

Persistent Systems

Sensex: 24953

CMP: INR 670



Information & Technology

Persistent Systems (PSYS) began its operations in 1990 and is engaged in software development services for software product companies and enterprises in verticals such as infrastructure & systems (51% of revenue) financial services (20% of revenue), telecom (16% of revenue) and lifescience (14% of revenues). It is a leading global player in offshore software product development with revenue across geographies; Americas (85% of revenue), Europe (6% of revenue) and Australia & APAC and ~20% of its revenue is product-based under the brand 'Accelerite'. PSYS has multiple partnerships with platform providers such as IBM, Oracle, Microsoft, AWS, Salesforce, Appian, Dassault Systèmes, etc. In last five years, its revenue and PAT has grown at a CAGR of 25% and 20% respectively.

ISV business showing signs of recovery

In Q3FY16, contribution of ISV (Independent Software Vendor) to total revenue fell to 51.3% from 57.2% in Q2FY16 due to acquisition of "Aepona" from Intel and hence the work that PSYS was doing for Intel got shifted to IP segment. Despite this transition, ISV segment reported revenue of \$46mn in Q3FY16, in line with its last six quarters average, indicating strong traction in ISV business.

Enterprise business continue to log strong growth

PSYS' enterprise division (25% of revenue) is the largest growth driver for the company with ~10% CQGR in last seven quarters. The strong growth is expected to continue ahead based on addition of substantial number of new large accounts (\$3mn bucket has increased from 14 accounts in FY15 to 19 in Q3FY16). Even accounts <\$1mn have shown significant addressability and can be potentially scaled up to US\$4mn-US\$5mn.

Strong growth in BFSI vertical

Within the enterprise segment, BFSI has led the growth with ~10% CQGR in last seven quarters and it contributed 19.3% to Q3FY16 revenue. From quarterly revenue of \$10mn, BFSI revenue has reached quarterly revenue of \$17mn in the past seven quarters. BFSI growth is supported by the platform-led strategy of the company with partnerships such as Appian. PSYS is global partner with Appian with its services ranging from consulting, technical advisory, testing, implementation and support. PSYS is well positioned within Appian's global partner network in which it is placed with larger competitors such as TCS, Cognizant and HCL Tech. Appian's CY15 revenue grew by 22% with 72% growth in subscription-based software license bookings.

Leverage strong partner ecosystem

PSYS's key strength is its strong partner eco-system which includes platform players such as Salesforce, Microsoft, Oracle, IBM, SAP,

Appian and Dassault Systèmes. Built around its partner ecosystem, the solutions also shape PSYS's industry specific digital forays. For example, Healthcare with Salesforce and Apigee, Financial Services with Appian etc.

IP business - key differentiator

PSYS has built up an impressive IP business (20% of revenue and growing at a CQGR of ~5% for last eight quarters) organically and through opportunistic acquisitions. While in one hand IP business provides stable annuity business, on the other hand, it highlights PSYS's superior technology capability vis-à-vis services competitors, which helps PSYS in client acquisition in enterprise business.

IoT - next big thing

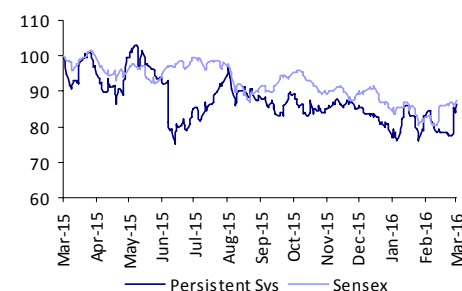
PSYS is the first IT vendor to partner with IBM to build Internet-of-Things (IoT) solutions based on IBM's technologies on a revenue-share basis. IoT can be a \$11 trillion opportunity by 2025 (source: McKinsey). PSYS's proximity to technology leaders and start-ups has given it a head start in a promising new technology. PSYS will write the software embedded in the "things" and also customize "apps" on the IBM Watson platform to analyse the data. Persistent Systems is the only vendor with this kind of partnership with IBM so far.

Outlook & Valuation

PSYS has transformed itself from a product engineering company catering to hi-tech companies to become a provider of digital/SMAC IT services across multiple industry verticals. This has been driven through several acquisitions of IP heavy firms that increased its addressable market and transformation of its sales team. PSYS's improving business mix towards enterprise, aided by its strong tech capability, IP and early focus on new technologies like IoT, make it the ideal industry-disruption play. In the short term, recovery in top customer and predictable growth in IP revenues could lead to earnings upgrades. At CMP, the stock is trading at 17.5x its TTM earnings.

Shareholding %	Dec-15
Promoters	38.53
FIIIs	9.54
DIIIs	26.39
Others	25.54

Relative Price Performance



Key Data	
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg Code	PSYS IN
Reuters Code	PERS.BO
Shares Outstanding (mn)	80
Face Value	10
Mcap (INR bn)	53.58
52 Week H/L	820.00/562.50
2W Avg. Qty.NSE	218800
Free Float (INR Bn)	32.93
Beta	0.64

Y/E (INR mn) cons.	FY12	FY13	FY14	FY15
Net Sales	10003	12945	16692	18913
Growth	28.93%	29.41%	28.94%	13.31%
EBIDTAM	22.44%	24.16%	24.82%	20.64%
Adj. PAT	1413	1865	2457	2842
Growth	1.76%	31.96%	31.75%	15.70%
Adj. EPS (INR)	17.23	22.71	30.14	34.31
P/E (x)	9.04	11.55	16.81	19.6
EV/EBIDTA (x)	4.45	6.19	9.2	11.48
Net Debt/Equity (x)	NA	NA	NA	NA
RoACE	24.46%	27.23%	29.19%	29.05%
RoAE	17.86%	20.19%	22.25%	22.12%

Quarterly Result

(INR mn)	Q3FY16	Q2FY16	QoQ % Chg	Q3FY15	YoY % Chg	9MFY16	9MFY15	YoY % Chg
Revenue (\$ mn)	90	83	8.06%	80	12.74%	251	229	9.94%
Exchange Rate (INR/\$)	66	65	0.95%	62	6.17%	65	61	6.70%
Revenue (INR)	5920	5427	9.09%	4946	19.70%	16351	13939	17.31%
Employee Expense	3324	3063	8.51%	2739	21.34%	9143	7664	19.30%
Purchases / Royalty	123	111	11.46%	91	36.10%	307	248	23.56%
Travel Expense	176	140	25.18%	130	35.34%	501	429	16.75%
Total Direct Expense	3622	3314	9.31%	2959	22.41%	9951	8342	19.30%
Gross Profit	2298	2114	8.73%	1987	15.66%	6400	5597	14.35%
Sales & Marketing Exp	576	538	7.08%	465	23.70%	1623	1272	27.62%
Admin.& Oth Exp	585	520	12.49%	482	21.45%	1590	1350	17.79%
Doubtful Debt Prov.	5	21	-76.95%	29	-83.26%	32	29.22	11.05%
CSR Activities	23	18	28.11%	16	41.53%	59	44.56	31.33%
Total SG&A	1188	1096	8.38%	992	19.79%	3304	2695.19	22.58%
EBIDTA	1110	1017	9.12%	995	11.56%	3096	2902	6.70%
EBIDTAM	18.75%	18.75%	0 bps	20.12%	(137 bps)	18.93%	20.82%	(189 bps)
Depreciation	150	141	6.26%	127	18.64%	424	357	18.92%
Amortization	96	95	1.67%	120	-19.68%	285	355	-19.61%
EBIT	864	781	10.54%	749	15.36%	2387	2190	8.97%
Oth Income	119	111	6.33%	115	3.17%	358	333	7.54%
Exchange Gain/Loss	42	71	-40.84%	130	-67.71%	182	419	-56.46%
PBT	1024	964	6.27%	994	3.09%	2927	2942	-0.50%
Tax	250	245	1.72%	249	0.21%	763	796	-4.14%
PAT	775	718	7.82%	744	4.05%	2165	2146	0.85%

Financials

Income Statement

Year End March (INR mn)	FY12	FY13	FY14	FY15
Net Sales	10003	12945	16692	18913
<i>Growth</i>	<i>28.93%</i>	<i>29.41%</i>	<i>28.94%</i>	<i>13.31%</i>
Employee Cost	5991	7188	9090	11094
Other Optg. Exps.	1768	2631	3459	3915
Total Optg. Exps.	7759	9818	12549	15009
EBIDTA (excl OI)	2244	3127	4143	3904
<i>Growth</i>	<i>41.77%</i>	<i>39.34%</i>	<i>32.48%</i>	<i>-5.78%</i>
<i>EBITDA Margin</i>	<i>22.44%</i>	<i>24.16%</i>	<i>24.82%</i>	<i>20.64%</i>
Dep./Amortization	611	783	1026	939
EBIT	1633	2344	3117	2965
<i>EBIT Margin</i>	<i>16.33%</i>	<i>18.11%</i>	<i>18.67%</i>	<i>15.68%</i>
Interest Expense	0	0	1	3
Other Income	336	286	310	938
EBT	1969	2630	3427	3900
Tax Expenses	551	754	934	994
PAT	1418	1876	2493	2906
Adjustment to PAT	5	12	36	64
APAT	1413	1865	2457	2842
<i>Growth</i>	<i>1.76%</i>	<i>31.96%</i>	<i>31.75%</i>	<i>15.70%</i>
<i>APAT Margin</i>	<i>14.13%</i>	<i>14.40%</i>	<i>14.72%</i>	<i>15.03%</i>

Key Ratios

Year End March	FY12	FY13	FY14	FY15
Per Share Data (INR)				
Reported EPS	35.40	46.90	62.30	36.30
Adj. EPS	17.70	23.45	31.15	36.30
CEPS	25.35	33.2	43.95	48.00
DPS	3.00	4.50	6.00	10.00
BVPS	105.07	127.28	152.79	175.69
Return Ratios (%)				
RoACE	24.46	27.23	29.19	29.05
RoANW	17.86	20.19	22.25	22.12
RoIC	17.61	19.43	21.23	21.65
Liquidity Ratios (x)				
Net Debt/Equity	NA	NA	NA	NA
Interest Coverage Ratio	NA	NA	NA	NA
Current Ratio	2.32	2.22	2.02	1.89
Quick Ratio	2.35	2.07	1.9	1.83
Efficiency Ratios				
Asset Turnover Ratio	1.29	1.41	1.51	1.45
Debtor Days	74	69	66	69
Creditor Days	13	12	18	18
Valuation Ratios				
P/E (x)	9.04	11.55	16.81	19.60
P/BV (x)	1.52	2.13	3.43	4.05
P/CEPS (x)	6.32	8.15	11.91	14.81
Dividend Yield (%)	1.87	1.66	1.15	1.40
EV/Net Sales (x)	1.15	1.63	2.46	2.94
EV/EBIDTA (x)	4.45	6.19	9.20	11.48

Balance Sheet

Year End March (INR mn)	FY12	FY13	FY14	FY15
Share Capital	400	400	400	800
Reserves and Surplus	8005	9783	11823	13255
Total Networth	8405	10183	12223	14055
Unsecured	7	14	32	45
Total Debt	7	14	32	45
Deferred Tax Liability	109	87	133	263
Other Liabilities	71	639	394	118
Sources of Funds	8591	10923	12782	14481
Net Block	3197	3502	4077	4077
CWIP	528	1175	307	40
Investments	2038	3289	4895	6735
Current Assets	4068	3792	5297	6454
Current Liabilities	1730	1835	2785	3528
Net Current Assets	2339	1957	2512	2926
Deferred Tax Assets	215	277	393	576
Other Assets	274	723	597	127
Application of Funds	8591	10923	12782	14481

Cash Flow

Year End March (INR mn)	FY12	FY13	FY14	FY15
EBT	1969	2630	3427	3900
Less: Other Income/Exceptionals	(336)	(286)	(310)	(938)
Add: Depreciation	611	783	1026	939
Add: Interest paid	0	0	1	3
Direct taxes paid	(596)	(846)	(1010)	(1057)
Change in Working Capital	88	(390)	(160)	46
Cash Flow from operations (a)	2407	2463	3594	4768
Change in Fixed Assets	(1493)	(915)	(1595)	(862)
Change in CWIP	26	(647)	867	267
Change in Investments	462	(1251)	(1606)	(1841)
Cash Flow from Investing (b)	(1005)	(2813)	(2333)	(2435)
Change in Equity	0	0	0	0
Debt Raised/(Repaid)	7	8	18	13
Dividend paid	(240)	(360)	(480)	(800)
Interest paid	0	(0)	(1)	(3)
Cash Flow from Financing (c)	(234)	(353)	(463)	(790)
Net Change in Cash (a+b+c)	1169	(703)	798	1543
Opening Cash	886	1333	561	957
Closing Cash	1333	561	957	1416

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