



ARIHANT Capital Markets Ltd.

Result Update-Q2FY17
Persistent System Ltd

Muted Growth!!!!

24th October, 2016

CMP: Rs.664
Target Price: Rs.690
Recommendation: NEUTRAL

Stock Info

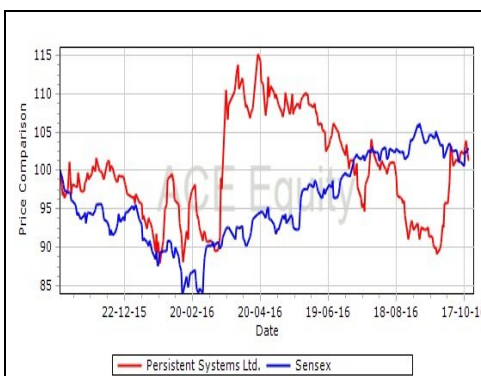
BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	28,121
NSE Nifty	8,699

Market Info

Market Capital	Rs. 5,294 cr
Equity Capital	Rs.80 cr
Avg. Trading Vol.	1,02,900
52 Wk High/ Low	797/563
Face Value	Rs.10

Shareholding Pattern (%)	(Sept 2016)
Promoters	37.8
Domestic Institutions	12.4
Foreign Institutions	22.2
Public & Others	27.6

Price Vs Sensex Chart



Revenues grew by 0.3% QoQ and 29.7% YoY:

Persistent System posted better than expected numbers for the quarter ended June 2016 with Rupee revenues growth at 0.3% QoQ to Rs 704 cr and 29.7% on YoY basis. Persistent Systems crosses USD 105.18 mn with growth of 26.8% YoY and 0.4% QoQ. Profit Before tax grew by 2.1% YoY and 1.7% QoQ to Rs 98.4 cr and Profit after tax grew by 2.3% YoY and 0.3% QoQ to Rs 73.4 cr.

Geography Revenue Mix:

Revenue from North America stood at 85.4% while Europe, India, Row stood at 6.1%, 5.6%, 2.9% respectively.

Revenue Concentration:

Revenue from Top 1 Client stood at 28.4% while top 5 and top 10 clients stood at 44.3% and 44.7%.

Segment-wise performance:

Among segmental verticals; Services contributed 46.6% while Digital, Alliance and accelerite stood at 15.2%, 29.4% and 8.8% respectively.

Operating profits increased by 8% YoY:

Company has recorded an operating profit of Rs 111 cr this qtr; Increased by 5% QoQ. EBIDTA margins were 15.7% this Qtr as against 18.9% in last qtr. Improvement in margins remains the biggest challenge for Persistent. EBIT margin during the quarter stood at 10.5% as against 10.1% previous qtr. PAT reported during the quarter was at Rs. 74 cr increase of 0.3% sequentially.

Key Highlights:

- Strategic partnership with a US based leader in financial software and services positions persistent amongst its top three strategies partners.
- A digital payment solution using an API – based framework for a US health technology provider.
- Featured for the first time in consulting magazine's 'fastest growing firms' based on our growing presence in the enterprise segment.
- Recognized by the Association for talent Development in the 2016 BEST Awards for demonstrating enterprise- wide success through talent development.
- Recognized at the Oracle Excellence Awards 2016 as a specialized partner for security.

Valuation:

We have valued stock at P/E(x) of 16x to its FY18E earnings and have arrived at fair value of Rs 690 per share. At CMP Rs664 stock trades at 15.4 (x) its FY18E earnings. We have 'NEUTRAL' rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	1891	2312	2769	3107
Growth %	13%	22%	20%	12%
EBIDTA	391	417	443	512
EBIDTA Margin	21%	18%	16%	16%
Net Profit	291	297	307	345
Growth %	17%	2%	3%	12%
EPS	36	37	38	43
P/E	19.6	20.5	17.3	15.4
ROE	20.7	18.1	17.5	19.0

Quarterly Results:

Particulars (Rs. Cr)	Q2FY17	Q1FY17	QoQ%	Q2FY16	YoY%
Revenue	704	702	0.3%	543	29.7%
Employee costs	449	441		324	
Other direct cost	42	43		34	
Total direct cost	492	484		358	
Gross Profit	212	217	-2.4%	184	15.1%
Gross Profit Margin%	30%	31%		34%	
Other Expenses (SGA)	101	112		82	
EBIDTA	111	106	4.8%	102	8.2%
EBIDTA Margin	15.7%	15.1%		18.9%	
Depreciation	37	34		24	
EBIT	74	71	3.7%	78	-4.9%
EBIT Margin	11%	10%		14%	
Other Income	24	25		27	
PBT	98	97	1.7%	105	-6.3%
Tax Paid	25	24		27	
Effective tax rate%	25%	24%		25%	
Net profit	74	73	0.31%	79	-6.3%
EPS	9.19	9.16		9.84	

Source: Company data, Arian Research

Profit and Loss statement				
Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Net Revenue	1891	2312	2769	3107
Employee costs	1042	1317	1639	1818
Other direct expenses	89	113	138	157
Total Direct Expenses	1132	1430	1776	1975
Gross Profit	760	882	992	1132
Sales & Marketing Expenses	176	224	266	307
Admin & Other Expenses	193	241	284	313
EBIDTA	391	417	443	512
EBIDTA Margin	21%	18%	16%	16%
Depreciation	94	97	108	119
EBIT	297	321	335	393
Other Income	93	75	78	73
PBT	390	396	413	466
Tax	99	98	106	121
Tax rate	25%	25%	26%	26%
PAT	291	297	307	345
Growth (%)	17%	2%	3%	12%
Adjusted EPS	36.3	37.2	38.4	43.1

Cash Flow Statement				
Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Profit before taxes	390	396	413	466
Add:- Depreciation	94	97	108	119
Change in Working Capital	-28	147	-40	-8
Cash generated from operations	412	639	456	553
Taxes paid	-100	-98	-106	-121
Net cash flow from operating activities	312	541	350	431
Purchase of fixed assets & capital expenc	-95	-155	-170	-176
Others	-136	-159	-79	-129
Net cash flow from investing activities	-232	-314	-249	-305
Proceeds long term borrowings	1.3	2.0	0.0	0.0
Dividend	-56	-64	-80	-96
Tax on dividend	-11	-16	-16	-16
Net cash used in financing activities	-66	-78	-96	-112
Net Cash Flow	14	9	5	14
Opening Cash balance	83	99	108	113
Exchange difference	1	0	0	0
Closing Cash balance	99	108	113	127

Balance Sheet				
Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Shareholder's funds				
Share Capital	80	80	80	80
Reserves & Surplus	1326	1559	1672	1735
Total	1406	1639	1752	1815
Minority Interest	0	0	0	0
Total Non Current Liabilities	14	15	22	24
Total Current Liabilities	355	452	447	466
Total Liabilities	1775	2107	2221	2306
Fixed asset	409	474	561	620
Goodwill	2	3	2	2
Other Non current Investments	244	273	319	342
Total Non Current Assets	656	750	883	964
Cash balance	99	108	113	127
Total Current Assets	1020	1248	1226	1215
Total Assets	1775	2107	2221	2306

Key Ratios				
Particulars	FY15	FY16	FY17 E	FY18 E
EPS	36.3	37.2	38.4	43.1
Book Value	175.7	204.9	219.0	226.9
DPS	15	8	10	12
Payout %	41	22	26	28
Dividend Yield %	1.2	1.1	1.3	1.6
P/E	19.6	20.5	17.3	15.4
EBIDTA Margin	21%	18%	16%	16%
PBT Margin	21%	17%	15%	15%
PAT Margin	15%	13%	11%	11%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.88	2.76	2.74	2.60
ROE	20.7	18.1	17.5	19.0
ROCE	20.6	18.1	17.5	19.0

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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