

October 18, 2011

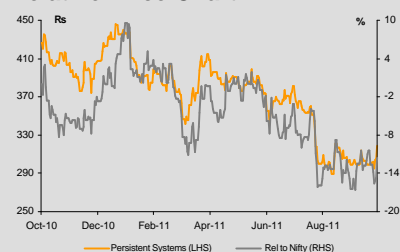
Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs 323	Rs 330
EPS change FY12E/13E (%)	0.2/3
Target Price change (%)	(5.3)
Nifty	5,116
Sensex	17,025

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(15)	(22)	(27)
Rel. to Nifty	3	(7)	(11)	(13)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	PSYS@IN
Equity Capital (Rs mn)	400
Face Value(Rs)	10
No of shares o/s (mn)	40
52 Week H/L	465/281
Market Cap (Rs bn/USD mn)	13/265
Daily Avg Volume (No of sh)	24985
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	39.0	38.9	38.9
FII/NRI	25.5	26.4	28.8
Institutions	7.6	6.2	3.4
Private Corp	1.1	1.1	1.4
Public	26.8	27.4	27.6

Source: Capitaline

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- **Persistent reported a 3.1% US\$ QoQ revenue growth , marginally lower than Emkay's modest expectations of ~3.6% US\$ sequential increase**
- **Profits at Rs 324 mn (+17.6% QoQ) beat est. driven by higher than expected margin show (+110 bps QoQ V/s exp of ~40 bps decline) and higher other income**
- **Company cites increased uncertainty/delays in client decision making and thus sees risks to it's revenue guidance of US\$ 220 mn**
- **FY12/13E EPS tweaked up by ~0.2%/3% to Rs 32/34.3 driven by lower currency resets as we cut US\$ revenue estimates by ~4%/5.4%. Downgrade to HOLD , TP Rs 330**

In line revenues, better margins & hedging gains drive profit beat

Persistent missed modest expectations on revenue growth with a 3.1% QoQ US\$ revenue growth (Emkay est of ~3.6% sequential increase) to US\$ 51.5 mn. EBITDA margins improved by ~110 bps sequentially to 19% aided by weak currency despite strong net hiring during the quarter at ~280 taking the total HC to 6,900 (however most of the hiring was back ended during the quarter). Profits at Rs 324 mn (+17.6% QoQ) were higher than est (RS 270 mn) aided by better than expected margin performance and higher hedging gains (Revenue growth was led by top clients with top 1/5/10 clients growing by ~9%/6%/6% sequentially while non top 10 client revenues were nearly flat QoQ. Attrition continued it's downward trend as it reduced by ~70 bps QoQ to ~17.7% on a LTM basis. IP based revenues grew by ~28% QoQ to ~US\$ 4mn after the sharp fall in Q1FY12 however note that IP driven revenues are nearly flat YoY for H1FY12.

Company cites macro uncertainty, aggressive revenue guidance doesn't hold

We were expecting a mark down in co's aggressive revenue guidance which would have implied a ~10% sequential revenue growth over the next 2 quarters for co to meet it's initial revenue guidance of US\$ 220 mn. Management noted that although it was making the necessary sales and marketing investments in the new business areas, it was witnessing some delays in decision making on large deals as well as had been impacted by consolidation within some of the big client base. Although company intends to honor it's campus hiring commitments, company intends to go slow on lateral hiring during H2FY12.

Cut rating to HOLD, TP Rs 330 (V/s ACCUMULATE, Rs 350 earlier)

We cut our FY12/13 US\$ revenues estimates by ~4%/5.4%, however lower currency resets to Rs 48/\$ (V/s RS 46/\$ earlier) drive a 0.6%/3% raise in our FY12/13E earnings to Rs 31.9/34.3. Valuations remain inexpensive at ~10x FY12E earnings but need to be weighed against a relatively soft operating performance and the increased macro weakness which could pose downside risks to estimates. We cut our rating to HOLD, TP Rs 330 (V/s ACCUMULATE, TP Rs 350 earlier)

Financial Snapshot

	Rs Mn								
Y/E	Net	EBITDA	EBITDA	PAT	EPS	ROE	P/E	EV/	P/B
March	Sales		%		(Rs)	%	(x)	EBITDA	(x)
FY10	6,012	1,464	24.3	1,150	28.8	22.3	10.5	6.3	2.3
FY11	7,758	1,583	20.4	1,397	34.9	20.2	8.6	5.8	2.0
FY12E	9,851	1,981	20.1	1,272	31.8	16.0	9.5	4.8	1.8
FY13E	11,477	2,282	19.9	1,372	34.3	15.3	8.8	3.9	1.6

Key Financials – Quarterly

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Revenue (US \$ Mn)	39.5	40.5	43.2	47.0	50.0	51.5	27.2	3.1	101.5	80.0	26.9
Revenue Rs. Mn	1,811	1,870	1,949	2,128	2,238	2,382	27.4	6.4	4,619.7	3,680.9	25.5
Operating Expenditure	1,467	1,440	1,522	1,747	1,837	1,928	33.9	5.0	3,765	2,906	29.5
Cost of revenues	1,123	1,080	1,186	1,333	1,404	1,495	38.4	6.5	2,899.1	2,203.6	31.6
as % of sales	62.0	57.8	60.9	62.6	62.7	62.8			125.5	119.8	
SG&A expenses	343	359	335	414	433	433	20.5	0.1	865.9	702.9	23.2
as % of sales	19.0	19.2	17.2	19.5	19.3	18.2			37.5	38.2	
EBITDA	344	430	428	381	401	454	5.4	13.0	855	774	10.4
Depreciation	98	101	106	119	126	140	38.6	10.3	266.0	198.2	34.2
EBIT	247	330	321	262	275	314	-4.8	14.3	589	576	2.2
Other Income	124	59	73	87	126	137			262.9	183.9	
PBT	371	389	395	348	400	451	16.0	12.7	852	760	12.1
Total Tax	26	31	32	17	125	127	313.4	1.9	251.7	56.6	345.0
Adjusted PAT	345	358	362	331	276	324	-9.5	17.5	600	703	(14.7)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-			0.0	0.0	
APAT after MI	345	358	362	331	276	324	-9.5	17.5	600	703	(14.7)
Extra ordinary items	0	0	0	0	0	0			0.0	0.0	
Reported PAT	345	358	362	331	276	324	-9.5	17.5	600	703	(14.7)
Reported EPS	8.6	9.0	9.1	8.3	6.9	8.1	-9.5	17.6	15.0	17.6	(14.7)

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	19.0	23.0	21.9	17.9	17.9	19.0	(397)	111	18.5	21.0	(254)
EBIT	13.6	17.6	16.5	12.3	12.3	13.2	(445)	91	12.7	15.7	(291)
EBT	20.5	20.8	20.3	16.4	17.9	18.9	(186)	105	18.4	20.6	(221)
PAT	19.1	19.2	18.6	15.6	12.3	13.6	(555)	129	13.0	19.1	(613)
Effective Tax rate	7.0	7.9	8.2	4.9	31.1	28.2	2,026	(297)	29.6	7.4	2,211

Source: Company, Emkay Research

Change in estimates

(All fig in Rs mn except EPS and %)	FY12E			FY13 E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	219	211	-4.0%	253	239	-5.4%
Revenues	9,861	9,851	-0.1%	11,378	11,477	0.9%
EBITDA	1,886	1,981	5.0%	2,225	2,282	2.5%
EBITDA mgns, %	19.1	20.1	98	19.6	19.9	
Net profits	1,269	1,272	0.2%	1,332	1,372	3.0%
EPS	31.7	31.8	0.2%	33.3	34.3	3.0%

Source: Emkay Research

We cut our FY12/13 revenue estimates by ~4%/5.4%, however lower currency resets drive a 0.2%/3% raise in earnings estimates

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	6,012	7,758	9,851	11,477
Growth (%)		29.1	27.0	16.5
Total Expenditure	(4,548)	(6,175)	(7,870)	(9,195)
Growth (%)		35.8	27.4	16.8
Cost Of Revenues	(3,372)	(4,723)	(6,112)	(7,176)
Growth (%)		40.1	29.4	17.4
COR, as % of Revenues	56.1	60.9	62.0	62.5
SG&A expenses	(1,176)	(1,453)	(1,759)	(2,019)
Growth (%)		23.6	21.1	14.8
SG&A expenses as % of Revenues	19.6	18.7	17.9	17.6
EBIDTA	1,464	1,583	1,981	2,282
Growth (%)		8.2	25.2	15.2
EBIDTA %	24.3	20.4	20.1	19.9
Other Income	112	344	379	256
Depreciation	335	424	549	632
EBIT	1,241	1,503	1,811	1,906
Interest	-	-	-	-
EBT	1,241	1,503	1,811	1,906
Tax	91	106	539	533
EAT	1,150	1,397	1,272	1,372
Growth (%)		21.5	(9.0)	7.9
EAT (%)	19.1	18.0	12.9	12.0

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Profit after Tax	1,150	1,397	1,272	1,372
Add : Depreciation	335	424	549	632
Add : Misc exp w/off	-	-	-	-
Net changes in WC	93	(554)	(267)	(155)
Operational Cash Flows	1,730	1,293	1,644	1,929
Capital expenditure	(476)	(971)	(1,900)	(1,000)
Investments	(682)	(939)	-	-
Investing Cash Flows	(1,158)	(1,910)	(1,900)	(1,000)
Borrowings	-	-	-	-
dividend paid	(115)	(257)	(298)	(321)
Issue of shares	734	(2)	(0)	(0)
Share Premium				
Financing Cash Flows	619	(258)	(298)	(321)
changes in cash	1,191	(875)	(554)	608
Opening balance	165	1,918	1,000	551
Closing balance	1,918	1,000	551	1,160

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity share capital	400	400	400	400
Reserves & surplus	5,990	7,071	8,046	9,097
Minority Interest	-	-	-	-
Networth	6,390	7,471	8,446	9,497
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Deferred Tax Liabilities	45	30	30	30
Total Liabilities	6,435	7,501	8,476	9,527
Goodwill	-	-	-	-
Gross Block	3,715	4,543	6,443	7,443
Less: Depreciation	(1,881)	(2,281)	(2,830)	(3,462)
Net block	1,834	2,261	3,612	3,981
Capital WIP	485	605	605	605
Investment	1,562	2,500	2,500	2,500
Current Assets	4,258	3,677	3,668	4,677
Inventories	-	-	-	-
Sundry debtors	1,483	1,687	1,943	2,264
Cash & bank balance	1,918	1,000	551	1,160
Loans & advances	638	869	1,053	1,132
Other current assets	220	121	121	121
Current Liab & Prov	1,710	1,602	1,970	2,295
Current liabilities	1,394	1,206	1,484	1,729
Provisions	317	396	486	566
Net current assets	2,548	2,075	1,698	2,382
Misc exps	-	-	-	-
Deferred Tax Assets	7	60	60	60
Total Assets	6,435	7,501	8,475	9,527

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	28.8	34.9	31.8	34.3
CEPS (Rs)	37.1	45.5	45.5	50.1
Book Value Per Share (Rs)	159.8	186.8	211.1	237.4
Dividend Per Share (Rs)	2.4	5.5	6.4	6.9
DSO	82.8	74.4	72.0	72.0
Valuations Ratios (x)				
PER	10.5	8.6	9.5	8.8
P/CEPS	8.1	6.6	6.6	6.0
P/BV	1.9	1.6	1.4	1.3
EV/EBIDTA	6.3	5.8	4.8	3.9
EV/Sales	1.5	1.2	1.0	0.8
M-Cap/sales	2.1	1.6	1.3	1.1
Profitability Ratios (%)				
RoCE	20.8	15.8	17.0	17.3
RoNW	22.3	20.2	16.0	15.3
EBITDA Margin	24.3	20.4	20.1	19.9
EBIT Margins	18.8	14.9	14.5	14.4
Net Profit Margin	19.1	18.0	12.9	12.0

Recommendation History: Persistent Systems – PSYS IN

Date	Reports	Reco	CMP	Target
19/07/2011	Persistent Q1FY12 Result Update	Accumulate	373	430
03/06/2011	Persistent Systems Initiating Coverage	Accumulate	386	450

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/10/2011	Infosys Q2FY12 Result Update	Accumulate	2,681	2,800
11/10/2011	Mindtree Ltd Initiating Coverage	Accumulate	341	415
08/09/2011	IT Services Sector Update			
25/08/2011	Mphasis July'11 Result Update	Reduce	396	325

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