



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q4 FY18 Result Update@ Dalal&Broacha

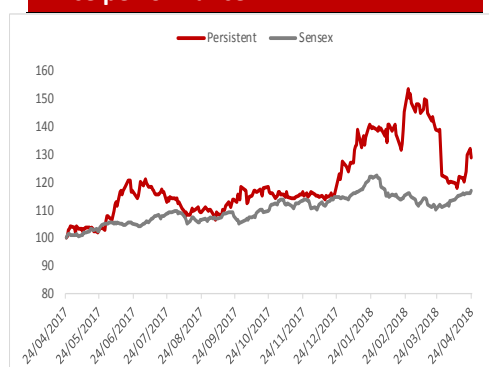
BUY

Current Price	726
Target Price	899
Upside	24%
52 Week Range	564/878

Key Share Data

Market Cap (Rs.bn)	60.6
Market Cap (US\$ mn)	913.2
No of o/s shares (mn)	80
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	329,798
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS

Price performance



% Shareholding	Mar18	Dec-17
Promoters	30.49	30.62
Public	66.14	65.84
Others	3.37	3.54
Total	100	100

Q4 performance better than estimates

- Persistent Systems reported its Q4 FY18 numbers which beat our estimates on the profitability front, however was slightly below our estimates on the revenue front.
- Dollar revenue was reported at \$116.9 Mn, which was 1.5% below our estimate of \$118.8 Mn and down 4.6% qoq and 7.3% yoy
- EBITDA was reported at INR 1,083 Mn, 9.3% above our estimate* of INR 991 Mn and down by 21% qoq and 17% yoy. EBITDA margins stood at 14.4% in Q4 FY18 vs 17.4% in Q3 FY18 and 17.9% in Q4 FY17
- PAT stood at INR 737 Mn, 18.5% above our estimates of INR 622 Mn and down 19.6% qoq and 12.5% yoy
- EPS for the quarter stood at INR 9.2. EPS and FY18 EPS was clocked in at INR 40.4 vs 37.68 in FY17

Q4 FY18 marked by decline in IP-led revenues and Alliance business

- Earlier in Q4 FY18, Persistent had issued a warning of dip in IP-led revenues (27% of revenues) in Q4 which was precisely the reason why overall revenues declined 4.6% qoq and profitability took a hit. IP led revenues declined by 21% qoq at \$26 Mn.
- On the plus side, Europe and India revenues showed a notable growth of 7.2% and 30% qoq growth
- Utilization level was reported at the highest ever of 81.2% which mainly shielded the margins against the drop in IP-led revenues
- Digital continued to report growth for the 3rd straight quarter with 4.1% qoq growth and management continues to maintain its positive view on the growth potential of this segment.

Key Concall Takeaways

- Management expects dip in IP led revenues to be a one-off and should bounce back by Q3 FY19E
- Q4 of the previous CY saw major IP revenue bookings which led to delay in revenues in Q1, being the first quarter of the new year from the client's perspective, however, management's interaction reveals revenues will revive
- Execution of Digital projects was much slower than anticipated in Q4 and management has made certain changes in Q4 which it expects to yield results over the next few quarters
- Management has decided to merge the Digital and Services segment of the business for higher operational synergies, improved pipeline building and execution
- Investment in Sales vs new product development in the current quarter is expected to yield better results in the next FY as the management believes that it has the right set of product mix
- Company expects health growth in Europe as new avenues in terms of geographies open up after PARX acquisition

Valuation & Outlook:

We believe that Persistent will bounce back in terms of execution and performance as certain internal restructuring yield results, one-offs fade away and improvement in execution. We believe that this blip in performance is just a one off in an otherwise intact growth story. Stock is currently trading at 15.4x and 12.9x FY19E and FY20E EPS. We reiterate our BUY rating on the stock 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	19.5x	19.5%	15.5%
FY17	28,784	24.5%	3,163	11.0%	3,129	10.9%	39.1	19.3x	17.7%	13.3%
FY18E	30,337	5.4%	3,076	10.1%	3,231	10.6%	40.4	18.0x	16.1%	11.3%
FY19E	33,494	10.4%	3,841	11.5%	3,760	11.2%	47.0	15.4x	16.7%	12.6%
FY20E	38,132	13.8%	4,773	12.5%	4,497	11.8%	56.2	12.9x	17.8%	14.1%

Source: Company, Dalal&Broacha Research



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YE March (Rs. Mn)	Q4 FY18	Q3 FY18	Q-o-Q change %	Q4 FY17	Y-o-Y change %	Q4 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	117.0	122.5	(4.6%)	109	7.3%	118.8	(1.5%)
Net Sales (INR Mn)	7,525	7,919	(5.0%)	7,271	3.5%	7,648	(1.6%)
Less:							
Employees Remuneration & Benefits	5,351	5,563	(3.8%)	4,882	9.6%	5,663	(5.5%)
SG&A Expenses	1,090	981	11.1%	1,088	0.2%	994	9.7%
Total Operating Expenditure	6,442	6,544	(1.6%)	5,969	7.9%	6,658	(3.2%)
EBITDA	1,084	1,375	(21.2%)	1,302	(16.7%)	991	9.4%
EBIT	663	983	(32.5%)	908	(26.9%)	611	8.4%
Less: Depreciation	421	393	7.2%	394	6.8%	379	
Add: Other income	321	193	66.5%	143	123.9%	186	72.4%
Profit Before Tax	984	1,175	(16.3%)	1,051	(6.4%)	797	23.4%
Adjusted Profits	984	1,175	(16.3%)	1,051	(6.4%)	797	
Less: Total Tax	246	258	(4.7%)	209	18.2%	175	
PAT	737	917	(19.6%)	842	(12.4%)	622	18.5%
Adjusted PAT	737	917	(19.6%)	842	(12.4%)	622	18.5%
Reported Diluted EPS (Rs.)	9.2	11.5	(19.6%)	10.5	(12.4%)	7.8	
Adjusted Diluted EPS (Rs.)	9.2	11.5	(19.6%)	11	(12.4%)	7.8	18.5%
No of Shared Diluted (mn)	80	80		80		80	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	8.8%	12.4%	(360)	12.5%	(367)	8.0%	82
EBIDTA Margin	14.4%	17.4%	(296)	17.9%	(350)	13.0%	145
NPM	9.8%	11.6%	(178)	11.6%	(178)	8.1%	166
Adjusted NPM	9.8%	11.6%	(178)	11.6%	(178)	8.1%	166
Effective Tax Rate %	25.0%	22.0%	306	19.8%	520	22.0%	306
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	71.1%	70.2%	86	67.1%	397	74.0%	(294)
SG&A/Net sales	14.5%	12.4%	210	15.0%	(47)	13.0%	149

Source: Company, Dalal & Broacha Research

Other Key Highlights:

- Billing Rate improved by 2.5% qoq in Q4 FY18 and 5.7% in FY18. Notably, both onsite and offshore billing rates improved in FY18
- Total Dividend for FY18 stood at INR 10 per share
- Company expects revenue growth in FY19E to be driven by new geographies other than Switzerland and Germany
- Cash and Investments stood at INR 12,264 Mn as on 31st March 2018
- Technical Headcount witnessed a reduction of 479 employees in FY18 whereas Sales & Marketing saw an increase of 18 employees



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