



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal &Broacha

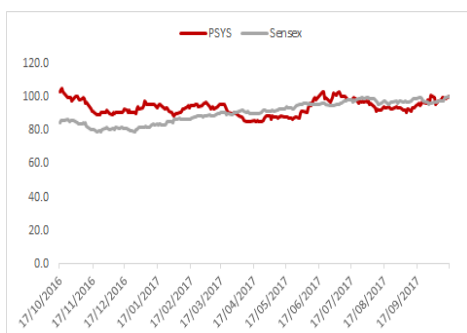
ACCUMULATE

Current Price	Rs 665
Target	Rs 807
Upside	21%
52 Week Range	Rs 702/Rs 558

Key Share Data

Market Cap (Rs.bn)	53.60
Market Cap (US\$ mn)	833
No of o/s shares (mn)	80
Face Value	10
Monthly Avg.	
Vol(BSE+NSE)Nos	81000
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS:IN

Price performance



% Shareholding

	Sep-17	June-17
Promoters	30.66	30.66
Public	65.62	65.50
Others	3.72	3.84
Total	100	100

Q2 Performance in-line with estimates

- Persistent Systems (PSYS) reported a USD revenue of \$118.1 Mn which was in-line with our estimate of \$117 Mn and up 4.5% qoq. Top-line growth was also boosted by consolidation of PARX revenues to which were to the tune of \$1.9 Mn (2 months revenue)
- PSYS reported a rupee revenue of INR 7,613 Mn, which was 1% above our estimate of INR 7,535 Mn.
- EBIT stood at INR 778 Mn, in-line with our estimate of INR 775 Mn and translated into an EBIT margin of 10.2% up 127 bps from the previous quarter.
- PAT stood at INR 826 Mn, 4.5% above our estimate of INR 790 Mn

Performance of Digital segment drove growth in Q2

- Growth of 21.4% in Digital drove revenues in Q2FY18, which is in-line with industry trend and company's guidance. Accelerite grew 2% qoq while Services and IBM Alliance de-grew by 2.7% and 2.3% qoq. Performance in both these segments continue to remain lumpy.
- Industry-wise Enterprise segment led the growth pack with a 11.4% qoq growth, followed by ISV, which grew at 2.2% and below the company average.
- Geography-wise, Europe reported a strong growth of 50.6% qoq at \$10 Mn albeit on a small base of \$7 Mn in the previous quarter. This was mainly attributed to consolidation of PARX and a strong team setup and delivery in the 'Dark Region' of Europe
- Margin performance was mainly due to higher off-shore and on-shore utilization and higher dollar INR realization.

Key Concall Takeaways

- Management stated challenges in the Services business to ISVs continue and it does not expect the situation to change for atleast the next 2 quarters.
- Company added 19 new customers in the Enterprise space, of which atleast half were Digital led.
- Top-line growth was mainly aided by Volumes growth and marginal increase in Billing Rates both On-Site and Off-shore.
- Headcount reduction is normal company optimized teams on on-going projects plus same products require fewer people every quarter. However, expect headcount addition to be back to normal in the next quarter
- Expect impact of wage hike of 6-8% to the Junior category of employees (typically form 75% of the workforce) in the next quarter. However, impact should be compensated by revenue growth and higher utilization.
- Company will focus on ramping up Europe business post acquisition of PARX which has added German speaking ability to its team.
- Alliance growth was soft this quarter mainly due to seasonality in Q3 of the calendar, expect a bounceback in Q4.

Valuation & Outlook:

Stock is currently trading at 15x and 12.4x FY18E and FY19E EPS. We have a BUY rating on the stock with a target price of INR 807.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	23,123	22.3%	3,173	7.0%	2,974	2.3%	37.2	17.9x	19.5%	19.3%
FY17	28,784	24.5%	3,163	-0.3%	3,129	5.2%	39.1	17.6x	17.7%	17.5%
FY18E	31,096	8.0%	3,456	9.2%	3,553	13.5%	44.4	15.0x	17.6%	17.3%
FY19E	35,623	14.6%	4,399	27.3%	4,304	21.2%	53.8	12.4x	18.8%	18.5%

Source: Company, Dalal & Broacha Research



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal &Broacha

YE March (Rs. Mn)	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %	Q1 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	118	113	4.5%	105	12.3%	117	0.8%
Net Sales (INR Mn)	7,613	7,280	4.6%	7,040	8.1%	7,535	1.0%
Less:							
Employees Remuneration & Benefits	5,477	5,106	7.3%	4,918	11.4%	5,224	4.9%
Administrative & Other Expenses	977	1,131	(13.6%)	1,014	(3.6%)	1,130	(13.5%)
Total Operating Expenditure	6,455	6,237	3.5%	5,932	8.8%	6,354	1.6%
EBITDA	1,158	1,044	10.9%	1,108	4.5%	1,181	(1.9%)
EBIT	778	652	19.4%	741	5.0%	775	0.4%
Less: Depreciation	379	392	(3.2%)	367	3.5%	406	
Add: Other income	336	368	(8.6%)	244	38.0%	279	20.6%
Extraordinary Expense	0	0				0	
Profit Before Tax	1,115	1,020	9.3%	985	13.2%	1,054	5.8%
Adjusted Profits	1,115	1,020	9.3%	985	13.2%	1,054	
Less: Total Tax	288	269	7.4%	250	15.6%	263	
PAT	826	751	10.0%	735	12.4%	790	4.5%
Adjusted PAT	826	751	10.0%	735	12.4%	790	4.5%
Reported Diluted EPS (Rs.)	10.3	9.4	10.0%	9.2	12.4%	9.9	
Adjusted Diluted EPS (Rs.)	10.3	9.4	10.0%	9	12.4%	9.9	4.5%
No of Shared Diluted (mn)	80	80		80		80	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	10.2%	9.0%	127	10.5%	(30)	10.3%	(6)
EBIDTA Margin	15.2%	14.3%	87	15.7%	(53)	15.7%	(46)
NPM	10.9%	10.3%	54	10.4%	41	10.5%	36
Adjusted NPM	10.9%	10.3%	54	10.4%	41	10.5%	36
Effective Tax Rate %	25.9%	26.3%	(47)	25.3%	53	25.0%	87
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	72.0%	70.1%	182	69.9%	209	69.3%	262
SG&A/Net sales	12.8%	15.5%	(270)	14.4%	(156)	15.0%	(216)



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal & Broacha

Profit & Loss A/c					
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	18,913	23,123	28,784	31,096	35,623
Growth %	13.3%	22.3%	24.5%	8.0%	14.6%
Total Revenue	18,913	23,123	28,784	31,096	35,623
Employee Cost & Related Expenses	12,203	15,415	19,827	21,838	24,155
Miscellaneous Expenses	2,806	3,571	4,304	4,188	5,217
Total Operating Expenditure	15,009	18,985	24,131	26,026	29,372
EBIDTA	3,903	4,138	4,653	5,070	6,252
Growth %	-5.8%	6.0%	12.5%	8.9%	23.3%
Less: Depreciation	939	965	1,490	1,614	1,852
EBIT	2,965	3,173	3,163	3,456	4,399
Growth %	-4.9%	7.0%	-0.3%	9.2%	27.3%
Interest Paid	3	1	1	1	0
Non-operating Income	938	784	958	1,352	1,425
Profit Before tax	3,900	3,956	4,007	4,807	5,824
Tax	993	983	992	1,255	1,520
Net Profit	2,906	2,974	3,015	3,553	4,304
Adjusted Profit	2,906	2,974	3,129	3,553	4,304
Reported Diluted EPS Rs	36.3	37.2	37.7	44.4	53.8
Growth %	-41.7%	2.3%	1.4%	17.8%	21.2%
Adjusted Diluted EPS Rs	36.3	37.2	39.1	44.4	53.8
Growth %	-41.7%	2.3%	5.2%	13.5%	21.2%

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	800	800	800	800	800
Reserves & Surplus	13,255	15,593	18,193	20,601	23,519
Equity	14,055	16,393	18,993	21,401	24,319
Net Worth	14,055	16,393	18,993	21,401	24,319
Net Deferred tax liability/(Asset)	118	124	257	325	394
Total Loans	26	27	41	41	41
Capital Employed	14,200	16,544	19,291	21,768	24,754
Assets					
Gross Block	6,166	6,857	7,036	7,536	8,036
Less: Depreciation	3,109	3,850	4,268	5,882	7,734
Net Block	3,057	3,007	2,768	1,654	302
Capital WIP	40	24	48	50	51
Investments	2,129	2,218	3,262	3,836	4,481
Intangible Assets	1,019	1,597	2,832	2,177	2,494
Others Assets	315	233	306	331	379
Current Assets					
Sundry Debtors	3,586	4,275	4,754	5,136	5,883
Current Investments	4,620	4,828	4,500	6,530	6,829
Cash and Bank Balance	1,416	1,432	1,510	3,284	5,642
Loans and Advances	531	1,663	1,073	1,522	1,746
Other Current Assets	1,035	1,788	2,410	2,203	2,715
Total Current Assets	11,188	13,987	14,246	18,675	22,815
Less: Current Liabilities & Provisions					
Sundry Creditors	529	1,651	1,209	1,497	1,690
Provisions	1,755	1,224	1,391	1,759	2,131
Other Current Liabilities	1,265	1,647	1,572	1,699	1,946
Total Current Liabilities & Provisions	3,549	4,521	4,173	4,955	5,767
Capital Applied	14,200	16,544	19,291	21,768	24,754



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal & Broacha

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Key Operating Ratios					
EBITDA Margin (%)	20.6%	17.9%	16.2%	16.3%	17.5%
Tax / PBT (%)	25.5%	24.8%	24.8%	26.1%	26.1%
Net Profit Margin (%)	15.4%	12.9%	10.5%	11.4%	12.1%
RoE (%)	22.1%	19.5%	17.7%	17.6%	18.8%
RoCE (%)	21.7%	19.3%	17.5%	17.3%	18.5%
Current Ratio (x)	3.2x	3.1x	3.4x	3.8x	4.0x
Dividend Payout (%)	31.2%	28.6%	28.7%	32.2%	32.2%
Book Value Per Share (Rs.)	175.7	204.9	237.4	267.5	304.0
Growth Indicators %					
Growth in Gross Block (%)	11.8%	11.2%	2.6%	7.1%	6.6%
Sales Growth (%)	13.3%	22.3%	24.5%	8.0%	14.6%
EBITDA Growth (%)	(5.8%)	6.0%	12.5%	8.9%	23.3%
Net Profit Growth (%)	16.6%	2.3%	1.4%	17.8%	21.2%
Diluted EPS Growth (%)	(41.7%)	2.3%	1.4%	17.8%	21.2%
Turnover Ratios					
Debtors (Days of net sales)	64	62	57	58	56
Creditors (Days of Raw Materials)	18	37	31	29	30

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
PAT	2,906.3	2,973.6	3,014.7	3,552.6	4,304.0
Add: Depreciation	938.5	965.2	1,490.2	1,613.9	1,852.4
Add: Interest Paid	3.4	0.9	0.9	0.9	0.0
Operating Profit before Working Capital Change	2,910.1	3,155.2	3,661.4	3,815.0	4,731.5
(Inc)/Dec in Current Assets	(1,221.7)	(2,782.8)	(182.4)	(2,654.4)	(1,781.5)
Inc/(Dec) in Current Liabilities	764.0	972.5	(348.4)	782.3	812.1
Net Cash Generated From Operations	2,452.3	1,344.9	3,130.6	1,943.0	3,762.1
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(649.3)	(690.7)	(179.1)	(500.0)	(500.0)
Add: Non Operating Income	938.2	784.5	958.5	1,352.4	1,424.9
Net Cash Flow from/(used in) Investing Activities	(72.5)	(473.9)	(1,598.5)	907.9	(86.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(281.0)	6.6	147.0	68.0	68.8
Dividend Paid	(800.0)	(640.0)	(866.6)	(994.7)	(1,205.1)
Net Cash Flow from Financing Activities	(1,920.1)	(854.9)	(1,454.9)	(1,076.8)	(1,317.1)
Net Inc/Dec in cash equivalents	459.7	16.1	77.2	1,774.0	2,358.5
Opening Balance	956.5	1,416.2	1,432.4	1,509.6	3,283.6
Closing Balance Cash and Cash Equivalents	1,416.2	1,432.4	1,509.6	3,283.6	5,642.1



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal &Broacha

Disclaimer

Dalal &Broacha Stock Broking Pvt Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities business including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal &Broacha

Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma/Healthcare
Mr. Avinash Kumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Mr Mayank Babla	Mayank.babla@dalal-broacha.com	02267141412	IT/Media & Telecom
Ms. Richa Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com