—	—	—	—
Other Income	112	344	354	428
<b>Profit before Tax</b>	<b>1,241</b>	<b>1,504</b>	<b>1,840</b>	<b>1,952</b>
Total Tax	91	108	570	586
<b>Profit after Tax</b>	<b>1,150</b>	<b>1,396</b>	<b>1,270</b>	<b>1,366</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>1,150</b>	<b>1,396</b>	<b>1,270</b>	<b>1,366</b>
<b>Avg. Shares O/S (m)</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
<b>EPS (Rs.)</b>	<b>28.8</b>	<b>34.9</b>	<b>31.7</b>	<b>34.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	1,611	1,597	1,634	—
C/F from Investing	(1,142)	(582)	(647)	—
C/F from Financing	1,264	(57)	(64)	—
Inc. / Dec. in Cash	1,733	959	923	—
Opening Cash	167	1,900	2,859	—
Closing Cash	1,900	2,859	3,782	—
FCFF	1,217	635	1,012	1,140
FCFE	1,217	635	1,012	1,140

**Key Financial MetricMarch**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	1.2	29.1	23.5	23.4
EBITDA (%)	60.2	8.2	27.3	5.5
PAT (%)	78.0	21.3	(9.0)	7.6
EPS (%)	59.6	21.3	(9.0)	7.6
<b>Profitability</b>				
EBITDA Margin (%)	24.3	20.4	21.0	18.0
PAT Margin (%)	19.1	18.0	13.3	11.6
RoCE (%)	22.2	19.7	15.2	14.2
RoE (%)	22.2	19.7	15.2	14.2

**Balance Sheet**

Net Debt : Equity	(0.3)	(0.4)	(0.4)	(0.5)
Net Wrkng Cap. (days)	—	—	—	—

**Valuation**

PER (x)	11.2	9.3	10.2	9.5
P / B (x)	2.0	1.7	1.4	1.3
EV / EBITDA (x)	7.5	6.4	4.5	3.8
EV / Sales (x)	1.8	1.3	1.0	0.7

**Earnings Quality**

Eff. Tax Rate	7.3	7.2	31.0	30.0
Other Inc / PBT	9.1	22.9	19.2	21.9
Eff. Depr. Rate (%)	9.0	9.9	10.7	10.7
FCFE / PAT	105.8	45.5	79.7	83.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	6,435	7,756	8,962	10,253
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
<b>Total Liabilities</b>	<b>6,435</b>	<b>7,756</b>	<b>8,962</b>	<b>10,253</b>
Net Fixed Assets	2,318	2,106	2,248	2,351
Goodwill	—	—	—	—
Investments	1,562	1,562	1,562	1,562
Net Current Assets	2,548	4,091	5,155	6,343
<i>Cash &amp; Equivalents</i>	<i>1,918</i>	<i>2,859</i>	<i>3,782</i>	<i>4,823</i>
<i>Other Current Assets</i>	<i>2,341</i>	<i>3,039</i>	<i>3,525</i>	<i>4,104</i>
<i>Current Liabilities</i>	<i>1,710</i>	<i>1,807</i>	<i>2,152</i>	<i>2,583</i>
Other Assets	7	7	7	7
<b>Total Assets</b>	<b>6,435</b>	<b>7,765</b>	<b>8,971</b>	<b>10,262</b>

**Quarterly Financials (Rs m) March**

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Net Revenue</b>	<b>1,949</b>	<b>2,128</b>	<b>2,238</b>	<b>2,382</b>
<b>EBITDA</b>	<b>428</b>	<b>381</b>	<b>401</b>	<b>454</b>
<i>% of revenue</i>	<i>21.9</i>	<i>17.9</i>	<i>17.9</i>	<i>19.0</i>
Depr. & Amortization	106	119	126	140
Net Interest	—	—	—	—
Other Income	73	87	126	137
<b>Profit before Tax</b>	<b>395</b>	<b>348</b>	<b>400</b>	<b>451</b>
Total Tax	32	17	125	127
<b>Profit after Tax</b>	<b>362</b>	<b>331</b>	<b>276</b>	<b>324</b>
<b>Adj. PAT</b>	<b>362</b>	<b>331</b>	<b>276</b>	<b>324</b>

**Key Operating Metrics**

Y/eMarch March	2010	2011	2012E	2013E
Volume (persons month)	31,145	31,145	37,685	46,729
Realization (US\$ / Hr)	2,937	3,207	3,271	3,337
Currency (USDINR)	47.2	45.6	45.6	44.5
SW Devp. Cost (% of sales)	61.3	68.7	66.2	69.4
SG&A (% of sales)	14.3	10.9	12.7	12.6
Revenue (US\$ m)	127.3	170.2	210.1	265.7
EBITDAM Expansion/(Erosion) (bps)	588.6	(0.1)	23.8	(1.0)
Tax Rate (%)	7.3	7.2	31.0	30.0

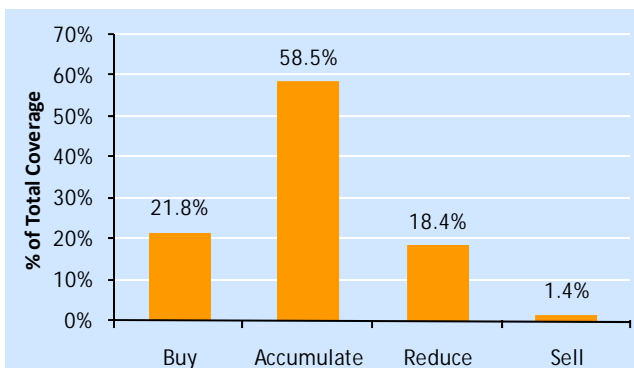
Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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