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Rating	BUY
Price	Rs413
Target Price	Rs480
Implied Upside	16.2%
Sensex	18,496
Nifty	5,600

(Prices as on September 18, 2012)

Trading data

Market Cap. (Rs bn)	16.5
Shares o/s (m)	40.0
3M Avg. Daily value (Rs m)	13.9

Major shareholders

Promoters	38.95%
Foreign	2.41%
Domestic Inst.	31.18%
Public & Other	27.46%

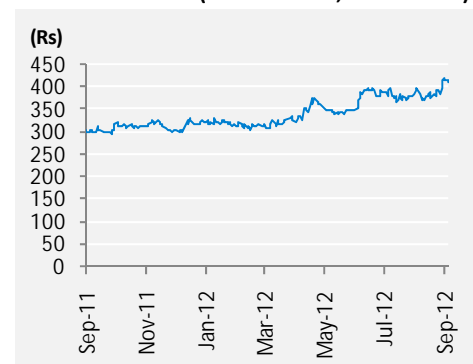
Stock Performance

(%)	1M	6M	12M
Absolute	3.4	33.5	37.1
Relative	(1.2)	27.6	27.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	47.8	43.5	9.8
2014	55.1	48.2	14.4

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



Source: Bloomberg

We interacted with Mr. Vivek Sadhale (IR Head, M&A) of Persistent Systems (Persistent) to understand their current state of business. The management sounded confident about the demand environment. We reiterate our **'BUY'** rating with a revised target price of Rs480 (from Rs460) as we revise our margin expectation.

- **Growth likely to accelerate:** Persistent may witness strong quarterly growth in FY13. In the quarter under consideration, the management is confident of delivering growth of mid single-digit due to inorganic contribution from one of the top clients. Moreover, the ramp-down that is haunting the company over the last three quarters has bottomed out. According to the management, the ramp-up should be able to recoup any weakness. The company indicated no sign of concern from the top 10 clients.
- **New deal pipeline is strong:** Persistent is chasing 2-4 large deals. The deals are not from "Sell with Partners". These deals' sales cycle is likely to be 4-5 months long and may involve rebadging of clients' employees. The scope of these deal ramp-ups is strong and can contribute US\$10-20m/year.
- **Moderate success from "Sell with Partners":** The management said that there is moderate success in "Sell with Partner" strategy. Partner like *Salesforce.com* is ramping up fast, whereas there is some softness among other partners.
- **Margin likely to be recouped in H2FY13:** Offshore wage hike and some investment in S&M could result in margin erosion of 100bps in Q2FY13. Most of the impact because of IBM deal was captured in the margin in Q1FY13. However, the management was confident of recouping margin in H2FY13 as growth from IP sales get stronger. The consensus is still cold on the overall margin profile for the company (**Exhibit 1, 2**).
- **Valuation and Recommendation – BUY with a revised target price of Rs480:** We expect margin to remain sticky in mid-20s with growth rate likely to be in mid-teens driven by IP revenue contribution in FY13. Currently, Persistent is traded at 8.6x FY13E earnings estimate with 20% earnings CAGR (FY12-14E).

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	7,758	10,003	12,267	13,835
Growth (%)	29.1	28.9	22.6	12.8
EBITDA (Rs m)	1,583	2,324	3,200	3,468
PAT (Rs m)	1,396	1,418	1,913	2,204
EPS (Rs)	34.9	35.4	47.8	55.1
Growth (%)	21.3	1.6	34.9	15.2
Net DPS (Rs)	7.0	5.8	7.5	9.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	20.4	23.2	26.1	25.1
RoE (%)	20.0	17.8	20.8	20.1
RoCE (%)	20.0	17.7	20.6	20.0
EV / sales (x)	2.0	1.5	1.1	0.9
EV / EBITDA (x)	9.8	6.6	4.4	3.6
PE (x)	11.8	11.7	8.6	7.5
P / BV (x)	2.2	2.0	1.7	1.4
Net dividend yield (%)	1.7	1.4	1.8	2.2

Source: Company Data; PL Research

Exhibit 1: PL: Factoring steady performance

Y/e March	Q1FY13	Q2FY13E	Q3FY13E	Q4FY13E
Net Sales (Rs m)	3,007	3,047	3,087	3,126
<i>QoQ Gr.</i>	<i>11.1%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>1.3%</i>
EBITDA (Rs m)	807	803	798	793
Margin (%)	26.8	26.3	25.9	25.4
<i>Margin Gr (bps)</i>	<i>(175)</i>	<i>(49)</i>	<i>(49)</i>	<i>(49)</i>
EPS (Rs)	11.0	11.6	12.2	12.8
<i>QoQ Gr.</i>	<i>7.0%</i>	<i>5.1%</i>	<i>5.1%</i>	<i>5.2%</i>

Source: Company Data, PL Research

Exhibit 2: Consensus: Bearish outlook on margin

Y/e March	Q1FY13	Q2FY13E	Q3FY13E	Q4FY13E
Net Sales (Rs m)	3,007	3,044	3,081	3,118
<i>QoQ Gr.</i>	<i>11.1%</i>	<i>1.2%</i>	<i>1.2%</i>	<i>1.2%</i>
EBITDA (Rs m)	807	770	732	693
Margin (%)	26.8	25.3	23.8	22.2
<i>Margin Gr (bps)</i>	<i>(175)</i>	<i>(153)</i>	<i>(153)</i>	<i>(153)</i>
EPS (Rs)	11.0	10.9	10.8	10.7
<i>QoQ Gr.</i>	<i>7.0%</i>	<i>-0.9%</i>	<i>-0.9%</i>	<i>-0.9%</i>

Source: Company Data, Bloomberg, PL Research

Exhibit 3: Revising our margin estimates upward

	New		Old		Revision	
	FY13	FY14	FY13	FY14	FY13	FY14
Volume	15.5%	15.0%	15.5%	15.0%	0 bps	0 bps
Realization	-1.5%	2.0%	-1.5%	2.0%	0 bps	0 bps
Revenue (US\$ m)	235.9	276.7	235.9	276.7	0.0%	0.0%
Revenue (Rs m)	12,266.8	13,835.0	11,795.0	13,420.0	4.0%	3.1%
EBTIDA Margin	26.1%	25.1%	24.8%	24.0%	125 bps	104 bps
EPS	47.59	54.82	44.96	50.62	5.8%	8.3%
Multiple	10.00		10.00		0.0%	
Target Price	480		460		4.3%	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	7,758	10,003	12,267	13,835
Raw Material Expenses	—	—	—	—
Gross Profit	7,758	10,003	12,267	13,835
Employee Cost	5,327	7,285	8,534	9,807
Other Expenses	849	394	533	561
EBITDA	1,583	2,324	3,200	3,468
Depr. & Amortization	424	611	677	745
Net Interest	—	—	—	—
Other Income	344	256	80	276
Profit before Tax	1,504	1,969	2,603	2,998
Total Tax	108	551	690	795
Profit after Tax	1,396	1,418	1,913	2,204
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,396	1,418	1,913	2,204
Avg. Shares O/S (m)	40.0	40.0	40.0	40.0
EPS (Rs.)	34.9	35.4	47.8	55.1

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	1,575	1,436	2,222	2,869
C/F from Investing	(2,529)	(992)	(736)	(830)
C/F from Financing	57	(70)	(302)	(358)
Inc. / Dec. in Cash	(896)	375	1,184	1,681
Opening Cash	1,896	1,000	1,375	2,559
Closing Cash	1,000	1,375	2,559	4,240
FCFF	547	522	1,486	2,039
FCFE	547	599	1,486	2,039

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	29.1	28.9	22.6	12.8
EBITDA (%)	8.2	46.8	37.7	8.4
PAT (%)	21.3	1.6	34.9	15.2
EPS (%)	21.3	1.6	34.9	15.2
Profitability				
EBITDA Margin (%)	20.4	23.2	26.1	25.1
PAT Margin (%)	18.0	14.2	15.6	15.9
RoCE (%)	20.0	17.7	20.6	20.0
RoE (%)	20.0	17.8	20.8	20.1
Balance Sheet				
Net Debt : Equity	(0.1)	(0.2)	(0.2)	(0.4)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	11.8	11.7	8.6	7.5
P / B (x)	2.2	2.0	1.7	1.4
EV / EBITDA (x)	9.8	6.6	4.4	3.6
EV / Sales (x)	2.0	1.5	1.1	0.9
Earnings Quality				
Eff. Tax Rate	7.2	28.0	26.5	26.5
Other Inc / PBT	22.9	13.0	3.1	9.2
Eff. Depr. Rate (%)	9.3	10.1	10.0	9.8
FCFE / PAT	39.2	42.3	77.7	92.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	7,501	8,405	10,016	11,862
Total Debt	—	77	77	77
Other Liabilities	—	—	—	—
Total Liabilities	7,501	8,483	10,094	11,939
Net Fixed Assets	2,866	3,725	3,784	3,869
Goodwill	—	149	149	149
Investments	2,500	2,038	2,038	2,038
Net Current Assets	2,075	2,464	4,016	5,777
<i>Cash & Equivalents</i>	<i>1,000</i>	<i>1,375</i>	<i>2,559</i>	<i>4,240</i>
<i>Other Current Assets</i>	<i>2,677</i>	<i>2,750</i>	<i>3,325</i>	<i>3,795</i>
<i>Current Liabilities</i>	<i>1,602</i>	<i>1,660</i>	<i>1,867</i>	<i>2,258</i>
Other Assets	60	107	107	107
Total Assets	7,501	8,483	10,094	11,939

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	2,382	2,677	2,706	3,007
EBITDA	454	696	773	807
<i>% of revenue</i>	<i>19.0</i>	<i>26.0</i>	<i>28.6</i>	<i>26.8</i>
Depr. & Amortization	140	159	186	185
Net Interest	—	—	—	—
Other Income	137	28	(35)	(47)
Profit before Tax	451	565	553	575
Total Tax	127	159	140	160
Profit after Tax	324	406	412	416
Adj. PAT	324	406	412	416

Key Operating Metrics

Y/e March	2011	2012	2013E	2014E
Volume (persons month)	37,014	44,037	50,863	58,492
Realization (US\$ / Hr)	3,207	3,238	3,189	3,253
Currency (USDINR)	45.6	48.3	52.0	50.0
SW Devp. Cost (% of sales)	68.7	72.8	69.6	70.9
SG&A (% of sales)	10.9	3.9	4.3	4.1
Revenue (US\$ m)	170.2	207.4	235.9	276.7
EBITDA Margin Expansion/(Erosion) (bps)	(0.1)	20.8	(1.5)	—
Tax Rate (%)	7.2	28.0	26.5	26.5

Source: Company Data, PL Research.

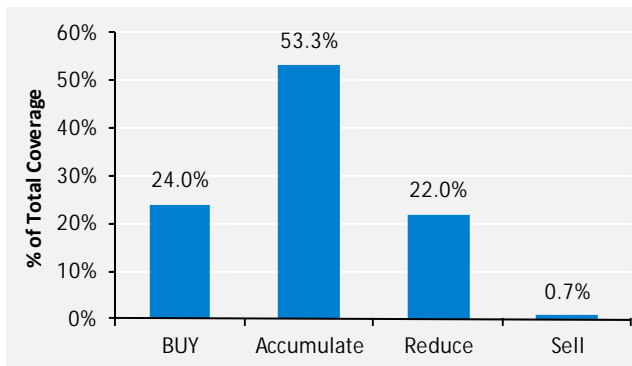


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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