



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal&Broacha

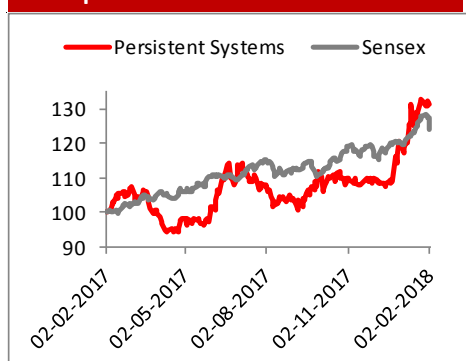
BUY

Current Price	784
Target Price	899
Upside	15%
52 Week Range	820/558

Key Share Data

Market Cap (Rs.bn)	62.124
Market Cap (US\$ mn)	0.97
No of o/s shares (mn)	80
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	356
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS

Price performance



% Shareholding

	Dec-18	Sept-17
Promoters	30.62	30.66
Public	65.84	65.62
Others	3.54	3.72
Total	100	100

Q3 performance in-line with estimates, tax provision reversal aids bottom-line

- Persistent Systems reported its Q3FY18 numbers which beat our estimates on all fronts and in line with management's guidance of performance pick-up in H2FY18 given earlier in the year. Growth was largely led by performance of Digital (22% to revenues) and Alliance (30% of revenues) Services and IP-led revenues.

- The company reported dollar revenue of \$122.5 Mn, which was 0.7% above our estimate of \$121.7 Mn and up 3.8% qoq and 11.4% yoy.

- EBITDA was reported at INR 1,375 Mn, up 18.8% qoq and 15.5% yoy and 10.8% above our estimate of INR 1,241 Mn. EBITDA margins stood at 17.4% in Q3FY18 vs 15.2% in Q2FY18 and 15.8% in Q3FY17. Persistent reported a strong EBITDA mainly due to controlled SG&A expenses which remained flat qoq and were down by 9.7% yoy.

- PAT stood at INR 917 Mn, up 11% qoq and 12% yoy. EPS for the quarter stood at INR 11.5. EPS for 9MFY18 stood at INR 31.1 vs 28.5 in 9MFY17, up by 9%.

Digital and Alliance drive revenues in Q3, expect accelerite to join the bus going ahead

- Digital (22% of revenues) and Alliance (29.6% of revenues) were the main growth drivers in Q3FY18. In line with managements guidance earlier in FY17, EBITDA margins have expanded by 216 bps qoq and 145 bps yoy on account of strategic shrinking of effort based traditional service revenues (from 47.6% in Q1FY17 to 41.9% in Q3FY18) and expansion of Digital (14.2% in Q1FY17 to 22% in Q3FY18), which is relatively de-linear and higher margin business.

- We visited the Persistent Systems annual investor day in Q3FY18, where the company showcased various products, IPs, Digital solutions and latest developments. In line with management comments, we believe that IP solutions, accelerite, Digital and alliance will be key growth drivers over FY19E and FY20E.

- Growth in de-linear business segments has benefitted profitability in that margins have improved from 16.2% in FY17 to 17.4% in Q3FY18. Going ahead, we expect margin to expand to 18% by FY20 on similar grounds. We expect ShareInsights 2.0, Sentient, Rovius and Concert to outperform whereas Radia should continue to remain a drag over FY19E..

Key Concall Takeaways

(i) High level of M&A activities in the US Healthcare space makes it a very vibrant space. Similarly, DACH countries and Australia offer huge potential (ii) Persistent's analytics platform ShareInsights 2.0 was launched recently (iii) accelerite business reported a dip as a major deal was pushed into Q4 (iv) IBM CE/CLM investment should turn profitable by FY18 end (v) Company will increase sales efforts next year therefore SG&A expenses will go up, but expect revenue growth to offset growth in these costs.

Valuation & Outlook:

Stock is currently trading at 15.8x and 13.1x FY19E and FY20E EPS. We re-rate the stock to a BUY rating with a target price of INR 899.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	23,123	22.3%	3,173	13.7%	2,974	12.9%	37.2	21.1x	19.5%	15.5%
FY17	28,784	24.5%	3,163	11.0%	3,129	10.9%	39.1	20.8x	17.7%	13.3%
FY18E	31,069	7.9%	3,524	11.3%	3,517	11.3%	44.0	17.8x	17.4%	13.1%
FY19E	34,802	12.0%	4,083	11.7%	3,975	11.4%	49.7	15.8x	17.5%	13.3%
FY20E	39,374	13.1%	5,210	13.2%	4,793	12.2%	59.9	13.1x	18.7%	15.0%

Source: Company, Dalal&Broacha Research



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YE March (Rs. Mn)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %	Q3 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	122.5	118.1	3.8%	110	11.4%	121.7	0.7%
Net Sales (INR Mn)	7,919	7,613	4.0%	7,455	6.2%	7,878	0.5%
Less:							
Employees Remuneration & Benefits	5,563	5,477	1.6%	5,182	7.3%	5,495	1.2%
SG&A Expenses	981	977	0.4%	1,087	(9.7%)	1,142	(14.1%)
Total Operating Expenditure	6,544	6,455	1.4%	6,269	4.4%	6,637	(1.4%)
EBITDA	1,375	1,158	18.8%	1,187	15.9%	1,241	10.8%
EBIT	983	778	26.2%	800	22.8%	847	16.0%
Less: Depreciation	393	379	3.5%	387	1.6%	394	
Add: Other income	193	336	(42.7%)	318	(39.4%)	197	(2.1%)
Extraordinary Expense	0	0				0	
Profit Before Tax	1,175	1,115	5.4%	1,118	5.1%	1,044	12.6%
Adjusted Profits	1,175	1,115	5.4%	1,118	5.1%	1,044	
Less: Total Tax	258	288	(10.4%)	299	(13.5%)	272	
PAT	917	826	10.9%	819	11.9%	771	18.8%
Adjusted PAT	917	826	10.9%	819	11.9%	771	18.8%
Reported Diluted EPS (Rs.)	11.5	10.3	10.9%	10.2	11.9%	9.6	
Adjusted Diluted EPS (Rs.)	11.5	10.3	10.9%	10	11.9%	9.6	18.8%
No of Shared Diluted (mn)	80	80		80		80	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	12.4%	10.2%	218	10.7%	168	10.8%	166
EBIDTA Margin	17.4%	15.2%	216	15.9%	145	15.8%	162
NPM	11.6%	10.9%	72	11.0%	59	9.8%	179
Adjusted NPM	11.6%	10.9%	72	11.0%	59	9.8%	179
Effective Tax Rate %	22.0%	25.9%	(387)	26.7%	(474)	26.1%	(410)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	70.2%	72.0%	(171)	69.5%	74	69.7%	50
SG&A/Net sales	12.4%	12.8%	(45)	14.6%	(219)	14.5%	(211)

Source: Company, Dalal & Broacha Research

Other Key Highlights:

- Persistent's Cash & Bank Balance crossed INR 10 Bn for the first time
- Company's blended utilization improved to 79.9% on account of improvement in offshore utilization
- Top client for the company grew by 12.2% qoq whereas top 5 clients grew by 6.1% qoq
- Persistent implemented a revenue share business model for a small portion of revenues wherein the company will share a certain portion of business based on whether targets are achieved.
- Mike Kulenko from has joined Persistent as VP of Sales in Europe, where the company has targeted higher growth
- Onsite billing rate grew by 1.8% qoq



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Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	23,123	28,784	31,069	34,802	39,374
Growth %	22.3%	24.5%	7.9%	12.0%	13.1%
Total Revenue	23,123	28,784	31,069	34,802	39,374
Employee Cost & Related Expens	15,415	19,827	21,809	24,151	27,171
Miscellaneous Expenses	3,571	4,304	4,163	4,872	5,119
Total Operating Expenditure	18,985	24,131	25,972	29,024	32,289
EBIDTA	4,138	4,653	5,098	5,779	7,084
Growth %	6.0%	12.5%	9.5%	13.4%	22.6%
Less: Depreciation	965	1,490	1,573	1,696	1,875
EBIT	3,173	3,163	3,524	4,083	5,210
Growth %	7.0%	-0.3%	11.4%	15.8%	27.6%
Interest Paid	1	1	1	0	0
Non-operating Income	784	958	1,098	1,218	1,181
Profit Before tax	3,956	4,007	4,621	5,301	6,391
Tax	983	992	1,104	1,325	1,598
Net Profit	2,974	3,015	3,517	3,975	4,793
Adjusted Profit	2,974	3,129	3,517	3,975	4,793
Reported Diluted EPS Rs	37.2	37.7	44.0	49.7	59.9
Growth %	2.3%	1.4%	16.7%	13.0%	20.6%
Adjusted Diluted EPS Rs	37.2	39.1	44.0	49.7	59.9
Growth %	2.3%	5.2%	12.4%	13.0%	20.6%

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	800	800	800	800	800
Reserves & Surplus	15,593	18,193	20,577	23,273	26,523
Equity	16,393	18,993	21,377	24,073	27,323
Net Worth	16,393	18,993	21,377	24,073	27,323
Net Deferred tax liability/(Asset)	124	257	286	343	414
Total Loans	27	41	41	41	41
Capital Employed	16,544	19,291	21,705	24,457	27,778
Assets					
Gross Block	6,857	7,036	8,036	9,536	11,036
Less: Depreciation	3,850	4,268	5,841	7,537	9,412
Net Block	3,007	2,768	2,195	1,999	1,624
Capital WIP	24	48	50	50	62
Investments	2,218	3,262	3,835	4,455	5,101
Intangible Assets	1,597	2,832	2,175	2,436	2,756
Others Assets	233	306	331	370	419
Current Assets					
Sundry Debtors	4,275	4,754	4,937	5,244	5,609
Current Investments	4,828	4,500	4,660	4,524	4,331
Cash and Bank Balance	1,432	1,510	4,876	7,487	10,934
Loans and Advances	1,663	1,073	1,210	1,218	1,181
Other Current Assets	1,788	2,410	2,175	2,262	2,362
Total Current Assets	13,987	14,246	17,859	20,735	24,418
Less:Current Liabilities & Provisions					
Sundry Creditors	1,651	1,209	1,494	1,829	2,212
Provisions	1,224	1,391	1,548	1,858	2,240
Other Current Liabilities	1,647	1,572	1,697	1,901	2,151
Total Current Liabilities & Provisions	4,521	4,173	4,739	5,588	6,603
Capital Applied	16,544	19,291	21,705	24,457	27,778

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	2,973.6	3,014.7	3,517.5	3,975.5	4,793.2
Add: Depreciation	965.2	1,490.2	1,573.4	1,696.2	1,874.6
Add: Interest Paid	0.9	0.9	0.7	0.0	0.0
Operating Profit before WC Changes	3,155.2	3,661.4	3,993.6	4,453.6	5,486.6
(Inc)/Dec in Current Assets	(2,782.8)	(182.4)	(246.2)	(265.9)	(235.4)
Inc/(Dec) in Current Liabilities	972.5	(348.4)	566.6	848.7	1,014.6
Changes in Inventory	0.0	0.0	0.0	0.0	0.0
Net Cash Generated From Operations	1,344.9	3,130.6	4,314.0	5,036.4	6,265.8
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(690.7)	(179.1)	(1,000.0)	(1,500.0)	(1,500.0)
Add: Non Operating Income	784.5	958.5	1,098.0	1,218.1	1,181.2
Cash Flow from Investing Activities	(473.9)	(1,598.5)	156.5	(1,202.7)	(1,346.0)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	6.6	147.0	29.0	57.3	70.6
Dividend Paid	(640.0)	(866.6)	(984.9)	(1,113.1)	(1,342.1)
Net Cash Flow from Financing Activities	(854.9)	(1,454.9)	(1,104.4)	(1,222.8)	(1,472.8)
Net Inc/Dec in cash equivalents	16.1	77.2	3,366.1	2,610.9	3,447.0
Opening Balance	1,416.2	1,432.4	1,509.6	4,875.8	7,486.7
Closing Cash Balance	1,432.4	1,509.6	4,875.8	7,486.7	10,933.7

Free Cash Flow Analysis					
	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	4,138	4,653	5,098	5,779	7,084
Add: Depreciation Tax Shield	240	369	376	424	469
Working Capital Changes	-1,353	1,280	851	262	196
Less: Inc in FC Investment	691	179	1,000	1,500	1,500
Taxes Paid	983	992	1,104	1,325	1,598
Total Free Cash Flows	1,352	5,131	4,221	3,640	4,652

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	17.9%	16.2%	16.4%	16.6%	18.0%
Tax / PBT (%)	24.8%	24.8%	23.9%	25.0%	25.0%
Net Profit Margin (%)	12.9%	10.5%	11.3%	11.4%	12.2%
RoE (%)	19.5%	17.7%	17.4%	17.5%	18.7%
RoCE (%)	19.3%	17.5%	17.2%	17.2%	18.4%
Current Ratio (x)	3.1x	3.4x	3.8x	3.7x	3.7x
Dividend Payout (%)	28.6%	28.7%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	204.9	237.4	267.2	300.9	341.5
Growth Indicators %					
Growth in Gross Block (%)	11.2%	2.6%	14.2%	18.7%	15.7%
Sales Growth (%)	22.3%	24.5%	7.9%	12.0%	13.1%
EBITDA Growth (%)	6.0%	12.5%	9.5%	13.4%	22.6%
Net Profit Growth (%)	2.3%	1.4%	16.7%	13.0%	20.6%
Diluted EPS Growth (%)	2.3%	1.4%	16.7%	13.0%	20.6%
Turnover Ratios					
Debtors Days	62	57	57	53	50
Creditors Days	37	31	29	32	35



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