

Q2 FY12 Result Update
Persistent Systems Ltd.

Recommendation	HOLD
CMP (17/10/11)	Rs. 319
Target Sector	Rs. 387 IT Software

Stock Details

BSE Code	533179
NSE Code	PERSISTENT
Bloomberg Code	PSYS: IN
Market Cap (Rs. cr)	1276.6
Free Float (%)	61.05
52- wk HI/Lo	467/281
Avg. volume BSE (Quarterly)	5169
Face Value (Rs)	10.00
Dividend	55%
Shares o/s (Cr)	4

Relative Performance	1Mth	3Mth	1Yr
PSL	1.7%	-17.8%	-28.5%
Sensex	-0.6%	-12.0%	-20.2%


Shareholding Pattern as on 30/09/2011

Promoters Holding	38.95%
Institutional (Incl. FII)	32.11%
Corporate Bodies	1.08%
Public & others	27.86%

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Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs Cr)	Margin (%)	EPS (Rs)	PE (x)	EV/EBITDA (x)
FY10	601.2	1.2%	146.4	24.3%	115.0	19.1%	32.1	11.3	7.3
FY11	775.8	29.1%	158.3	20.4%	139.7	18.0%	34.9	9.3	7.3
FY12E	994.8	28.2%	207.1	20.8%	136.7	13.7%	34.2	9.5	5.6
FY13E	1186.6	19.3%	250.6	21.1%	160.1	13.5%	40.0	8.1	4.6

Results inline: Forex gain, one time lower tax aided earnings.

Revenues: in Q2FY12 grew by 6.4% QoQ, and 27.4% YoY at Rs.238.2crores on the back of depreciated rupee. Contribution from life sciences segment grew to 10.6% in Q2FY12 from 9.9% in the previous quarter.

EBIDTA margins: improved by 130bps qoq to 18.7% on the back of lower operating expenses which were lower by 190bps qoq. Currency impact on the EBIDTA was of 1.9%.

Earnings: grew by 18% QoQ to Rs.32.4 crore, mainly because of lower taxes due to one-offs and forex gain.

IP-led revenues: contributed 7.6% to the revenues during the quarter against 6.10%. Management expects good phillip to these revenues in the coming quarters. During the quarter, technical time spent in IP business stood at 5.5% (growth of 80 bps QoQ).

During the quarter, small clients saw good gain at 211 clients reflecting overall global mood whereby smaller projects are getting executed faster and larger clients are delaying decisions.

Onsite billing rates saw a decline of 2.8% at USD 12665 p/pm whereas offshore rates have remained flat at USD 3771 p/pm.

During the quarter, utilization excluding trainees and freshers improved to 73.8%, a growth of 110 bps QoQ. Attrition rate remained under control at 17.7%.

Guidance:

Company has mainted earlier guidance of \$ 220mn on revenues and preferred not to comment given the unstable world economy.

Valuation & Recommendations

PSL has grown better than expected during the first half of FY12E. While one off items and forex gain has aided to PSL's earnings, we believe the company's second half performance depends upon how sound its IP investments pays-off in the coming quarters. We revise our earnings estimate by 6.5% upwards to 136.7 crores for FY12E, thus an EPS estimate of Rs.34.2 for FY12E (flat YoY). We had recommended PSL at Rs314 in the month of Sep' 11. We maintain Buy with our earlier target price of Rs.387 which has a upside of 20% from current levels. At CMP, the stock is trading at 9.5x and 8.1x for FY12E and FY13E respectively.

Performance Analysis

- PSL's revenues grew by a robust 6.4% QoQ and 27.4% YoY to Rs 238.2 crs Vs 223.38 crs in Q1FY12 and Rs 187 crs in Q2FY11 backed by increase in sales. The increase in sales was due to increase in clients billed to 253 from 239 in Q1FY11. Moreover the utilisation rate also rose to 73.8% in Q2FY12 from 72.7% in Q1FY12.
- Reduction in operating and other expenses was also seen.
- EBITDA for the company stood at Rs 44.6 crs and the margins augmented to 18.7% from 17.4% in Q1FY12
- Reduced tax rate and increase in other income led to increase in PAT to Rs 32.41 crs, up 17.6% QoQ. However it declined by 9.5% on a YoY basis.
- EPS for the company stood at Rs 8.1

Q2 FY12 Result Analysis (in Rs Crs.)

	Q2 FY12	Q1 FY12	Q-o-Q	Q2FY11	Y-o-Y
Total Sales	238.2	223.8	6.4%	187.0	27.4%
Expenditure:					
Personnel Expenses	163.2	151.9	7.4%	119.1	37.0%
Operating and other expenses	30.4	33.0	(7.9%)	24.8	22.5%
Total Expenditure	193.6	184.9	4.7%	143.9	34.5%
EBITDA	44.6	38.9	14.7%	43.1	3.5%
<i>Margin</i>	<i>18.7%</i>	<i>17.4%</i>	<i>135 bps</i>	<i>23.0%</i>	<i>(432)bps</i>
Depreciation	14.0	12.6	10.3%	10.1	38.6%
Other income	14.5	13.8	5.0%	5.9	143.6%
Profit Before Tax	45.1	40.0	12.7%	39.0	15.8%
<i>Margin</i>	<i>19%</i>	<i>18%</i>	<i>105 bps</i>	<i>21%</i>	<i>(190)bps</i>
Total Tax	12.7	12.5	1.9%	3.1	313.4%
Profit After Tax	32.4	27.6	17.6%	35.9	(9.7%)
<i>Margin</i>	<i>14%</i>	<i>12%</i>	<i>129 bps</i>	<i>19%</i>	<i>(559)bps</i>
Basic EPS	8.10	6.89	17.6%	8.96	(9.5%)

Source:Nirmal Bang Retail Research

Valuation & Recommendations

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Persistent Systems Ltd.
FINANCIALS

Profitability (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E	Financial Health (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Revenues	601.2	775.8	994.8	1186.6	Share Capital	40.0	40.0	40.0	40.0
% change	1.2%	29.1%	28.2%	19.3%	Reserves & Surplus	595.8	703.6	821.9	933.2
EBITDA	146.4	158.3	207.1	250.6	Net Worth	635.8	743.6	861.9	973.2
% change in EBITDA	24.3%	20.4%	20.8%	21.1%	Stock Option o/s	3.2	3.5	3.5	3.5
Depn & Amort	33.52	42.39	54.60	56.00	Deferred Tax Liabilities	4.5	3.0	3.0	3.0
Operating income	112.8	115.9	152.5	194.6	Total Liabilities	643.5	750.1	868.4	979.7
Interest	0.0	0.0	0.0	0.0	Net Fixed Ass (Incl WIP)	231.8	286.6	339.4	382.3
Other Income	11.23	34.44	42.30	34.19	Investments	156.2	250.0	288.0	316.8
PBT	124.1	150.4	194.8	228.8	Defered Tax Assets	0.7	6.0	6.0	6.0
Tax	9.1	10.8	58.0	68.6	Sundry Debtors	136.3	158.2	202.5	241.0
PAT	115.0	139.7	136.7	160.1	Cash & Bank	191.8	100.0	88.3	96.1
CEPS	35.7	45.5	47.8	54.0	Loans & Advances	72.3	86.9	95.0	104.9
EPS	32.06	34.93	34.18	40.04	Other CA	34.0	22.6	24.7	29.0
Quarterly (Rs. In Cr)	Dec.10	Mar.11	Jun.11	Sept.11	C A L&A	434.4	367.7	410.5	471.0
Revenue	194.9	212.8	223.8	238.2	CL & P	179.6	160.2	175.5	196.4
EBITDA	42.8	38.1	38.9	44.6	Total Assets	643.5	750.1	868.4	979.7
Dep	10.6	11.9	12.6	14.0	Cash Flow (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Op Income	32.1	26.2	26.3	30.7	Operating				
Interest	0.0	0.0	0.0	0.0	OP before WC	146.4	158.3	207.1	250.6
Other Inc.	7.3	8.7	13.8	14.5	Change in WC	13.72	(63.78)	(40.37)	(35.13)
PBT	39.5	34.8	40.0	45.1	(-) Tax	9.05	10.79	58.04	68.63
Tax	3.2	1.7	12.5	12.7	CF from Operation	169.13	105.32	224.74	284.09
PAT	36.2	33.1	27.6	32.4	Investment				
EPS (Rs.)	9.06	8.28	6.89	8.10	Capex	(44.97)	(94.77)	(93.86)	(75.21)
Performance Ratio	FY10A	FY11A	FY12E	FY13E	Other Investment	(68.16)	(93.87)	(38.01)	(28.70)
PAT growth (%)	70.2%	21.5%	-2.1%	17.1%	Total Investment	(113.13)	(101.90)	(154.21)	(89.57)
EBITDA margin (%)	24.3%	20.4%	20.8%	21.1%	Financing				
PAT margin (%)	19.1%	18.0%	13.7%	13.5%	Dividend Paid	(9.79)	(22.00)	(20.00)	(26.00)
ROE (%)	22.4%	20.3%	17.0%	17.5%	Others	117.79	(20.89)	(126.87)	(180.57)
Valuation Ratio	FY10A	FY11A	FY12E	FY13E	Total Financing	108.0	(42.89)	(146.87)	(206.57)
Price Earnings (x)	11.26	9.27	9.47	8.09	Net Chg. in Cash	175.23	(91.78)	(11.69)	7.80
Price / Book Value (x)	2.04	1.74	1.50	1.33	Cash at beginning	16.5	191.8	100.0	88.3
EV / Sales	1.77	1.49	1.17	0.98	Cash at end	191.8	100.0	88.3	96.1
EV / EBITDA	7.26	7.29	5.63	4.62	Per Share Data	FY10A	FY11A	FY12E	FY13E
					BV per share	158.9	185.9	215.5	243.3
					Dividend per share	2.4	5.5	5.0	6.5

Source: Company Data, Nirmal Bang Research

NOTE

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