

Q3 2011 Earnings Call - Persistent Systems

Dt- 20 Jan'11

Operator

Ladies and gentlemen, good evening and welcome to the Persistent Systems Analyst Call.

As a reminder, for the duration of the conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. [Operator Instructions]. Please note that this conference is being recorded.

We have with us on the call today, Dr. Anand Deshpande, Chairman and Managing Director, Persistent Systems. We also have with him Mr. Hari Haran, President, Persistent Systems Incorporation, joining us from the U.S., MR Rajesh Ghonasgi, Chief Finance Officer; Mr. Nitin Kulkarni, Chief Operating Officer; Mr. Hemant Pande, Chief Planning Officer; and Mr. Vivek Sadhale, Company Secretary and Legal Head.

I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you, sir.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you, Vivian and thanks a lot for all of you for joining this call.

Let me start by wishing you all a very Happy New Year.

In terms of the financial highlights, I'd like to -- before I get started, I'd like to point out that the presentation that I am using is already available on our website and can be downloaded from the Investor page on our website under December 31st results, so that's the presentation I am using.

On the financial highlights for the quarter, our revenues for the quarter that ended on December 31st was U.S. \$43.21 million, as against 33.96 million year-on-year and U.S. \$40.51 million Q-on-Q, representing a Q-on-Q growth rate of 6.7% and a Y-on-Y increase of 27.2%.

The same numbers when translated in rupees, come to Rs. 1.949 billion as against the Rs. 1.583 billion from the previous year. Again, year-on-year increase in the rupee terms is 23.1% and Q-on-Q growth in rupee terms is 4.2%.

Over a nine months period, the revenues are 123.21 million, which is YOY increase of 36.9% and revenues in rupee terms is Rs. 5,630 million, representing a YOY increase of 31.1%. The EBITDA for nine months is 1,202.19 million and PAT is 1,066 million, indicating a YOY increase of 41.5%. Again, we will discuss these numbers one more time, when Rajesh, our CFO explains the financial details.

The other highlights that I'd like to share for the quarter; one is, we appointed Dr. Dinesh Keskar, President of Boeing India as an Independent Director on our Board; Pramod Haque, who was on our Board till recently, retired.

We have launched an SEZ unit in Pune. It is operational and has just started operational -- being operational out there. We declared a dividend -- interim dividend of Rs. 2 per share and a special one-time dividend of Rs. 2 per share on the occasion of completion of 20 years of company aggregating to a total interim dividend of Rs. 4 per share for the financial year 2010-11. We did a mid-term salary raise for employees, which was announced earlier in the month and this is with effect from 1st January, 2011.

Couple of other highlights on the sales side, we had a booth and a presentation at the Dreamforce 2010 conference; it's a salesforce.com's conference. And it was a big event with more than 25,000 attendees. We also had wear on the booths of three companies at the Consumer Electronic Show in Las Vegas, which happened about three weeks back.

With this, let me hand this on to Hari Haran, who is our President and my colleague, who is calling in from California, to give us a little bit of highlights under sales side.

Hari?

Hari Haran, President

Yes. Thank you very much, Anand. Good evening, ladies and gentlemen, wish you all a very Happy New Year.

It's a pleasure to announce that Persistent Systems had an exciting third quarter. We continue to see excellent tractions and opportunities in the area of mobility, cloud computing and collaboration technologies.

In these areas, we saw a good growth, particularly we saw a good uptake in the mobility area. The proliferation of devices such as tablets, iPads, phones, different types of smartphones, has created opportunity for a number of enterprises and application providers to create and maintain several applications in various platforms, such as the Apple, the Android, the Nokia platform. And this has translated to many opportunities for Persistent. We also saw several of these come through our partners.

As we had indicated last quarter, we had started a concerted effort to work with some of our large ISD partners, as a mechanism, to increase our reach into the marketplace, and this has succeeded quite well during the quarter. We had excellent participation, as Anand indicated, in the Dreamforce conference, which was sponsored by salesforce.com, and

also the CES Conference in Las Vegas, where we had substantial amount of new generation and very good meetings with number of perspective new customers.

During the quarter, we opened about 36 new logos. Out of these, quite a few very rightly new logos, with sustaining capability for a very long time to come.

I'm also happy to announce that we opened new business in South Africa, our first business in South Africa with a very large pharmaceutical company. We opened new business in South America, in Brazil, with a large gaming company, and we opened new business in Japan with a very large automotive company. We are seeing very good tractions with our existing customers as well and that business grew quite well this quarter.

I'd like to say, looking at all the activities in the marketplace, we are seeing a good growth in the market and we are happy to announce that Persistent has been successful in capturing this growth during the third quarter. Thank you very much.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Rajesh?

Rajesh Ghonasgi, Chief Finance Officer

Yeah. Hi, Rajesh here.

You will have the consolidated income statements and the metrics, and I'll just take you through some of the numbers and ratios. Number one, of course, we talked about a dollar growth quarter-on-quarter at 6.7% and rupee growth of 4.2%.

If I take you through the financials, the functional classifications, our direct cost shows an increase of 9.8% over the last quarter. However, S&M shows a decrease of 17% and I'll explain this in a bit. And the third variation of course in our financials is other income, which is a tad lower at 7%.

To walk you through these numbers, if you recall in the last call that we had, we had talked about the fact that we had a special credit, which was a one-time credit available and that is the effect that you are seeing here. About 2.5% of the credit that we -- of the amount that we got gave us a benefit of 2.5%, that is not there this quarter, because of which our gross margins has gone down to 39.1%.

In addition to this one number, there is one more number, which has increased, which is the visa cost. Because as you all recall, in July or August, the U.S. passed a special law relating to increase in visa charges; and effective this quarter, we are seeing that effect with a higher dollar number per visa that you find.

Coming to the second number, the S&M cost, we've reduced from 9.1% to 7.2%, a reduction of 1.9%; however, let me tell you that this is on account of certain closures of bonuses, et cetera that we had done in this quarter. We had made provisions earlier in the year for certain bonuses. And once we closed that, we found that we had conservatively provided for a higher bonus, which we have reversed. So, in a very frank sense, this amount won't be visible in Q4. It will go back to around 8.5 to 8.6%, because that is the investment that we made, which is a one-time credit.

Coming to other income, there is a small -- the numbers are tagged lower, primarily because in the last quarter, we had transferred one of our properties in Navi Mumbai, which gave us a small gain, that gain isn't there this quarter and it won't be there in the future, that's the reason why there is a small drop, although our returns from our investments is on par with risk free investments at around -- net of

around 6% to 6.5% net of tax.

Coming to some other numbers, if I take you to the balance sheet. You can see our investments have grown up from around 305 crores to 328 crores. We've been generating cash. And we expect that until we use it for our CapEx, we are going to generate more cash. We've been able to get a better cash equivalent number. The cash equivalent number is

lower, primarily because we have been more efficient in terms of working capital, not the debtors part, but improving the creditors in a sense.

In addition, the other figures, hedge results, et cetera, are visible as per the current MPM on our books, so we have about 5.5 crores versus 5.85 crores. And this in sum is a picture of the changes in the P&L and balance sheet that have happened.

While I said that, I welcome your questions, because there could be more questions relating to this and we'll answer that as they come up.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you. We can take questions now.

Questions And Answers

Operator

Sure, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Sujit Parab from Enam Securities. Please go ahead.

Priya Rohira

Yeah. Hi. Good evening. This is Priya from Enam Securities. Good evening to the management team, and thanks for taking my question.

My first question relates to the trend you are seeing on the R&D spend from the independent service software vendors. Especially in your four critical areas of Enterprise, Mobility, Enterprise Collaboration and Cloud Computing, how do you see this trend in CY '11?

The second thing is more on the highlights, if you could give us on the pricing scenario, which you have seen from your clients. The third thing is of course to do with attrition, post the announcement of the salary hike, how has the attrition moved in the first few days of January, though it maybe a little short time to make a call? And the fourth question relates to an impressive increase in the business development team from 87 to 94. I just wanted to collaborate this with sequential decline, which we have seen on the selling and marketing expenses?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. So let's go through the questions. So, the first one was regarding the ISVs and specific requirements. So Hari, do you want to talk a bit about that?

Hari Haran, President

Yes, Anand. Hi Priya, how you're doing?

Priya Rohira

I'm very fine. How are you?

Hari Haran, President

Very good, very good. Thanks.

So, regarding the trends that we're seeing in the R&D spending in the area of cloud computing, mobility collaborations as well as analytics, in the order of the higher spend, we are seeing a lot of spend happening in the R&D sector and Enterprise sector, but particularly in the ISV sector and Mobility and in Cloud Computing, in that order.

We're also seeing increased spending in the other two areas, collaboration and analytics, but the highest in mobility and clouds. And as we look at our pipeline and as we look at our customer traction to sales, we definitely see through the fiscal year these tractions continuing to be strong. So that's a trend we see from a market perspective at least for the foreseeable future for these opportunities to continue to be...

Back to you Anand.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. On the pricing front that is the question you asked, actually this quarter, our pricing numbers both onsite and offshore are very good. We see more than 4% and 5% increase in our yield per person on both onsite and offshore rates. Some of it has to do with the extra work that we had to do on a couple of projects. But overall, the rates have gone up quarter-on-quarter.

In terms of the attrition numbers, yes, it is early, but actually in Q3, the attrition was lower than the Q2 attrition, even though on the trailing 12 month basis that will not be that visible, because of the way the last year's quarters looked. And that's the reason why it seems to have gone up, but actually the attrition is lower in Q3 as compared to Q2, and we expect it to be lower in Q4, both because of salary increases, and in general that it's a little lower than it used to be before.

Priya Rohira

Sure. And do you see this trend on pricing sustainable, I mean, if the projects were more from discretionary side, do you see trends obtainable in CY '11?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

See, there are two things here; one is, we are seeing that we are getting a small increment in all our projects as and when they are up for renewals. So, that doesn't happen all at the same time, but it does happen at whenever they come up for renewal, so that adds up. So that is definitely happening and we expect that to continue in CY '11. This has started to happen more in the last six months. So, another six months to nine months, we will have new contracts or our existing contracts getting renewed at higher price.

The second point is that, as we had mentioned to you earlier and to other people, we have our focus around these four areas, specifically around cloud computing, analytics, mobility and collaboration. And when we are starting to build in these areas through the expertise and partnerships that we have, the contracts that we have signed in these areas are at rates that are better than they are in general, and hence that will also help in getting better pricing benefits.

Priya Rohira

Sure. And my other question was with respect to the selling and marketing expenses declined sequentially, but a concurrent increase in the business development team. Was it more towards the back end of the quarter or was it...?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I think the -- yeah, maybe decreases partly because of provisions being adjusted between quarter-on-quarter, so that's why it looks like it has decreased. We expect sales and marketing expenses to get steady at about 8.5% and that's what they will get reflected by the end of the year.

Priya Rohira

What's the quantum of adjustment, which is being done, if you could just share?

Rajesh Ghonasgi, Chief Finance Officer

Yeah. See, we've been providing for our bonuses, for sales bonuses and sales commission based on performance expectations. Now, what's happened is in the course of the quarter, we had settled bonuses, paid of bonuses and we found that our earlier provisions were conservative. To the extent that they were conservative, we had to reverse them. That's why we announced that particular reversal is not a permanent reversal, it's a one-time reversal; it would impact us at about 1.2 to 1.3%.

Priya Rohira

Okay.

Rajesh Ghonasgi, Chief Finance Officer

So going forward, 8.5, give or take a few basis points, would be our run rate in terms of sales and marketing to revenue.

Priya Rohira

Okay, sure. Thanks very much and wish you all the best. And just a last question on the effective tax rate for FY '12, if there is any change from what we last interacted.

Hari Haran, President

No, Priya. See, right now, based on the law as it exists, we expect that the tax rate -- effective tax rate would be somewhere in the range of 30-30.5%. The final word of course will be known to us only after the budget, after the finance budget is placed before the parliament on the 20th of February; until then, I think we'll have to go with this.

Priya Rohira

Sure.

Hari Haran, President

And we'll give you an update the moment that comes out, if there is movement either way.

Priya Rohira

Sure. That's helpful.

Hari Haran, President

Thank you.

Operator

The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

Yogesh Aggarwal

Yeah. Hi, Anand. I just have one question for you. I understand there is a lot of focus on cloud and mobility in the firm. But outside these, there is a large part of your business, which is the core business focus on infrastructure, software and database et cetera.

Now, globally if I see infrastructure, software had a reasonably good year 2010 and there is so much effort going-on on the database innovation and R&D. Now, is that -- you guys are now totally not putting any focus there, and that's why that business is not growing, because somehow the volume growth is not really reflecting growth in the core business?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Well, actually, there is -- if you look at the numbers, they have stayed flat, but as a fraction, they look like they have gone down. But it's also a classification issue, lot of the work that we do in infrastructure today is in the context of the cloud and database work that we do is in the context of analytics. So, we just find it easier to use these four terms and try to focus our energy and those four areas.

And it is important for us to do that, because that's the only way or one of the ways of getting better rates and also trying to create a differentiated service. So, there is no fundamental change, in some sense. It's just a classification issue to some extent. But overall, infrastructure is a big part of what cloud is all about.

Yogesh Aggarwal

So, all the investments going on globally in the databases, are you involved in those or do you think there is an upside for Persistent in that R&D spend?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, no absolutely. And what we have been doing is, a lot of the spend in the new data areas are getting classified around big data, Hadoop and all the other things that are going on, are being classified in the analytics space, because that's a little sexier term than just database is right now.

Yogesh Aggarwal

Okay, okay. So that goes well for all the extra data, in memory, everything?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

That's correct. We have activities in all of those areas, both in memory side, large data stuff, some of the big data activities going on around Hadoop and various relationships around that area. And again, statistics, predictive analytics, text analytics, text mining, some pretty cool stuff in all of those areas. But, yeah, I mean, that's all getting classified under analytics now.

Yogesh Aggarwal

And do you think the volume growth from there will accelerate going forward? I mean, because my issue is that the investment have already been happening in 2010. So, is that it will come with some lag effect in your volume growth?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No. I think we will see the growth happening in those areas and I think growth will happen in -- the spend is continuing to happen in those areas as well.

Yogesh Aggarwal

Okay, okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I don't have any specific to export. We are very much in the sake of action right now in these areas.

Yogesh Aggarwal

Right, right. Okay, alright. Thanks gentlemen.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal

Yes. Hi. Anand, just to understand the demand side of the equation, what is the sense you're getting from clients on the spend plans for the New Year? I know last time on the call, you did mention that they are planning to spend at least the same amount, so if there are any updates there?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No. I'd say, at this time, what we have been getting is that financial calendar year '11 budgets are better than the spend that they had in calendar year '10. That assurance, we did not have at the beginning of the calendar year '10. In the sense that people planned less than calendar year '10 and ended up doing more, by the end of the year. And people in calendar year '11 are saying that they will maintain similar run rates, as what we have currently with them at this time. So that's an optimistic news.

And I think what we have observed is that if the market conditions and everything else improve as they seem to be, then towards the second half of the calendar year, people will increase their spends. But the calendar year has just started three weeks back. At this moment, people are not going to give us any indication at this time for at least one quarter at this time.

Kunal Tayal

So at least the visibility levels appear to be better?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. I mean, it looks pretty okay, it looks good. But again, they are not going to revise things at least, for one quarter at least, we wouldn't no any difference.

Kunal Tayal

Sure. And any updates on the plans to increase the contribution from IP based revenues, that was a focus area for the company, so what's...?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Correct. So, that will continue to happen. We are investing, as I mentioned to you, we have a plan of investing about roughly 5% of our resources in activities, where we are investing in certain things. There are a couple of good deals in the pipeline that we will be able to announce in the next quarter. We had a few good sales for new IP that we launched last quarter, and one of it was also displayed at the Consumer Electronic Show.

We expect some variability in terms of a quarter-on-quarter basis on royalty numbers and various other things; but buy and large on the portfolio, we expect to end the year between 8 and 8.5% of our earnings coming from IP get revenues of this kind.

Kunal Tayal

Thanks. And the last question from my side, any thoughts on campus hiring plans for next year -- a number or at least directionally if as a proportion of your total hiring, could it be a higher number this year?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Right. So, we have a plan of hiring 900 people from the fresh 2011 campus batch.

Kunal Tayal

Right. Just one last thing, have you shared the quantum of salary hikes for the quarter and that you have just announced?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

We haven't really exclusively mentioned it, but I can tell you it's about 10%.

Kunal Tayal

Right, right. Thanks. That's it from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu

Hello, good evening.

My question is regarding the four areas of group that you identified, cloud computing, mobility, et cetera. How much of the revenue currently comes from these areas?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. Roughly 40% of our revenues is from these four areas.

Abhiram Eleswarapu

Okay. And has it changed over the last two, three quarters?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

It has gone up. It was -- it started about 37, 38; it has gone to 40. We expect that number to be near 45% in the next year's numbers.

Abhiram Eleswarapu

Just a suggestion from my side would be to disclose these revenues if possible, because I mean, the whole story is given these four

growth areas, right? So, it would make easy to investors to appreciate the story if you actually disclose that?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay, good point. We'll take a note of that and perhaps on the next quarterly number or definitely at the next year's numbers, we will include this.

Abhiram Eleswarapu

Sure, thanks a lot. And the next question is regarding the rejects; now is this a usual pattern with the company to give the two pay hikes in the year or is it especially to do some...?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, it is not a pattern in the company, but we found that the market is very high buoyant and all that stuff. We have a good pipeline, there is business in the pipeline. We didn't want to have attrition effect this any further. And just very prudent to not wait for next year and take a chance for six months later, but do a interim pay hike at this time. And it was more a surprised factor that we were trying to capture, rather than anything else.

So, I think we have been able to achieve that. There was a good buzz that we were able to create internally because of that. Our normal pay hike cycle is April to April and normally the pay hikes get announced towards the end of June with effect from 1st of April.

Abhiram Eleswarapu

Right. So, would you be able to quantify the margin impact? I mean, given the right -- I remember the last call, you did give us -- to keep your margins going forward?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Right. So, you want to comment?

Rajesh Ghonasgi, Chief Finance Officer

Yeah, sure. See, on a quarter-to-quarter basis, this would impact between 2 to 2.5 percentage points. That's on a very direct stable non-moving basis. However, while this happens in Q4, going forward of course, we have growth happening, and we'll have other scale benefits coming in and other levers working. So, we'll be able to address the impact over the next two to four quarters.

Abhiram Eleswarapu

Thank you very much.

Operator

Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan

Good evening, gentlemen. Thanks for taking my question. So, we highlighted about the pricing that the pricing uptick in the current quarter is the part of that is driven by pricing negotiation and a part of that -- because of higher working days or some more work we have done for our client. So, is the current rate sustainable or in the quarter going forward, let's say, quarter four, we will see a marginal decline in the pricing?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

It'll be a marginal decline, but it will not be a huge decline. I think the on-site rate that you see, has a little bit of a factor of extra work that had to be done in the last quarters, so that might come down by a bit. The offshore number should stay there or even go up a bit.

Shashi Bhushan

Okay. And also sir about telecom vertical has shown the strongest growth when I compared with our larger peers. So, can you please give more color on the sustainability or demand in this vertical?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yes. So, Hari, maybe you can add to this question. But overall, we are seeing good growth across all the segments. And so, telecom also is growing well. I think life sciences we have seen good growth as well. So, pipeline on both those areas are looking good.

Hari, you want to add anything specific?

Hari Haran, President

Sure. Thanks Anand. So, the reason why we saw -- one of the reasons why we saw an uptick in the telecom, also is related to mobility. Because of this proliferation of devices, et cetera, there has been work coming along in terms of application development with some companies in the telecom space. And be it on the device side or the network side and that's how those numbers are reflected. And we continue to see -- we will see a correlations of -- from a market perspective, the telecom sector getting impacted in a slightly positive way with the increase in mobility work.

Shashi Bhushan

Okay. And for the current quarter, can you deconstruct the margin change, the decline we have in the current quarter, how far it's affected and -- pricing anymore?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah, Rajesh can you?

Rajesh Ghonasgi, Chief Finance Officer

Yeah. In fact, if I take you to the key financial ratios -- or Q2, I think it will be pretty clear. See, gross margin got affected negatively to the extent of 3.1%, of which 2.5% was an account of the one-time benefit we got last quarter and 0.7% was because of travel expenses, which includes data cost going up. S&M cost just was improved just sheer below 2%. And there is a very tiny change in G&A.

Now, if you look at other income, I explained that the other income was lower -- tagged lower, because we had small gain. It was about 70 lakhs in the last quarter, which isn't there in this quarter. However, the ForEx exchange gain is substantial and that substantial is primarily because the rupee was at \$45.11 on an average for the quarter against 46.16 the last quarter, so there's been a Rs. 1 appreciation and that is directly visible in the ForEx gain. And so we more or less recovered some of that loss. And that is the reason why this moment has happened. So, around 3.1% on gross margin, just sheer below 2% in S&M. And about -- in absolute terms, about doubling of ForEx income on account of the appreciation of the rupee by Rs. 1 against the dollar.

Shashi Bhushan

Sure. So, also we highlighted that the margin would get impacted because of the salary hike by around 200 to 250 basis point in the next quarter and then you highlighted some of the margin labor. So, what percentage of that cost we believe that will get -- because improving utilization and some other margin levers coming into play?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Well, going into the current quarter, we will be able to get some benefit, but it won't be very visible, because it's going to happen within this quarter. We'll be able to improve it as we go along over the next two to three quarters, we'll be able to rationalize this cost increase and spread it over a larger revenue base, plus of course using utilization and other levers. Coming in this quarter, I think there will be an impact and we won't be able to take that impact out completely in this quarter.

Shashi Bhushan

And sir, is there a likelihood that since we are having a wage hike in this January, our next recycle may not start in April and may get deferred by a quarter?

Hari Haran, President

We are still considering all of those things. But we expect at the end of the year, our financial year-end, we expect the net margin to be around 18%, 17.8 to 18%.

Shashi Bhushan

Okay, yeah. Thanks. That's all from my side.

Hari Haran, President

...what we have chartered out anyway. And some of the benefits that we are getting in rates and all that, they are getting consumed by salary hikes; that's clearly what is happening.

Shashi Bhushan

Sure, sir. Thanks sir. That's all from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you, Shashi.

Operator

Thank you. The next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta

Thanks for the opportunity. Most of my questions have been answered, but had the follow-on on the salary hike. Listening to what you said about it, was it more of a preemptive measure that you are taking and are there data points in the market that you see because of that you have done this, just wanted to understand that?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, it did not have much to do with who else was doing it. It was a preemptive measure. On the other hand, when you are recruiting in the market, when people are trying to come in from outside and you have to pay them more, you want to make that the internal people are getting comparable salaries, because otherwise when you get someone from outside at the higher salary, because that's what the market is making you do, then you have a risk of increasing attrition, because you are hiring someone at a higher salary than the existing incumbents.

So -- it was appropriate to just increase the incumbent salary to ensure that this discrepancy does not happen or does not become very

large. And by and large, our ability to retain people and also hire better -- improved because of that.

Nitin Mohta

Sure. And if I can have a follow-on on the margin outlook, your on-site mix obviously has been improving off late, if you look at the quarterly trend.

Rajesh Ghonasgi, Chief Finance Officer

Correct.

Nitin Mohta

So, taking that into account, the second salary hike that you have given, have all of that been already factored and when you're trying to give 18% net margin outlook?

Rajesh Ghonasgi, Chief Finance Officer

Yes.

Nitin Mohta

Fine. Thank you.

Operator

Thank you. The next question is from the line of Subhashini Gurumurthy from Ambit. Please go ahead.

Subhashini Gurumurthy

Hi. Thanks for taking my question. My question is firstly related to the trust client revenue decline. So, could you actually give us some color on that as to what's going on in this account?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Actually, it's a very simple thing here, and let me explain what's happening there. We have our royalty agreement, which is a part of the revenues that we get from the top client. And the royalties in this quarter were less than what they were in the previous quarters. So, that is the reason why that dip looks like a dip on the top-line account.

Subhashini Gurumurthy

Okay. And the increase, the on-site mix, otherwise, do you think that is sustainable or was it, I thought there was specific project, which we were working on due to which on-site mix was going up, but is it that the project has been extend or you are seeing more fractions on that project?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Our project will continue for some more times, so that particular activity will continue for at least another three, four quarters, so that looks pretty good on that one. Second thing I'd like to point out is that we are trying to -- we find that for some of these four areas, on which we are making the investments, such as cloud, analytics, mobility and collaboration.

We are -- it is important for us to bring in more consultant kind of deals with a U.S. on-site presence, under what we have been calling technology consulting work. And we are seeing some of those. Though in terms of numbers, they are not very large. We are increasing

some on-site presence because of that kind of activity.

Subhashini Gurumurthy

Sure. And when we, I mean, the salary hikes, which you have announced for this quarter and assuming that you would follow the normal wage hike cycle in April as well. I mean, do you feel confident that we'd be able to get back to the same margin level over the next two to three quarters, given that we will have a kind of a double whammy over the next six months?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, no, absolutely, I think we are very confident that we will be able to get to similar margins. The other thing you have to note is that by doing 10% increment that we did now, we will factor that in when we look at next quarters numbers. So again, if we had not done this, and if we were doing certain percentage, by doing this 10%, we are doing less in terms of net growth over the next quarter anyway.

Subhashini Gurumurthy

Sure, sure, sure. And in terms of offshore, basically the offshore price hikes, which we have got, I mean, what is -- out of the top 10 clients, what proportion of the clients have agreed to such rate hikes?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

It's hard for me to answer that question in terms of how many of the top 10 clients, but see, let me try to give you the following perspective. We started this activity about five to six months back of trying to go to every contract that was up for renewal to see how to get an increment on those contracts. So, halfway into the year now, we would have said half the contracts have been revised, the other half are yet to go.

Subhashini Gurumurthy

Okay. So, are these price hikes only coli adjustments or are they -- cost-of-living adjustments or are they like-to-like pricing increases?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, it's a combination of all kinds of things, net of 5% is what you can imagine, 4 to 5% net, but it's not that straight forward. We are trying to change what we are offering, trying to do some fixed price, trying to define value, but it's pricing in certain cases, and trying to see how we can get more than just a cost-of-living increment, because these coli increments on the U.S. side are actually very small.

Subhashini Gurumurthy

Right. And just one last question, if I have missed it before, what is the volume growth we saw in this quarter on an overall for the business?

Rajesh Ghonasgi, Chief Finance Officer

We are about 3.56% -- 3.6% worth of volume growth during this quarter.

Subhashini Gurumurthy

Okay, sure. Thanks. That's all from my side. Thanks a lot.

Operator

Thank you. The next question is from the line of Sagar Rastogi from Credit Suisse. Please go ahead.

Sagar Rastogi

Sir, congrats on a great quarter. All my questions have been answered. Thanks.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you, Sagar.

Operator

Thank you. The next question is from the line of Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran

Hello. Just one small question: can you just comment on the tax outlook? It seems to have gone up a little bit, so if you can just give some color on that? Thank you.

Rajesh Ghonasgi, Chief Finance Officer

If you see the tax rate, the effective tax rate for the quarter stands at 8.22% versus 7.90% the last quarter. If you see the year -- exactly a year before, it was 8.01. So it's within the range of around 8 to 9% that we've been talking about. The problem in terms of tax rate is not for this year. We are I think as optimal as we can be. Since we are an STPI company, we have some SEZ.

Going forward in next year, effective 1st of April '11 onwards, since the STPI tax holiday will be setting on the 31st of March. Our expected tax rate at that point of time based on the current tax law and the amount of profits we weighted -the profits that we generate out of SEZs and the distribution of taxable profit in the U.S. et cetera. Our expected tax rate is likely to be 30% next year. So currently, I would say 8 to 9% is a run rate and it fairly establishes how optimal we are. It's only going forward into April that there will be an increase.

Anand Bhaskaran

Okay. And just one follow-up question. What percentage of the revenues come from SEZs at the moment?

Rajesh Ghonasgi, Chief Finance Officer

See, we expect about 5 to 7% of our revenues to come from SEZ next year; right now, they are lower than that. It will be about 2 to 3 percentage points of our profits comes from SEZs.

Anand Bhaskaran

Okay, that's very helpful. Thank you.

Operator

Thank you. The next question is from the line of Ankit Agarwal from Barclays. Please go ahead.

Analyst

Yeah. Hi, sir. I had a couple of questions, just wanted to know from your new business area especially mobility and cloud computing, what is the growth that you have seen quarter-on-quarter from these two areas?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. It's on the mobility, I mean, we are seeing about total 11% growth in terms of quarter-on-quarter growth in all these four areas put together. On the mobility side, the growth has been more like 40% or so. And on the cloud computing side, it's been about 7, 8%.

Analyst

And sir, this is dollar terms?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah, dollar items.

Analyst

And sir, are we expecting this growth rates to improve for cloud, especially I mean, considering that there is so much of news in the media and there is so many analyst covering that the cloud is going to see improved growth. I mean, our growth rates quarter-on-quarter have been slightly muted in that sense. Do you see this growth figure improving going forward from clouds?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. Absolutely. We are seeing good growth in the cloud computing side. We are actually very well positioned in the cloud computing area. And as we mentioned to you, we were already demonstrating at Dreamforce, which is a salesforce.com conference and there is a lot of activity there. And we are working with all the major cloud providers at the moment. So, we are very well positioned in the cloud area, and we will see growth, which is fairly substantial that we are planning and we have good traction in all these -- on the cloud computing side.

Analyst

Okay. Sir, my second question is on the margins front again. Sorry to hop on it again, but when we see in next two to three quarters, we are going to be normalized margins. Are we saying that gross margins for FY '12 and would it be around 39%?

Rajesh Ghonasgi, Chief Finance Officer

No.

Analyst

38 to 39%?

Rajesh Ghonasgi, Chief Finance Officer

30 to 39%. I am talking for the entire 12 month period.

Analyst

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

For the next...

Rajesh Ghonasgi, Chief Finance Officer

...and to the next four quarters, we would have gained or we would have recovered it downside on account of the hikes.

Analyst

Right. Thanks. And sir lastly, on the IP revenues, I mean, our investments in IP in this particular quarter have sort of reduced as a percentage basis. I mean, is there any particular reason for this, because early in the call, it was mentioned that our focus is going to be on IT led revenues?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, I think numbers are...

[Technical Difficulty]

It's also that we had a good quarter, lot of people were required on billing projects, so that's also -- that's why it happened.

Analyst

Okay. And sir any particular reason why our DSOs have increased on 60 to 67?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. The main reason was I think by Jan 5th, that number came down to 61. And part of the reason that DSOs were higher was, because most of our customers are in the U.S. and during the last couple of weeks of December, it was very hard to get people to make the comment, payments happen.

Analyst

Okay. That's all from my end. Thank a lot for your feedback.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Mohit Jain from Alchemy Capital. Please go ahead.

Anurag Purohit

Hi. This is a Anurag here. I have question regrading this quarter's gross margin performance. If you could again break it down in terms of how much was the one-time write-back that happened in Q2 and how much was the actual fall in gross margins?

Rajesh Ghonasgi, Chief Finance Officer

Yeah, Rajesh here.

See, the variation was a negative 3.1%, and about 2.5% came from the write-back, which was their last quarter, but not there this quarter. So, the figure number one is 2.5. In addition, our travel costs were direct travel, went up by 0.7% and that 0.7% largely involves visa cost, because we have five or some visa and visa cost has gone up. So, it's one of the natural increases that happened after the change in U.S. law about five months ago.

Anurag Purohit

Okay. Sir, as we going through last quarter's transcript and last quarter we had said that the impact of actuarial variation was close to 1%. So, is it the same write-back that we are continuing in this quarter.

Rajesh Ghonasgi, Chief Finance Officer

Yes, we are. See, the figure I said, I'll give you the range of around 2% give or take a few percentage points. As it happens, this quarter it's come to 2.5.

Anurag Purohit

Okay.

Rajesh Ghonasgi, Chief Finance Officer

And there are small variations, because we get an actuarial valuation done every quarter. There are small discount rate changes. So, there is also an impact that we had a fresh valuation every quarter, so there are some times maybe about 30 to 40 basis points is always something that would happen.

Anurag Purohit

Okay, sure. And regarding FY '12, has the management decided on any particular figure on recruitment that we are looking for?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. So roughly, we are planning right now 900 fresh 2011 graduates to be recruited on campus.

Anurag Purohit

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

And so that number I can share with you. We are in active planning in terms of what our next year's financial numbers would look like. And the number of people we hire would be subject to that. But at this moment, I am not in a position to disclose the exact numbers at this time.

Anurag Purohit

Sure. And any outlook on utilization, because it still remains quite suppressed despite a good revenue growth in the quarter?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Actually I think, the utilization rates in our opinion are pretty good at the moment. I am not sure why you think...

Anurag Purohit

I was just comparing with them what they were two, three quarters back.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. I think the reason is -- okay, if you look at the last quarter, the inflation has gone up quite well. They've also added a lot of people. We have cracked up our recruitment engine, as a result of which -- and then we've got freshers, who have joined us in batches over the last two quarters and the result of which that tax free impact that is showing on the utilization. But the point is that this is more to cater for future business; that's why it adds an adjust the growth in Q3 and it'll have -- as well.

Anurag Purohit

Sure. Thanks and all the best.

Operator

Thank you. The next question is from the line of Harpreet Batra from Kim Eng Securities. Please go ahead.

Harpreet Batra

Yeah. Thanks for taking my questions. It seems there has been some EBITDA margin decline in our infrastructure systems segments. Will you be able to throw some light as to what is happening there and what can we expect going forward?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I think it's not an EBITDA margin thing. I think we have been reporting in the past, in those three categories: telecoms, infrastructure, and services, and also in terms of life sciences. The numbers on all the others have gone up and more and more of the business has been moved into cloud and analytics. So, the infrastructure and services business looks like it has flat. Beyond that there is not much that I would read into it.

Harpreet Batra

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

In fact, there is lot of the infrastructure and services work that we do, is around building databases, building cloud computing, environments and things of that kind. So, that continues to be where it is and that's the way it is.

Harpreet Batra

Okay. And a couple of book keeping questions. I wanted to understand what is our hedge position as of now?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Right. So, we have our forward cover of roughly \$18 million for our next 12 months.

Rajesh Ghonasgi, Chief Finance Officer

At an average of 47.32 rupees per dollar.

Harpreet Batra

Okay. And the Pune SEZ that we have bought, is it operational?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yes, it is operational. It is operational at the Blue Ridge. There is a setup by Paranjape Schemes or Blue Ridge, and this is Hinjewadi.

Harpreet Batra

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

And that's where it is operational, yes.

Harpreet Batra

So, how much capacity does it have?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

It has capacity of over 600 people right now. And it's a rented premise, so we can add more if we need to.

Harpreet Batra

Okay. Thank you so much. That is it from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Ritesh Mehta from SBI Cap Securities. Please go ahead.

Analyst

Taking on then on margin. We have already announced salary hike, mid-terms salary hike, 10 percentage. And we have salary cycle of April, maybe we can delay it by quarter or so. So, what will be the margin outlook for FY '12, if I see in EBITDA terms? Second question is about rent cost, it is showing some increase this quarter, any specific reason for that?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

For which one?

Analyst

Rent, rent.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Rent.

Analyst

Rent we pay for the premises and all those things?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

That is because of the SEZ and other premises that we are ending in Hyderabad, since there has been more growth in Pune, SEZ has come online, the rent has gone up.

Analyst

So, that is likely to stay at the current level?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. It will stay there, maybe go up a bit in the next quarter, depending on how much we use in the Pune SEZ.

Analyst

And last question is about the guidance, we maintain our guidance or we have any further...?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I'll share that in a minute with you. We'll get Rajesh to...

Rajesh Ghonasgi, Chief Finance Officer

Yeah. Let me give you the EBITDA answer. See, we are at around 21.9% in EBITDA terms. And this is not affected by the pay hike. As we go ahead, yeah, we will be at around 17 to 18% EBITDA, 17.5% is more like in terms of EBITDA for the next quarter. And going forward, we will slowly be able to come out of it. We expect it to be around 17.5 to 18% even in Q1. Q2, we would be able to scale up to 18 and improve as our fresher intake improves our pyramid and we improve our utilization with scale happening over the next three to four quarters.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. Now, regarding your guidance questions; the situation we have done already \$123 million in the first nine months; this quarter was \$43 million and something more. And we expect similar growth rates as we had done last year. So, with one quarter to go, we are in the 167 to 170 range at the moment. Guidance was 155 million, so clearly that is the middle off from that.

Analyst

Again on margin, because earlier, if I see last four, five years history, we used to operate at much higher EBITDA level. And going forward, maybe for a year or so phenomena is okay, but where we expect our EBITDA to stabilize for next three to five years?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Three to five years is a long-term, but we expected -- see, our objective is to retain it at current levels in terms of the forward numbers. And there are two or three factors here. One is clearly cost segment will keep going up. And that is unfortunately the way life is. Now, we have to make sure that we earn as much or more to ensure that we maintain the ratios.

To do that, we are thinking also a few ideas including how we think our IP-lead initiatives and other things that we are trying to do in terms of specializing in some of these specific areas, will allow us to get better yield per person and better utilization numbers, which will help us in retaining the margins that we have right now. So, that's the challenge that we have in general, and that's the challenge across the industry. And our focus is through creating these kind of differentiated services, we will be able to get sustained improvements in our top-line, to match the expenses that are going to go up.

Analyst

Okay. And we maintain our IP-lead revenue guidance of close to 20 in next three to five years?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yes.

Analyst

Thank you, sir.

Operator

Thank you. The next question is from the line of Karan Taurani from PINC Research. Please go ahead.

Karan Taurani

Sir, all my questions have been answered. Thank you

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain

Yeah. Good evening, everyone. My question is like, what are initial sense in terms of the kind of road shows and seminars we are attending in terms of when we see our initial initiative efforts to get monetize meaningfully. I mean, I really appreciate when we say our mobility revenue grew by 40%. I mean, that is what the differential in terms of ahead of the curve advantage we have. When we see it to applying the other three next generation agreements?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

So again, it's hard for me to give you exact numbers. Here is, on the cloud computing side, we have seen good growth in the last year. We had a very a very good show at this salesforce conference, which is a partner of ours. We have

being doing a lot of work with them.

We also launched a couple of tools that are nice utilities that help us improve our offering to our customers in the cloud computing area. Some of these things take a little bit of time in terms of how they have to be sold. And so, it's hard to say when we will see that growth, but I think quarter-on-quarter growth on all these areas, it is better than the company's growth overall and that's an important thing. And the other important thing to note is that in these four areas, we are able to demand premium on pricing, which is part of the reason why we are trying to differentiate all this anyway.

Rahul Jain

Okay. Apart from that, can we know what are the total number of visas we have?

Rajesh Ghonasgi, Chief Finance Officer

Let me find out. We'll try to get that answer to you before the call gets over.

Rahul Jain

Okay. Also if we can get the current utilization in terms of the visas as well.

Rajesh Ghonasgi, Chief Finance Officer

Okay. We'll try to get that number hopefully within the next few minutes and get you that data. Otherwise, we will just send it to you by email, Vivek has made a note of it.

Rahul Jain

Okay. Apart from that what has been the gross adds or what has been the quarterly attrition?

Rajesh Ghonasgi, Chief Finance Officer

See, the trailing 12 months attrition as we are reporting is about 21%. And that attrition again looks more than what it was in the previous quarter, but actually during the quarter the attrition this quarter was lower than what we had in the previous quarter, is Q2. In terms of gross adds, the total addition is about 179 people that were added net, net addition of 179 people.

Rahul Jain

Okay. So, we are seeing, and if we break the quarter into October, November, December, so we are seeing the trend to cool up?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yes. Let me say the following. We had highest attrition in terms of number of people leaving, was in the month of September and August and September. October was high, November, December was lower than that. So, what we saw in quarter, July, August, September was more than the attrition we had in October, November, December. But still

these numbers are still high, we would like them to be much lower, but see we have the best of people, who are in great demand. They are working in cutting edge technology. So, it is a problem that we will be vulnerable to.

Rahul Jain

Okay. And lastly, if I just look at what we guided a year back sort of thing; we are definitely going to beat the revenue guidance well ahead. And in terms of the absolute profit, we may just that you have may little over achieve it. So, the two does not fall in the line. And where do we see, we lagged in terms of the profitability, of course, the headwind in the terms of FX, apart from that where do we think we can reconcile?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. See, in general, salary hikes have been -- high attrition also has an expense to involve to it. And so essentially if you look at our employee related expenses as compared to the budget, they are higher than what we had anticipated. And overall, we want to retain at 18%, but not do too much more than that.

Rahul Jain

So, but in that sense when we see a lower headwind in terms of the possibly lower cost or maybe the lower attrition rates and higher share of next generation, IP-lead sort of revenue, we may see some tailwind coming in may be next year?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

That is correct. But I really don't expect cost to go down.

Rahul Jain

Okay. Perfect.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I expect at least for another two to three quarters. Basically next year's cycle that salary hikes are going to happen.

Rahul Jain

Right. Okay, thanks. That's it from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. [Operator Instructions]

The next question is from the line of Sandip Agarwal from Antique Stock Broking. Please go ahead.

Sandip Agarwal

Hi. Good evening. I have a question for Anand. Sir, if I see all the numbers, it looks like there are a lot of positives during the quarter, if you see the on-site billing rate, off-site billing rate or if you see the utilization levels. So, all the numbers are very encouraging, but it feels that all the hard work have just been taken away by the salary hike during the quarter, if I am not wrong. So, just one question, which I wanted ask you, do you -- it is more from a industry perspective, how do you foresee the supply situation going forward?

Do you think that there will be an end to this kind of attrition rate, which almost not only Persistent, but across industry everyone is suffering through, so do you see any end to this kind of attrition levels, and if yes, then by when we can expect it to cool down? And also a question like, what kind of fee hike you expect to give in next year, will you give another interim pay hike in next couple of quarter or a quarter? And also, how many people you have added on a gross basis during the quarter? So that's all.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. So, let me try to answer your question in parts. So, in terms of net addition, the net addition has been 179 people. Total gross addition is about 400 to 450 plus, so it's in that range. In terms of the salary hike number, actually that has not gotten factored in this quarter, it will get factored in the next quarter.

So, we'll see the impact of salary hike in the Q4 numbers, not so much in the Q3 numbers. And the other point regarding attrition and other stuff, I think we just have to learn to deal with it. I don't see that going down by a huge number. I'm sure it will go down by some. But it's an exciting market. We have people working in new areas. And when you have good people, who are working in exciting areas and everyone wants to do those kinds of things, our people are going to be in demand. And it is tricky to maintain low attrition rates. We all would love to have low attrition rates. But let's be realistic here.

Sandip Agarwal

Okay, sir, thank you. That's all from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Krishna Mahali from Key Note Capital. Please go ahead.

Krishna Mahali

Yeah. Good evening. I just wanted to know about your analytics spend. I mean, the spend that's coming to you, if you could breakdown in terms of industries, as we go from which industries are getting the analytics lease?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Okay. Let me comment a bit on this analytics side. And most of our business comes from product companies. So, most of the customers we work with are building products in this area. That having been said, let me try to distribute that into what kinds of things we are doing and what is odd in the market at the moment.

So, we have been working quite a bit on text analytics and unstructured data, so people taking up data from different kinds of unstructured text and trying to create structure and analytics on it. I cannot name the company, but we released a fairly important product for a company on the 10th of December that looks like text analytics can do sentiment analysis for very large amounts of data to find out how to do things like Twitter and Facebook feeds and how do they react to various kinds of events and activities. So, that's one kind of an area, where we are seeing a lot of action.

Another area, where we are seeing a lot of action is big data, which is typically when you have petabytes of data or several terabytes of data, there are new algorithms that have come in, which are being classified as big data algorithms, specifically around things like Hadoop and MapReduce. And we are seeing good traction in that kind of area as well of building out and implementing algorithms around that area.

And finally, the bread and butter business of reporting and such things using platform such as -- Microstrategy, business objects are ongoing things and we see several of our ISV customers deploying products using those kinds of technologies.

Krishna Mahali

Yeah, sir. Could you just tell me the kind of revenue share that analytics has right now?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

The revenue shares that analytics has in the company is roughly 10% to 11%.

Krishna Mahali

It's been growing by?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Well, it's growing little bit better than company averages, what I can say. I don't have the exact -- to give you an exact quarter-on-quarter number, but it's growing at about 6 to 7%, 8%.

Krishna Mahali

Okay, sir. I have one more question regarding your cloud services. Where exactly are you calling cloud services, I mean, on the ISV

side or if you could give me a break up of those things?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yeah. So, lot of our business again comes from the ISV side. So, if you were to name the top eight or 10 cloud providers today, we would be working with most of them at the moment and has been them build out the clouds that are being sold by them in the market. The second strategy that we have with some of them and salesforce is an example, where we are partners of that, and we go together with them to customers that want to migrate to this kind of a platform. So, we are seeing good traction on the -- side on the cloud computing area.

Krishna Mahali

Okay. And sir as far as products are concerned, do you have -- if you could tell me how much is in the provisioning and management side, the spend that you get?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

It's hard for me to give you an exact number there.

Krishna Mahali

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Maybe easier, if you can visit us, then we can of course show you what we are doing in this area.

Krishna Mahali

Okay. So right now, it's only migration and consulting, that's what you are saying?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

See, as I mentioned to you, most of our business comes from working with ISVs and building the products for them.

Krishna Mahali

Okay

Dr. Anand Deshpande, Founder, Chairman and Managing Director

So when people are selling products in the cloud, some of the big ones have being built by us.

Krishna Mahali

Okay, sir. And one more question on this tax rates, so if you get down to the SEZ levels by which year?

Rajesh Ghonasgi, Chief Finance Officer

Rajesh here. What you mean is that, in what year will we be able to reduce the tax rates?

Krishna Mahali

Yeah. It was which year do you stabilize that specification?

Rajesh Ghonasgi, Chief Finance Officer

See, actually stability will happen maybe three, four years down the line. Because number one is, we have the capacity, we have the law, the current direct tax bill, which is in the parliament. And we suggest onsite only by 2014, March 2014. But which also means that future revenues in that you need to still qualify for the statutory 15 years. We expand that in three to four years, it will stabilize somewhere around the early to mid-20s. An exact number can't be given, but simulation shows that that's what feasible based on the growth in SEZ revenues, profits on SEZ. And of course the other profits, which we'll be generating outside the SEZ.

Krishna Mahali

Yeah. Sir, thank you. And congrats for a great quarter, sir.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Neerav Dalal from Sharekhan. Please go ahead.

Neerav Dalal

Good evening, sir. I just have a book keeping question. I just want to know what was the new initiative contribution for the quarter?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

So, these four initiatives together contributed roughly 40% of our revenues.

Neerav Dalal

Okay. Because you've mentioned for FY '12 it will be 45%, that is what you had mentioned, right, earlier?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Correct. But during this quarter, they're at about 40%. As would be expected, we expect that the growth rates on these areas will be higher next year. I took the rest of the growth rates, so the proportion of these areas will grow next year. So, that's why I am suggesting that next year's numbers, we think at the end of the year 45% of our business would come from these four areas at the minimum.

Neerav Dalal

Right. Thanks a lot.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Niral Dalal from Almondz Global Securities. Please go ahead.

Niral Dalal

Yeah, thanks for taking my question. Could you comment on the European geography. I noticed that there has been -European revenues have been declining for the past couple of quarter, so some color on that?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

You are right. I think by and large, we haven't been doing a lot in Europe. We don't have a big sales team there and we have a small number of people looking at European geography. So, there is -- it's pretty flat at the moment. But on the scheme of things, we have seen good traction in the U.S. All our U.S. customers are active. So, when we have to decide on where to invest the money, it's very clear that we should put the money in the U.S. right now, because we are seeing lot of traction.

Niral Dalal

Okay.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

So, we should be doing more in Europe, but unfortunately that's where it is.

Niral Dalal

Out of the 36 new flying traditions, how many would have been from Europe this quarter?

Rajesh Ghonasgi, Chief Finance Officer

There is no new customer from Europe this quarter.

Niral Dalal

Okay. So, that segment would still remains sluggish, is it?

Rajesh Ghonasgi, Chief Finance Officer

No, I don't think the segment will remain sluggish per se, but we are focusing the investment more in North America, but we are going to put -- increase our attention in Europe. So, hopefully that activity will pick up, but I mean we are seeing -- we don't want to leave plenty of opportunities that are coming in other fields, particularly U.S. and also we're

seeing Japan.

Rajesh Ghonasgi, Chief Finance Officer

Okay, fine. Thanks.

Operator

Thank you. The next question is from the line of Jaykumar Doshi from Equirus Securities. Please go ahead.

Jaykumar Doshi

Hi. Thank you for taking my question. Hello, am I audible?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Yes, Jay, we can hear you well.

Jaykumar Doshi

Yeah. Hi. Thank you for taking my question. And now if I look at the recent news and IBM results or surveys, all points out to one thing, which is there's going to be pretty good scenario from expanding in U.S. particularly lot of products revenues that picked up lately. So, I guess, we're spending good. And again we look at our business, the presence that we have in cloud, mobility are again areas on technology side, which are attracting a lot of investment.

So, if I -- some total all of this together, it looks like FY '12 could probably be a better year or at least in terms of dollar-and-dollar revenue growth comparable to FY '11, so just want to know your thoughts. And again with respect to ISV, what is the propensity they have for liking this independent or bidding vendors like us, what is captive, what is maybe other IT services areas, so and that's some strategic perspective from...

Dr. Anand Deshpande, Founder, Chairman and Managing Director

I think Jay, the answers to both of those questions that yes, we expect the next year to be good. We are working our best to make that happen. I mean, clearly we will have to match up with the growth rates that we did this year or next year as well. So, yes, be able to give you more precise numbers in the next call. We would have those approved by the Board by that time.

Regarding your other question about do people like working with OPD companies as compared to doing their own captive stuff? The answer is they had a choice, they could do everything inside the captive, they might, but by and large there are enough businesses for which an OPD companies are better partner than doing it internally inside the captive. And we see growth across the industry where the captives are not necessarily growing as faster as some of the other companies, captives have their own set of challenges. And it's not that easy to run a captive and grow it. So, we are not that threatened by them at the moment.

Jaykumar Doshi

Sure. Thank you so much. And all the best for the next quarters.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you, Jay.

Operator

Thank you. The next question is from the line of Vishal Julka from Dalmia Securities. Please go ahead.

Analyst

Yeah. Good evening to all of you. My question was on MAT front. I heard that the company received some MAT credit benefit during the reporting quarter, so can you brief a bit on this?

Rajesh Ghonasgi, Chief Finance Officer

Rajesh here, we haven't brought anything like a MAT credit benefit. I'll just explain the way MAT gets accounted. Now, the MAT rate is higher than our tax rate, so the apparent question would be how can the effective tax rate be sub-MAT than the MAT rate. The amount that we pay is MAT, is available for credit in future years, going forward in the next year, when the tax rate goes to normal tax rate and the tax benefits on sets out. We will do to the credit. So, in that sense, the amount of MAT that we pay, sits in our balance

sheet, as advance tax, it's reflected in your deferred tax asset entry that you can see.

Analyst

Okay.

Rajesh Ghonasgi, Chief Finance Officer

As and when because it is passed, is used up, we pass it on from that amount to the tax charged accounts. So, you will see that in the future also, despite the fact that we might not have paid the tax because of the MAT credit being used, our tax rate will reflect the real effective tax rates. So, in that sense, currently our real effective tax rate is 8%. The amount of tax we pay is higher than that. And the impact of that deferral will be visible in the next few years as we use up the MAT credit.

Analyst

Okay. Thanks a lot.

Operator

Thank you. The next question is from the line of Jigar Walia from Om Group. Please go ahead.

Jigar Walia

Good evening to everyone. Sir, I had just one question, just to understand attrition from an OPD company perspective. If you can share some perspectives from exit interviews. Is there a higher possibility of exits attrition going to

competitors or even to clients?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

See, the captives are one of the big sources for our attrition. And again, mobility and some of these areas, when you have skills of people, who understand Android or the iPhone kind of stuff, they are in demand. So, I mean, it's a combination of all those things and a lot of the attrition is also focused in certain areas and specific kinds of skills.

Jigar Walia

Okay. And is it possible for you to give us a split, an approximate split between attrition and onsite and offshore it's more on onsite generally?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, no, not onsite, most of it is on the offshore.

Jigar Walia

At offshore. Okay, okay. That was it from my side.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thanks.

Operator

Thank you. The next question is from the line of Karan Taurani from PINC Research. Please go ahead.

Karan Taurani

Hi, sir. Could you just remember last quarter, we had a \$1.5 million revenue, which was to be -- which were delayed in decision making by one of the clients, which was -- come this quarter. Has it been come this quarter and is recorded?

Rajesh Ghonasgi, Chief Finance Officer

Yes. So essentially, let me explain what it was last -- when we expand \$1.5 million. So, we are one particular customer for whom we bidded certain amount of money in Q1. When you look at that number in terms of Q2 numbers, it was \$1.5 million less than what we did in Q1.

Karan Taurani

Yeah.

Rajesh Ghonasgi, Chief Finance Officer

In Q2 that number has been almost restored. And I would say, we did nearly what we did in Q1, but not quite that much. But I think overall, we are pretty much on track on that particular account.

Karan Taurani

But what is the -- in this quarter also, there was some portion to be recorded, right or...?

Dr. Anand Deshpande, Founder, Chairman and Managing Director

No, no. Instead that business was lost from last quarter, because the contract did not get awarded to us, they delayed it. And it's a TLM project.

Karan Taurani

Okay. Thanks so much.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Just came in this quarter and that customer is back to the same numbers we had in Q1.

Karan Taurani

Okay. Thanks so much.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

Thank you.

Operator

Thank you. The next question is from the line of Sandip Agarwal from Antique Stock Broking. Please go ahead.

Sandip Agarwal

Yeah. Sir, one question on the volume, what was the volume growth during the quarter? And second question, sir, since you have said that salary impact will come from next quarter, so what was the primary reasons, due to which the margins have gone down during this quarter?

Rajesh Ghonasgi, Chief Finance Officer

Yeah. See, the volume growth was 3.56% this quarter.

Sandip Agarwal

Yeah.

Rajesh Ghonasgi, Chief Finance Officer

Stripping out the improvement in rates. Now, your second question was in relation to FD pay hike was from this quarter, why did the margins go down; and I had said that, but I'll just explain it again.

Number one is, in the last quarter, Q2 of the current fiscal, we had the benefit of a credit on account of retired and gratuity valuation. Because of an increase in interest rates and reduction in discount rates, the total amount of -- total liability reduced and hence there was a differential entry, which led to a reduction in salary cost. And we had explained it in the last conference call that this was a one-time change, primarily on account of change in the external environment.

And that hasn't been defected again in this quarter. So, number one is, that's the reason that because of which our gross margin has gone down by 2.5%, plus there is another 0.7, 0.6 to 0.7% impact, which is on account of visa cost increase. This visa cost increase is on account of the change in law that happened in July or August, where the cost of visas was increase by nearly twice. So, today that's separated in direct travel cost and that is the other reason why the margins have gone down. That's about 3.1 percentage points reduction in gross margins. Of course, we've had a -- in S&M, which again is a one-time impact this quarter. And the net reduction is 1.1% at the EBIT level.

Sandip Agarwal

Also sir, like volume growth was 3.56, then what was the contribution of rate improvement?

Rajesh Ghonasgi, Chief Finance Officer

It's about 3.1%. So, if I take the two parts out and I create a rate variance against the volume variance, around 3.1% would be the rate variance, which means that the rate increased our revenue by about -- out of the 6.7% growth, 3.1% was account of rate and the balance was in account of volume.

Sandip Agarwal

And what was the currency headwind?

Rajesh Ghonasgi, Chief Finance Officer

See, the currency headwind has been about 2.4 percentage points. So, you see we had an average rupee dollar of 45.11 versus 46.16 in the earlier quarter, that's about 2.4 percentage points headwind. But we recovered a major part of it, because we also had fairly effective hedges. We got about 3.6 crores worth of ForEx gain, which overwrote this 2.4% loss.

Sandip Agarwal

Okay, thank you. Thanks a lot, sir.

Rajesh Ghonasgi, Chief Finance Officer

Thank you.

Operator

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Dr. Anand Deshpande for closing comments.

Dr. Anand Deshpande, Founder, Chairman and Managing Director

So, I'd like to thank all the participants, who joined us in the call. And by all means, if you have any further questions, please do not hesitate to send us email, and we'll do our best to give you the answers that you need. Thank you very much and wish you all a very good evening.

Operator

Okay. Thank you, Dr. Deshpande and gentlemen of the management.

Ladies and gentlemen, on behalf of Persistent Systems, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.