



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY19 Result Update@ Dalal&Broacha

BUY

Current Price	565
Target Price	897
Upside	59%
52 Week Range	915/536

Key Share Data

Market Cap (Rs.bn)	46.4
Market Cap (US\$ mn)	631.29
No of o/s shares (mn)	80
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	342.5
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS

Price performance

Q2FY19 performance below estimates as company transitions

- Persistent Systems reported its Q2 FY19 results which were way below our estimates across the board
- USD revenues were reported at \$118.2 Mn, -4.3% qoq / +0.1% yoy and -6.3% vs our estimate of \$126.2 Mn
- In Rupee terms, revenue came in at INR 8,356 Mn, +0.2% qoq / +9.8% yoy and -5.6% vs estimate of INR 8,847 Mn
- EBITDA came in at INR 1,436 Mn, +2.5% qoq / +24% yoy and marginally below our estimate of INR 1,478 Mn. EBITDA margins stood at 17.2%, above our estimate of 16.7% and +40 bps vs Q1FY19
- PAT was reported at INR 882 Mn, +1% qoq / +6.8% yoy and -11.1% vs our estimate of INR 992 Mn. Other Income was +24.3% qoq and -31% yoy

Quarter marked by de-growth across services except Accelerite

- Services (43% of revenue) was down 0.9% qoq, Digital (22% of revenues) was down -1.7% qoq and Alliance business (29.5% of revenues) was down 12.1% qoq. While it was widely expected that Alliance business would be a seasonally weak quarter, the other 2 segments were a negative surprise
- Accelerite (5.5% of revenue) business reported a growth of 5.2% qoq
- Onsite services billing rate saw a decline of 3.5% yoy whereas Offshore billing rate witnessed a decline of 0.9% yoy
- Company saw a short closure of a project due to mismatch between client expectations and Delivery, this was mainly due to lack of ability to fulfil demand
- Company is undergoing a transition with larger focus on Healthcare industry and Sales and Marketing to fill the gap between objective and performance

Key Concall Takeaways

- Expecting growth in Digital to bounce back. Short closure of certain projects in the quarter impacted revenues to the tune of \$800K and an exit by client impacted revenues by another \$300K
- Deal pipeline and key customer wins ensure growth will revive; management is seeing a 25% uptick in deal pipeline
- Alliance business to outperform in the next quarter
- ETR was high at 30.5% as certain losses in money market instruments were not considered for exemption plus completion of tax holiday in one of the SEZs plus a previous period charge
- Persistent has INR 430 Mn of exposure to IL&FS for which the next payment matures in Jan – June 2019. Auditors are confident of receiving the dues and therefore not provisioned for

Valuation & Outlook:

We believe that Persistent will bounce back in terms of execution and performance as these one-offs fade away and company completes transition of technical capabilities and S&M. We believe that this blip in performance is just a one off in an otherwise intact growth story. Stock is currently trading at 12.1x and 10.1x FY19E and FY20E EPS. We retain our BUY rating on the stock with a target price of INR 897.

% Shareholding Mar18 Dec-17

Promoters		
Public		
Others		
Total	100	100

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	PE (x)	ROE (%)	ROCE (%)
FY16	23,123	22%	3,173	13.7%	2,974	12.9%	37.2	2%	15.2x	19.5%	15.5%
FY17	28,784	24%	3,163	11.0%	3,129	10.9%	39.1	5%	15.0x	18.1%	13.6%
FY18	30,337	5%	3,076	10.1%	3,231	10.6%	40.4	3%	14.0x	16.7%	11.8%
FY19E	34,732	14%	4,147	11.9%	3,749	10.8%	46.9	16%	12.1x	17.2%	13.7%
FY20E	39,468	14%	5,074	12.9%	4,485	11.4%	56.1	20%	10.1x	18.2%	15.1%

Source: Company, Dalal&Broacha Research



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YE March (Rs. Mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q1 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	118.2	123.6	(4.3%)	118	0.1%	126.2	(6.3%)
Net Sales (INR Mn)	8,356	8,343	0.2%	7,613	9.8%	8,847	(5.6%)
Less:							
Employees Remuneration & Benefits	5,739	5,463	5.1%	5,477	4.8%	5,953	(3.6%)
SG&A Expenses	1,180	1,479	(20.2%)	977	20.7%	1,416	(16.6%)
Total Operating Expenditure	6,919	6,942	(0.3%)	6,455	7.2%	7,369	(6.1%)
EBITDA	1,436	1,401	2.5%	1,158	24.0%	1,478	(2.8%)
EBIT	1,038	1,000	3.8%	778	33.3%	1,054	(1.5%)
Less: Depreciation	399	401	(0.6%)	379	5.0%	425	
Add: Other income	232	187	24.3%	336	(31.0%)	288	(19.2%)
Profit Before Tax	1,270	1,187	7.0%	1,115	13.9%	1,341	(5.3%)
Adjusted Profits	1,270	1,187	7.0%	1,115	13.9%	1,341	
Less: Total Tax	387	313	23.9%	288	34.4%	349	
PAT	882	874	1.0%	826	6.8%	992	(11.1%)
Adjusted PAT	882	874	1.0%	826	6.8%	992	(11.1%)
Reported Diluted EPS (Rs.)	11.0	10.9	1.0%	10.3	6.8%	12.4	
Adjusted Diluted EPS (Rs.)	11.0	10.9	1.0%	10	6.8%	12.4	(11.1%)
No of Shared Diluted (mn)	80	80		80		80	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	12.4%	12.0%	43	10.2%	219	11.9%	51
EBIDTA Margin	17.2%	16.8%	40	15.2%	198	16.7%	48
NPM	10.6%	10.5%	9	10.9%	(29)	11.2%	(66)
Adjusted NPM	10.6%	10.5%	9	10.9%	(29)	11.2%	(66)
Effective Tax Rate %	30.5%	26.4%	415	25.9%	464	26.0%	451
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	68.7%	65.5%	321	72.0%	(326)	67.3%	140
SG&A/Net sales	14.1%	17.7%	(361)	12.8%	128	16.0%	(188)

Source: Company, Dalal & Broacha Research

- Onsite utilization was reported at 83.6% versus 85.2% in Q1FY19
- Off-shore utilization improved to 81.6% vs 79.9% in Q1FY19
- Company added 370 people in the Technical Team and 10 in the S&M team
- Management plans to have bigger focus on Healthcare segment and Sales execution



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Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	23,123	28,784	30,337	34,732	39,468
Growth %	22.3%	24.5%	5.4%	14.5%	13.6%
Total Revenue	23,123	28,784	30,337	34,732	39,468
Employee Cost & Related Expense:	15,415	19,827	21,497	23,375	26,594
Miscellaneous Expenses	3,571	4,304	4,180	5,544	5,920
Total Operating Expenditure	18,985	24,131	25,677	28,920	32,514
EBIDTA	4,138	4,653	4,660	5,812	6,954
Growth %	6.0%	12.5%	0.1%	24.7%	19.6%
Less: Depreciation	965	1,490	1,585	1,665	1,879
EBIT	3,173	3,163	3,076	4,147	5,074
Growth %	7.0%	-0.3%	-2.8%	34.8%	22.4%
Interest Paid	1	1	1	2	0
Non-operating Income	784	958	1,218	1,005	987
Profit Before tax	3,956	4,007	4,293	5,150	6,061
Tax	983	992	1,062	1,401	1,576
Net Profit	2,974	3,015	3,231	3,749	4,485
Adjusted Profit	2,974	3,129	3,231	3,749	4,485
Reported Diluted EPS Rs	37.2	37.7	40.4	46.9	56.1
Growth %	2.3%	1.4%	7.2%	16.0%	19.6%
Adjusted Diluted EPS Rs	37.2	39.1	40.4	46.9	56.1
Growth %	2.3%	5.2%	3.3%	16.0%	19.6%

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PAT	2,973.6	3,014.7	3,230.9	3,749.2	4,485.2
Add: Depreciation	965.2	1,490.2	1,584.9	1,665.0	1,879.2
Add: Interest Paid	0.9	0.9	0.8	1.9	0.0
Operating Profit before WC Changes	3,155.2	3,661.4	3,598.7	4,411.0	5,377.6
Net Cash Generated From Operations	1,344.9	1,524.8	2,314.9	5,693.9	7,680.2
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(690.7)	(179.1)	841.7	(2,000.0)	(1,500.0)
Add: Non Operating Income	784.5	958.5	1,217.9	1,005.0	986.7
Cash Flow from Investing Activities	(473.9)	(397.3)	1,574.7	(1,437.5)	(672.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	6.6	120.6	(112.0)	45.8	23.6
Dividend Paid	(640.0)	(866.6)	(904.6)	(1,049.8)	(1,255.9)
Net Cash Flow from Financing Activities	(854.9)	(2,329.8)	(2,937.9)	(1,163.3)	(1,420.6)
Net Inc/Dec in cash equivalents	16.1	(1,202.3)	951.7	3,093.0	5,587.1
Opening Balance	1,416.2	1,432.4	230.1	1,181.8	4,274.8
Closing Cash Balance	1,432.4	230.1	1,181.8	4,274.8	9,861.9

Free Cash Flow Analysis					
	FY16	FY17	FY18	FY19E	FY20E
EBITDA	4,138	4,653	4,660	5,812	6,954
Add: Depreciation Tax Shield	240	369	392	453	489
Working Capital Changes	-1,353	-326	853	2,567	1,020
Less: Inc in FC Investment	691	179	-842	2,000	1,500
Taxes Paid	983	992	1,062	1,401	1,576
Total Free Cash Flows	1,352	3,525	5,685	5,431	5,386

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	800	800	800	800	800
Reserves & Surplus	15,593	17,344	19,732	22,274	25,315
Equity	16,393	18,144	20,532	23,074	26,115
Net Worth	16,393	18,144	20,532	23,074	26,115
Net Deferred tax liability/(Asset)	124	250	143	189	213
Total Loans	27	22	17	17	17
Capital Employed	16,544	18,416	20,692	23,280	26,344

Assets					
	FY16	FY17	FY18	FY19E	FY20E
Gross Block	6,857	7,036	6,195	8,195	9,695
Less: Depreciation	3,850	4,268	3,871	5,536	7,415
Net Block	3,007	2,768	2,324	2,659	2,280
Investments	2,218	4,997	5,569	6,078	6,188
Intangible Assets	1,597	222	125	35	79
Current Assets					
Sundry Debtors	4,275	4,781	3,425	4,758	3,785
Current Investments	4,828	4,500	5,916	6,252	5,920
Cash and Bank Balance	1,432	230	1,182	4,275	9,862
Loans and Advances	1,663	1,362	988	382	414
Other Current Assets	1,788	1,705	3,222	2,258	2,368
Total Current Assets	13,987	12,579	14,733	17,924	22,349

Less: Current Liabilities & Provisions					
	FY16	FY17	FY18	FY19E	FY20E
Sundry Creditors	1,651	1,171	717	1,822	2,405
Provisions	1,224	524	428	565	635
Other Current Liabilities	1,647	484	953	1,091	1,579
Total Current Liabilities & Provisions	4,521	2,179	2,098	3,478	4,619
Capital Applied	16,544	18,416	20,692	23,280	26,344

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	17.9%	16.2%	15.4%	16.7%	17.6%
Tax / PBT (%)	24.8%	24.8%	24.7%	27.2%	26.0%
Net Profit Margin (%)	12.9%	10.5%	10.6%	10.8%	11.4%
RoE (%)	19.5%	18.1%	16.7%	17.2%	18.2%
RoCE (%)	15.5%	13.6%	11.8%	13.7%	15.1%
Current Ratio (x)	3.1x	5.8x	7.0x	5.2x	4.8x
Dividend Payout (%)	28.6%	28.7%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	204.9	226.8	256.7	288.4	326.4

Growth Indicators %					
	FY16	FY17	FY18	FY19E	FY20E
Growth in Gross Block (%)	11.2%	2.6%	(12.0%)	32.3%	18.3%
Sales Growth (%)	22.3%	24.5%	5.4%	14.5%	13.6%
EBITDA Growth (%)	6.0%	12.5%	0.1%	24.7%	19.6%
Net Profit Growth (%)	2.3%	1.4%	7.2%	16.0%	19.6%
Diluted EPS Growth (%)	2.3%	1.4%	7.2%	16.0%	19.6%

Turnover Ratios					
	FY16	FY17	FY18	FY19E	FY20E
Debtors Days	62	57	49	43	39
Creditors Days	37	30	19	28	37



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