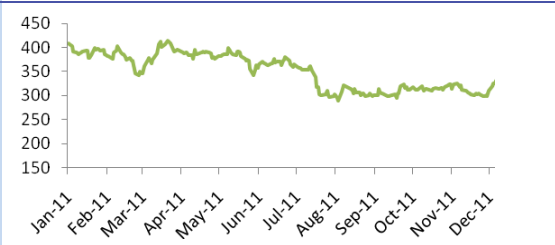


Persistent Systems Ltd

Recommendation	HOLD
CMP	Rs. 332
Target Price	Rs. 409
Sector	IT Consulting & Software

Stock Details	
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg Code	PSYS: IN
Market Cap (Rs cr)	1328
Free Float (%)	61.05
52- wk HI/Lo (Rs)	437/281
Avg. volume BSE (Quarterly)	1715
Face Value (Rs)	10.0
Dividend (FY 11)	55%
Shares o/s (Cr)	4

Relative Performance	1Mth	3Mth	1Yr
Persistent	7.2%	3.1%	-21.6%
Sensex	5.9%	-0.2%	-12.5%



Shareholding Pattern	31 st Dec 11
Promoters Holding	38.95%
Institutional (Incl. FII)	28.23%
Corporate Bodies	0.97%
Public & others	31.85%

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Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROE %
FY 10A	601.2	1.2%	146.37	24%	115.02	19%	32.06	11.55	7.76	22%
FY 11A	775.8	29.1%	158.31	20%	139.74	18%	34.93	9.50	7.76	20%
FY 12E	1006.3	29.7%	206.78	21%	136.75	14%	34.19	9.71	6.00	17%
FY 13E	1195.2	18.8%	248.30	21%	163.07	14%	40.77	8.14	4.96	18%

Good Results on the back of exchange gains. IP led revenues gain momentum

Revenues grew 12.4% QoQ, EBITDA margins grew 550 bps QoQ at 24.2%. Dollar revenues remained flat due to M&A activities at the end of 3 of the clients

Dollar revenues fail to impress

Dollar revenues grew 0.3 % QoQ basis to \$ 51.7mn due to lower traction with 3 of the clients where M&A activity took place. One of them is a large Telecom Player in Europe. In Rupee terms, revenues grew 12.4% QoQ and 37% YoY at Rs.267.7 crores. IP revenues grew 36% QoQ contributing 9.2% to the overall revenues.

EBITDA margin expansion– mainly due to exchange benefits

EBITDA margins have improved 550 bps to reach 24.2% during the quarter widely attributed by exchange gains. Out of this, 50 bps was due to operational efficiency. There was a marginal improvement in utilization at 74.1%, while the onsite: offshore mix improved 50 bps to 21.2%:78.8% of revenues.

Headcount degrows

The Overall Employee count is at 6706 and has gone down by 194 numbers. The sales count has gone down by 10 counts to 103 during the quarter. However, the management has indicated it to the differential business model of 'sell with partnership' and would see improvement in the same. Company plans to hire 350+ freshers for the FY12-FY13 fiscal and has capex plans of ~ Rs.20 crores.

Guidance

The management has cited a cautious view on the macro environment indicating delayed customer decisions. Company has left its guidance on revenues unaltered at \$205-\$210mn. This indicates 0%-10% QoQ growth for Q4FY12E in dollar revenues.

Valuation & Recommendation

We are revising our numbers upwards for FY12E and FY13E factoring in the exchange gains. We have revised Revenues and PAT by 1.16% and 0.03% respectively for FY12E and by 0.72% and 1.86% respectively for FY13E. At CMP, the stock is trading 9.71 x and 8.13x FY12E and FY13E expected earnings. While we remain cautious about the changing times in the Global markets, we have a HOLD and accumulate on decline view on the stock with a price target of Rs.409.

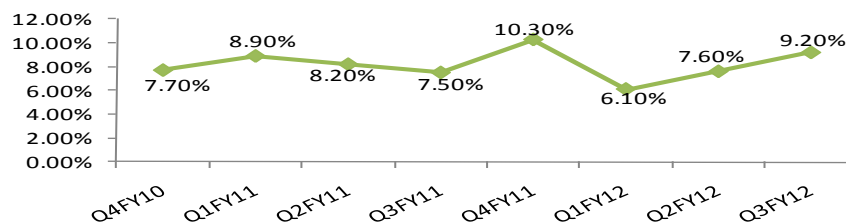
Persistent Systems Ltd

Q3 FY12 Result Analysis (in Rs Crs.)

	Q3FY12	Q2 FY12	Q-o-Q	Q3FY11	Y-o-Y
Total Sales	267.73	238.17	12.4%	194.93	37.3%
Expenditure:					
Personnel Expenses	164.3	163.2	0.7%	127.0	29.4%
Operating and other expenses	38.6	30.4	27.0%	25.16	53.5%
Total Expenditure	202.96	193.57	4.9%	152.16	33.4%
EBITDA	64.77	44.60	45.2%	42.78	51.4%
<i>Margin</i>	<i>24.2%</i>	<i>18.7%</i>	<i>547 bps</i>	<i>21.9%</i>	<i>225 bps</i>
Depreciation	15.9	14.0	14.0%	10.6	49.6%
Other income	7.6	14.5	(47.5%)	7.3	3.4%
Profit Before Tax	56.47	45.12	25.2%	39.49	43.0%
<i>Margin</i>	<i>21%</i>	<i>19%</i>	<i>215 bps</i>	<i>20%</i>	<i>83 bps</i>
Total Tax	15.9	12.7	25.0%	3.2	389.2%
Profit After Tax	40.58	32.41	25.2%	36.24	12.0%
<i>Margin</i>	<i>15%</i>	<i>14%</i>	<i>155 bps</i>	<i>19%</i>	<i>(343)bps</i>
Basic EPS	10.58	8.10	30.6%	9.06	16.8%

Source:Nirmal Bang Retail Research

IP Revenues to Total Sales



IP led business which is the non-linear part of the business has been growing steadily since the past few quarters. In Q3FY12, it contributed 9.2% to the total revenues from 7.6% in Q2FY12. PSL develops IPs in the new strategic focus areas viz, Cloud computing, BI & Analytics, Mobility and Collaboration. The company engages 6% of employees in R&D. It sells the IPs to the clients on a revenue sharing basis.

Revision in estimates	FY12E		FY13E		
	FY12E	FY13E	FY12E	FY13E	
Revenues			PAT		
Current	1006	1195	Current	136	163
Earlier	995	1187	Earlier	136	160
Variation %	1.16%	0.72%	Variation %	0.03%	1.86%

Persistent Systems Ltd

Financials

Profitability (Rs. In Cr)					Financial Health (Rs. In Cr)				
	FY10A	FY11A	FY12E	FY13E		FY10A	FY11A	FY12E	FY13E
Revenues	601.2	775.8	1006.3	1195.2	Share Capital	40.0	40.0	40.0	40.0
% change	1.2%	29.1%	29.7%	18.8%	Reserves & Surplus	595.8	703.6	821.9	933.2
EBITDA	146.4	158.3	206.8	248.3	Net Worth	635.8	743.6	861.9	973.2
% change in EBITDA	24.3%	20.4%	20.5%	20.8%	Stock Option o/s	3.2	3.5	3.5	3.5
Depn & Amort	33.52	42.39	58.75	56.00	Deferred Tax Liabilities	4.5	3.0	3.0	3.0
Operating income	112.8	115.9	148.0	192.3	Total Liabilities	643.5	750.1	868.4	979.7
Interest	0.0	0.0	0.0	0.0	Net Fixed Ass (Incl WIP)	231.8	286.6	339.4	382.3
Other Income	11.23	34.44	43.84	34.19	Investments	156.2	250.0	288.0	316.8
PBT	124.1	150.4	191.9	226.5	Defered Tax Assets	0.7	6.0	6.0	6.0
Tax	9.1	10.8	55.1	63.4	Sundry Debtors	136.3	158.2	202.5	241.0
PAT	115.0	139.7	136.7	163.1	Cash & Bank	191.8	100.0	88.3	96.1
CEPS	35.7	45.5	48.9	54.8	Loans & Advances	72.3	86.9	95.0	104.9
EPS	32.06	34.93	34.19	40.77	Other CA	34.0	22.6	24.7	29.0
Quarterly (Rs. In Cr)	Mar.11	Jun.11	Sept.11	Dec.11	C A L&A	434.4	367.7	410.5	471.0
Revenue	212.8	223.8	238.2	267.7	CL & P	179.6	160.2	175.5	196.4
EBITDA	38.1	38.9	44.6	64.8	Total Assets	643.5	750.1	868.4	979.7
Dep	11.9	12.6	14.0	15.9	Cash Flow (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Op Income	26.2	26.3	30.7	48.9	Operating				
Interest	0.0	0.0	0.0	0.0	OP before WC	146.4	158.3	206.8	248.3
Other Inc.	8.7	13.8	14.5	7.6	Change in WC	13.72	(63.78)	(40.37)	(35.13)
PBT	34.8	40.0	45.1	56.5	(-) Tax	9.05	10.79	55.13	63.42
Tax	1.7	12.5	12.7	15.9	CF from Operation	169.13	105.32	221.53	276.59
PAT	33.1	27.6	32.4	40.6	Investment				
EPS (Rs.)	8.28	6.89	8.10	10.58	Capex	(44.97)	(94.77)	(93.86)	(75.21)
Performance Ratio	FY10A	FY11A	FY12E	FY13E	Other Investment	(68.16)	(93.87)	(38.01)	(28.70)
PAT growth (%)	70.2%	21.5%	-2.1%	19.3%	Total Investment	(113.13)	(101.90)	(154.21)	(88.03)
EBITDA margin (%)	24.3%	20.4%	20.5%	20.8%	Financing				
PAT margin (%)	19.1%	18.0%	13.6%	13.6%	Dividend Paid	(9.79)	(22.00)	(20.00)	(26.00)
ROCE (%)	19.3%	20.0%	22.1%	23.1%	Others	117.79	(20.89)	(125.20)	(173.07)
ROE (%)	22.4%	20.3%	17.0%	17.8%	Total Financing	108.0	(42.89)	(145.20)	(199.07)
Valuation Ratio	FY10A	FY11A	FY12E	FY13E	Net Chg. in Cash	175.23	(91.78)	(11.69)	7.80
Price Earnings (x)	11.55	9.50	9.71	8.14	Cash at beginning	16.5	191.8	100.0	88.3
Price / Book Value (x)	2.09	1.79	1.54	1.36	Cash at end	191.8	100.0	88.3	96.1
EV / Sales	1.89	1.58	1.23	1.03	Per Share Data	FY10A	FY11A	FY12E	FY13E
EV / EBITDA	7.76	7.76	6.00	4.96	BV per share	158.9	185.9	215.5	243.3
					Dividend per share	2.4	5.5	5.0	6.5

Source: Company data, Nirmal Bang Research



Persistent Systems Ltd

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