NEUTRAL
2-May-16

PERSISTENT SYSTEMS

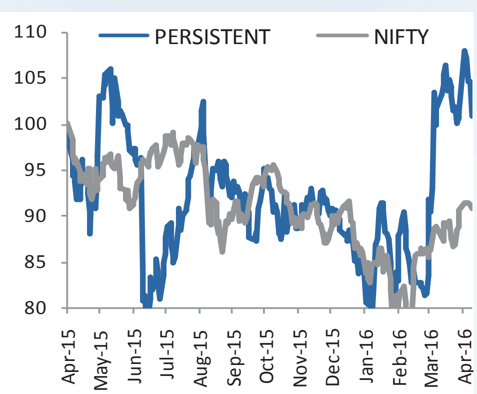
Result Update	
CMP	743
Target Price	775
Previous Target Price	-
Upside	4%
Change from Previous	-

Market Data	
BSE Code	533179
NSE Symbol	PERSISTENT
52wk Range H/L	820.80/574.90
Mkt Capital (Rs Cr)	58.61B
Av. Volume	9688
Nifty	7,855.05

Stock Performance	1Month	1Year	YTD
Absolute	19.7	-6.3	1.8
Rel.to Nifty	0.2	-12.9	-11.1

Share Holding Pattern-%	2QFY16	3QFY16	4QFY16
Promoters	38.5	38.5	38.5
Public	61.5	56.5	56.84
Others			
Total	100.0	100.0	100.0

Company Vs NIFTY



Persistent System's 4QFY16 revenues at US$100.4 mn grew by 12% (4.0% organic and 8.0% inorganic). Inorganic revenue came from early consolidation of IBM Watson IoT platform deal which contributed US$8.4mn revenue. EBITDA margin declined by 290bps to 16%. out of 290bps, 220bps was due to IBM deal and rest of the decline resulted out of hiring of trainees, S&M expenses and consultancy charges.

IBM-IoT partnership uplift revenue growth:

For 4QFY16, Persistent posted better than-expected revenue of $100.4 mn, with a growth of 12% QoQ. The strong revenue performance was driven by 57% QoQ growth in the IP-led revenues to $28.3 mn, which was primarily attributed to around $8.4 mn revenue from the recent IBM Iot partnership. The Management reiterated that IBM Iot partnership will augment around $50-55 mn(15% of FY16 revenue of $352 mn) to the company's revenue in FY17.

Margins falls, expect to recover in the next six to eight quarters:

Costs associated with the IBM deal are expected to weigh upon margins to the tune of 200bp in FY17.

See improved profitablity in IBM-IoT alliance over next few years

1) In FY17, Management said IBM Iot partnershipt augment around $50-55 mn revenue.
2) Investment in this alliance could effect the margins by 200 bps in FY17.
3) The acquisation of two product lines of Citrix was closed on Feb20, 2016. Revenue was consolidated for one month during the 4th quarter.
4)Enterprise revenue growth traction remains strong, will bounce back in the coming quarters.
5) Will do more local hirings in foreign geographies, visa cost will similar to last quarters

Outlook and Valuation

As management stated that IBM partnership will be revenue accretive and has a potential to add 15-20% revenue of FY16 to FY17. So our estimate for FY17 will be around 338 - 450 crore in FY17. However, investment in this alliance will affect tha company's operating profit margin by 200 - 250bps in FY17 . The stock price is treaded at 14.3x its FY18 EPS . We recommend Neutral viewon price target of Rs 775.

Financials	*FY13*	*FY14*	*FY15*	*FY16*	*FY17E*
Sales	*1295*	*1669*	*1891*	*2312*	*3492*
EBITDA	*313*	*414*	*390*	*414*	*538*
Net Profit	*188*	*249*	*291*	*297*	*378*
EBIDTA%	*24.2%*	*24.8%*	*20.6%*	*17.9%*	*15.4%*
P/E	*5.8*	*8.4*	*19.7*	*19.5*	*19.8*

(Source: Company/Eastwind)

4QFY16: Revenue beat led by IP growth

Persistent 4QFY16 revenues grew 12.0% QoQ to USD100.4mn. The revenue growth included ~USD8m from the IBM-Watson IoT deal and part integration of recently acquired Citrix. The contribution from the IoT deal was for a tad more than two months, and would see full-impact in 1Q.

Recent Aquisation :

Persistent Systems Limited signed an agreement to acquire assets of PRM Cloud Solutions Pty Ltd., an Australia based company engaged in SalesForce implementation services
Revenue : FY15 AUD 946 k FY14 : 875 K FY13: 873 K
Cost of acquisation :
1) payment of AUD 500 K adjustment for prepaid work and employee liabilities on completion of transaction
2) additional payment of up to AUD 280 K on the first anniversary of the completion of the transaction
Consideration : In Cash
Deal closed on 8th april,2016

Key Triggers

>> Pressure on margins
>> Expect Revenue growth in near and long term.

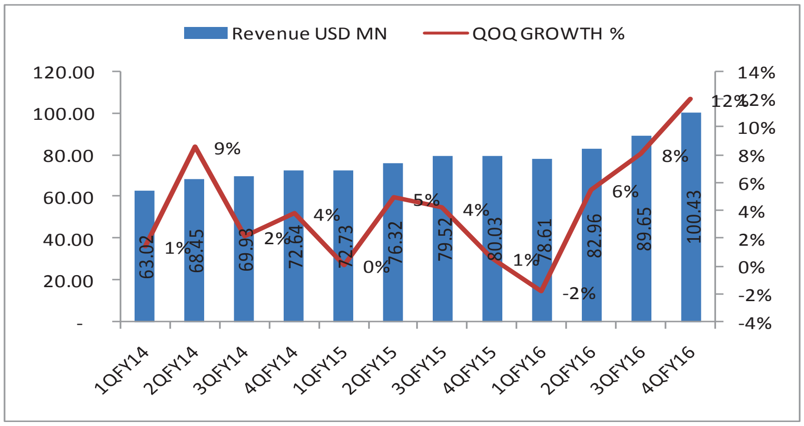
Key Risk

>> Attrition Rate
>> Continued sluggish in ISV Segment

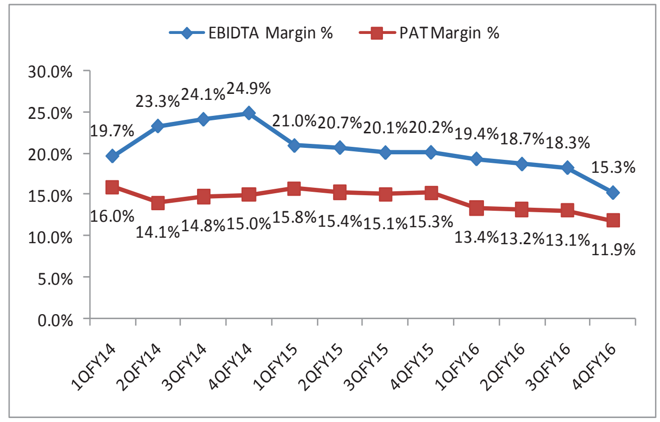
About Company

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'.

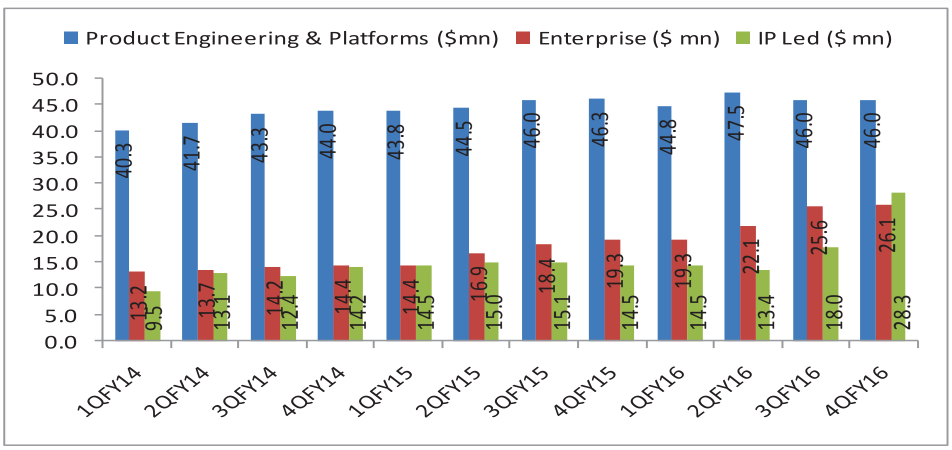
Revenue growth robust QoQ



Key Trend in Margin

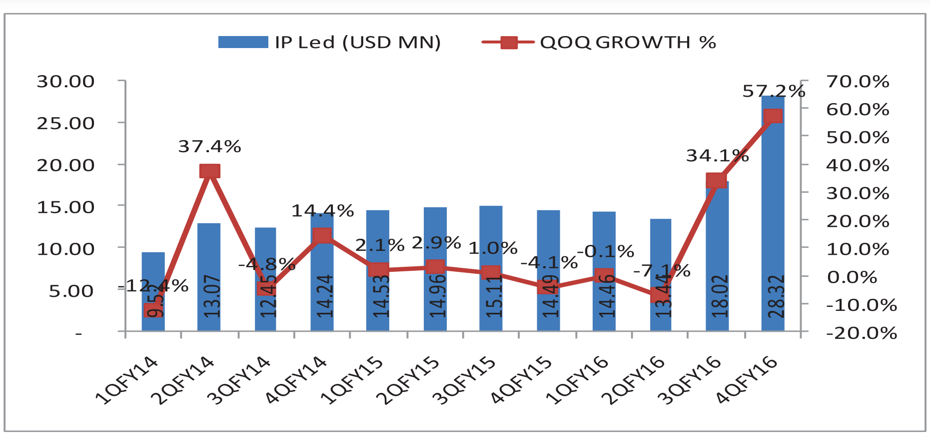


Industry Segment Classification (In $ mn)



Management seeing the challenging environment for ISV clients of the company especially the 'pre-Internet and pre-cloud' clients.

Aggressive foray in IP led revenue



IP Revenue robust due to IBM Iot deal in 4QFY16

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	1295	1669	1891	2312
Other Income	29	31	94	78
Total Revenue	1323	1700	1985	2391
COGS	0	0	0	0
GPM	100%	100%	100%	100%
Other Expenses	209	255	281	357
EBITDA	313	414	390	414
EBITDA Margin (%)	24%	25%	21%	18%
Depreciation	78	103	94	97
EBIT	234	312	296	317
Interest	0	0	0	0
PBT	263	343	390	396
Tax	75	93	99	98
Tax Rate (%)	29%	27%	25%	25%
Reported PAT	188	249	291	297
Dividend Paid	39	51	67	68
No. of Shares (In crore)	4	4	8	8

Souce: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16E
EPS	46.9	62.3	36.3	37.2
Book Value	254.6	305.6	175.7	204.9
DPS	9.9	12.9	8.3	8.5
Payout (incl. Div. Tax.)	21%	21%	23%	23%
Valuation(x)				
P/E	5.8	8.4	19.7	19.5
Price / Book Value	1.1	1.7	4.1	3.5
Dividend Yield (%)	3.63%	2.45%	1.17%	1.18%
Profitability Ratios				
RoE	18%	20%	21%	18%
RoCE	23%	25%	21%	19%
Turnover Ratios				
Asset Turnover (x)	1.0	1.1	1.1	1.1
Debtors (No. of Days)	74.1	77.7	80.8	67.5
Inventory (No. of Days)				
Creditors (No. of Days)	9.0	9.5	10.2	26.1
Net Debt/Equity (x)	0.00	0.00	0.00	0.00

Souce: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	40	40	80	80
Reserves	978	1182	1326	1559
Net Worth	1018	1222	1406	1639
Long term Debt	1	3	2	3
Short term Debt	0	0	0	0
Deferred Tax	56	30	0	0
Total Capital Employed	1020	1226	1408	1642
Net Fixed Assets	468	438	412	445
Capital WIP	117	31	4	0
Debtors	56	96	142	143
Cash & Bank Balances	35	41	42	81
Trade payables	32	43	53	165
Total Provisions	113	130	187	135
Net Current Assets	507	658	753	862
Total Assets	1267	1543	1775	2107

Souce: Eastwind/Company

	FY13	FY14	FY15	FY16E
OP/(Loss) before Tax	263	343	390	396
Depreciation	78	103	94	97
Direct Taxes Paid	60	98	100	104
Operating profit before w	323	430	439	518
CF from Op. Activity	216	281	312	371
Capital expenditure on fix	116	58	96	143
CF from Inv. Activity	171	196	232	202
Repayment of Long Term Borrowings				
Interest Paid	0	0	(0)	0
Divd Paid (incl Tax)	39	51	67	68
CF from Fin. Activity	39	50	66	68
Inc/(Dec) in Cash	6	35	14	101
Add: Opening Balance	43	50	83	142
Closing Balance	50	83	99	243

Souce: Eastwind/Company