



**ENAM Securities**  
India Research

CMP: Rs 437  
Target Price: Rs 533  
Potential Upside: 22%  
Absolute Rating: **BUY**

# Persistent Systems Ltd

Relative to sector: **Outperformer**

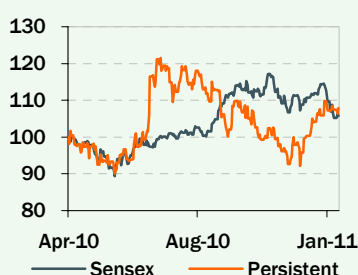
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 40 mn  
Market cap : Rs 17.5 bn  
52 week high/low : Rs 508/ Rs 310  
Avg. daily vol. (6mth) : 124,800 shares  
Bloomberg code : PSYS IB  
Reuters code : PERS.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	38.9	0.0
FII's	4.6	1.2
MFs / UTI	4.9	0.1
Banks / FI's	0.0	0.0
Others	51.6	(1.3)

\*ISVs: Independent Software Vendors

## 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	36.2	34.3	7	12.7	19.6	21.4	8.1
2012E	9,994	1,422	37.2	35.5	4	12.3	17.2	24.6	5.3

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

## 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, 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 1.9 Bn (↑ ~4% QoQ & ~23% YoY), EBITDA of Rs 428 mn (↓ ~1% QoQ & ~15% YoY) & PAT of Rs 362 mn (↑ ~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 35 mn 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 22%. Maintain **BUY** rating.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>1,949</b>	<b>1,584</b>	<b>23.1</b>	<b>1,870</b>	<b>4.2</b>	<b>7,674</b>	<b>6,012</b>	<b>27.7</b>
<b>EBITDA</b>	<b>428</b>	<b>371</b>	<b>15.2</b>	<b>430</b>	<b>(0.6)</b>	<b>1,610</b>	<b>1,462</b>	<b>10.1</b>
Other income	73	55	33.2	59	23.7	301	114	165.1
<b>PBIDT</b>	<b>501</b>	<b>426</b>	<b>17.5</b>	<b>490</b>	<b>2.3</b>	<b>1,911</b>	<b>1,576</b>	<b>21.3</b>
Depreciation	106	90	17.6	101	5.6	414	335	23.4
<b>PBT</b>	<b>395</b>	<b>336</b>	<b>17.5</b>	<b>389</b>	<b>1.5</b>	<b>1,497</b>	<b>1,241</b>	<b>20.7</b>
Tax	32	27	19.6	31	5.7	125	90	38.1
<b>Adjusted PAT</b>	<b>362</b>	<b>309</b>	<b>17.3</b>	<b>358</b>	<b>1.1</b>	<b>1,372</b>	<b>1,150</b>	<b>19.3</b>
Extra ordinary income/ (exp.)	-	-	-	-	-	(2)	-	-
<b>Reported PAT</b>	<b>362</b>	<b>309</b>	<b>17.3</b>	<b>358</b>	<b>1.1</b>	<b>1,374</b>	<b>1,150</b>	<b>19.4</b>
No. of shares (mn)	40	36	-	40	-	40	36	-
EBIDTA margin (%)	21.9	23.4	(151)bps	23.0	(107)bps	21.0	24.3	(335)bps
PBIDT margin (%)	25.7	26.9	(122)bps	26.2	(48)bps	24.9	26.2	(132)bps
<b>EPS - annualized (Rs.)</b>	<b>36.2</b>	<b>34.5</b>	<b>5.2</b>	<b>35.8</b>	<b>1.1</b>	<b>34.3</b>	<b>32.1</b>	<b>7.0</b>

Source: Company, ENAM Research

## Revenue Analysis

(Rs mn)	Q3FY11	Q3FY10	% chg YoY	Q2FY11	% chg QoQ
<b>Revenue by Business Segments</b>					
Telecom and Wireless	449	364	23	374	20
Infrastructure and Systems	1,274	1,053	21	1,298	(2)
Life Sciences and Healthcare	226	166	36	198	14
<b>Total</b>	<b>1,949</b>	<b>1,584</b>	<b>23</b>	<b>1,870</b>	<b>4</b>
<b>Revenue by Geography</b>					
North Americas	1,666	1,299	28	1,599	4
Europe	103	130	(21)	112	(8)
India, Asia-Pacific	181	155	16	159	14
<b>Total</b>	<b>1,949</b>	<b>1,584</b>	<b>23</b>	<b>1,870</b>	<b>4</b>
<b>Revenue by Delivery Mix (%)</b>					
Onsite	22.2	11.6		20.2	
Offshore	77.8	88.4		79.8	
<b>Revenue by Contract Mix (%)</b>					
Time & Expenses	78.6	74.2		81.1	
Fixed Price	13.9	16.9		10.7	
IP Driven	7.5	8.9		8.1	
<b>Revenue Concentration (%)</b>					
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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