Persistent Systems

Analyst Call

Persistent Systems Limited - Analyst Conference Call

Q3 FY12 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Hari Haran
President, Persistent Systems, Inc.

Mr. Rajesh Ghonasgi
Chief Financial Officer

Mr. Nitin Kulkarni
Executive Director and Chief Operating Officer

Mr. Hemant Pande
Chief Planning Officer

Mr. Vivek Sadhale
Company Secretary and Head – Legal & Investor Relations

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Moderator: Ladies and gentlemen, good evening and welcome to the Persistent Systems Analyst Call. As a reminder, for the duration of this conference all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal the operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. We have with us today on the call Dr. Anand Deshpande, Chairman and Managing Director, Persistent Systems, Mr. Hari Haran, President, Persistent Systems, Inc. joining us from the US, Mr. Rajesh Ghonasgi, Chief Finance Officer, Mr. Nitin Kulkarni, Chief Operating Officer, Mr. Hemant Pande, Chief Planning Officer and Mr. Vivek Sadhale, Company Secretary Head-Legal and Investor Relations. I would like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

Anand Deshpande: Thank you Bineeta. I would like to take this opportunity, this being the first call of 2012, to wish all the investors a Happy New Year. We are pleased to announce our quarterly results and I want to quickly run you through the highlights and then I am going to hand it to Hari Haran, my colleague in the US who is the head of sales, he will give you an update from the sales side and then Rajesh will give further details on our financial numbers. Then I will share some highlights that we had shared in the investor conference that was held in December, which gives the tone for the rest of this year and the next year as well. Then of course we will open it out for questions.

So at the very highest level our revenue during the quarter was ₹ 267 Crores. This represents a Y-o-Y growth of 37.3% and a Q-o-Q growth of 12.4%. Our revenue in US dollar terms was $51.66 Million representing a Y-o-Y increase at 19.6% and a Q-o-Q growth of 0.3%.

Profit after tax was $405 Million (₹ 40.5 Crores) representing a growth of 12% Y-o-Y and Q-o-Q growth of 25.2%. For the first nine months our revenue is ₹ 729 Crores and profit after tax for the first nine months is ₹ 100.56 Crores. In addition to these financial numbers the board of directors in its meeting that concluded on January 22, 2012, declared an interim dividend of ₹ 3.50 per share for the financial year 2011-2012. To give a comparison from last year, we had declared a total dividend of ₹ 3.50 per share and an additional dividend of ₹ 2.00 per share as a special 20th year anniversary dividend, which was a total of ₹ 5.50 per share last year.

I wanted to share a few key highlights for the quarter. We have appointed Dr. Anant Jhingran, who used to be at IBM for many years and is a well-known expert in data management, as an Independent Director on the board. He is based out of California and was present in person at yesterday's meeting.

We have completed the building in Nagpur that was under construction for a while. With this the total seating capacity of that building is now 1250 people. We have been part of a very good conference with CISCO, a collaboration summit in Miami and some of the partnerships that we have signed with CISCO are looking good.

In addition to that, this was the award season and amongst the several we won this year we were ranked as Indian IT Company of the year as part of the Bloomberg UTV CXO Award, 2011 Technology Chapter. We were ranked amongst the best companies to follow good governance policies in India as rated by IR Global Ranking.

We were awarded the SAFA Award for Financial Reporting and Governance for FY 2010 and a certificate of merit in the category of Communication and Information Technology Sector for our Annual Report of 2010. The Institute of Companies Secretaries of India awarded us the Excellence in Corporate Governance Award 2011 and we also won the Institute of Chartered Accountants of India's Silver Shield Award for Excellence in Financial Reporting and the Asset Gold Award for Social Responsibility Investors Relations 2011 and was ranked amongst the top eight international companies that follow social responsibility and investor relations practices. Corporate governance has been an important part of Persistent's business and we are quite delighted that we got good recognition on these awards this year.

With this let me hand it over to Hari who will give us an overview of what's happening on the US side.

Hari Haran: Thank you very much Anand. Good evening ladies and gentleman it is a pleasure and honour to have this opportunity to chat with you regarding our fiscal Q3 and also provide market and customer updates. A very Happy New Year to you all. We saw some volatility and uncertainty in the macroeconomic environment in Q3. While the business opportunities and market vibrancy continued, some of the customer decisions were delayed. We saw a lot of opportunities in cloud, collaboration, mobility and analytics area. These are all our key focus areas and we did see a lot of opportunities in these areas. Existing and new customers are having active discussions with us around initiatives and projects around these areas.

The market is very receptive to listen to new ideas around various innovative solutions in these focused technology areas. Our pipeline and funnel of business continues to grow but customers are cautious in their spending and are outlaying their budget in measured phases. In this quarter alone we saw the addition of around 40 new customers. Out of these 7 were large multibillion-dollar enterprises. To give some colour one is in the aerospace segment, one a very large retail enterprise, a large service provider, two in the life sciences and healthcare area, a large telecom OEM and a hospitality company.

The quality and quantity of tractions with our key partners are growing. Many of the solutions around the platform of our partners are bringing a lot of value to our end customers. For example, providing solutions on big data around one of our partner's analytics platform is picking up a lot of traction of financial and insurance services segment. Another example is the solution around the collaboration platform of one of our large networking partner is being well regarded by many enterprises and is funnelling opportunities to us. More and more applications are moving to the cloud provided by a couple of our partners and our investment and frameworks to rapidly move these applications to the cloud are helping our partners and customers.

In summary, we continue to be in the forefront of technology providing innovative solutions with our partners, reducing the time to market and bringing value to our end customers. We have started investing in the marketing and sales side. We are beginning to channel more spending towards certain customer events and partner programs. We are also bringing about structural alignments in our front end to add more people to re-orient our organization in the front end to have more people that can sell solutions as well as have detailed discussions with our customers in our technology focus areas. We are confident that this will be reflected positively in our ongoing business results, of course as the environment uncertainty reduces and the market stabilizes. Once again thank you very much for listening. Anand back to you.

Anand Deshpande: Let me now request our CFO, Rajesh Ghonasgi to give details on the financials of the business.

Rajesh Ghonasgi: Good afternoon, I will just focus on some of the stand out numbers. Number one of course is the Forex, where the Rupee had depreciated considerably. The average exchange rate we had for the quarter was 51.83 versus 46.22 for the immediate prior quarter giving us a leg-up of around 12%. If I look at the closing Dollar rate, which is what affects our debtors, the closing rate on December 31 as per our accounting policy was 53.19 compared to the September quarter end Rupee rate of 48.98 per dollar. So both in the average as well as in the closing there was a substantial upside.

To take you down to the expenses, one of the biggest expenses we have is employee related expenses, salaries and other accruals on account of employee retirals, etc., the Rupee of course helped us show a lower ratio 54.2% versus 60.1% but this was not necessarily only the Rupee because we also had embarked on an operational efficiency program which also showed us results. So if I strip out the rupee impact and just look at a comparative movement from Q2 to Q3 we had a 50 basis points improvement on account of efficiency so the effect of the earlier quarter rate as a base rate and try to work out the current figures we would move from 60.1% extent to revenue to 59.6% so that is a substantial change that we were able to do and I think some of it is visible in the metrics, people numbers, utilization, etc., that we have shown.

The second ratio is sales and marketing. We have kept sales and marketing under control and in the future we are going to invest more in this area. Part of the reason why it is low is because it reflects the revenue growth and the fact that some of the provisioning that we would have made for incentives etc. has factored in the flat growth that we have shown. But this ratio of 6.3% will go up in the future and Anand will talk about this further.

We had a doubtful debt provision increase: this was made on an abundant-caution basis in case of one client where we chose to make a provision and that is the reason why the amount is higher. It is not a trend; it's just a one-off event. There is another item, shown as CSR activity; we invested in a grant to an American University, University of Indiana in Bloomington, in Life Sciences. While it is defined as a donation in accounting terms as it is a grant, this gives us the right to use the outcome of the research of that grant. So, it is actually an investment in the life sciences business.

Our depreciation is somewhat up. There are two reasons for this, during the quarter we inaugurated our Nagpur facility. There are three buildings there and the depreciation for these buildings is reflected here. In addition, some of our intangibles that we have invested in, we had acquired from earlier business. We have accelerated the depreciation period, so we are accounting depreciation over a lower period of time rather than the earlier longer period. So in effect, we have accounted for the depreciation on a faster basis than we were doing earlier and that is a conservative number and that is a part of the reason why our depreciation is up.

In terms of other-income loss, just to split up the numbers we had about ₹ 7 Crores of interest income and negative entry on account of Forex because a large part of the upside is reflected in the revenues that was about ₹ 4 Crores giving you a net of ₹ 2.8 Crores. Some of you may require these details which I can give separately.

The Effective Tax Rate came to 28.1%. It is slightly lower than last quarter but this quarter we had slightly higher SEZ revenue, while last quarter we got the lower rate primarily because we had a credit from the US. This quarter while the credit does not exist, we got slightly higher SEZ revenue and hopefully we should be able to keep it frozen at 28% versus the maximum margin tax rate of 32%.

In terms of other balance sheet items, we had about ₹ 296 Crores in investment and I will explain that because it does not come out in the balance sheet in one place. It is split in two parts. Number one is we had about ₹ 179 Crores in mutual funds and we had about ₹ 92 Crores in fixed deposits with nationalized banks. In addition we had invested around ₹ 25 Crores with NHAI - that is application money and the result comes to a total of ₹ 296 Crores. The result of the NHAI application will be known in a couple of days but all of this is in absolutely fixed income, stable, non-risk investments. In addition, we have given the balance sheet and since the Forex change has occurred there is one major input to give: if I take the reserves and surplus and split it, the MTM value of the hedges that we have is reflected in the reserves and surplus as a negative number of ₹ 49 Crores. Now this is at a point of time when the Rupee was at 53.19 to a Dollar. The current ratio figure of course has come down. It is around ₹ 30 Crores, because the Rupee has appreciated and to give you the number of hedges we are at about $104 Million from January 2012 to December 2012 in terms of outstanding hedges at an average of ₹ 49.32 over these 12 months. If I take this current quarter just about $28 Million at about ₹ 47.82 per Dollar. That is the financial breakup and I will answer questions as we go along. Back to you Anand.

Anand Deshpande: Thank you Rajesh. In addition to what Rajesh has already mentioned and the fact that we had an investor day in December, I thought I would share very quickly what we are doing on a strategic level and perhaps answer some questions as we go along. So overall we believe that the technology roadmap continues to be very robust and we are seeing good activities in some of our newer areas as Hari pointed out. In terms of strategy that we have been following, we have been following what we call a 4/4/4 business strategy in which there are four kinds of offerings that we are offering to our customers. One of them is around product engineering, the second one is around sell-with partnerships, and the third one is around technology consulting and the fourth is IP led businesses.

In terms of areas of focus we continue to focus on four new technology areas and themes, one of them is cloud computing, the second one is analytics, the third is collaboration and the fourth is enterprise mobility. In terms of verticals we continue to focus on telecom, life sciences, infrastructure, systems and banking and finance. So we find that this model allows us to pick the right choices in terms of systems, offerings, customers and verticals and allows a good positioning in the market. In terms of our growth strategy of course main business continues to be in product development and product engineering and we continue to focus on large costumers and growth on the larger accounts. We have a healthy number of more than $50 Billion companies as our customers and our objective is to see how we can increase our footprint in these accounts.

Then for specific sell-with opportunities, and some of those got mentioned by Hari as well, around big data and analytics and also in the context of collaboration we are striving to become the number one partner for some of our partners so that gives us good sell-with and other flow through business, which is an important part of our strategy. In an overall scheme of things, and the context of the product engineering business with a long-term view of our world we believe that we need to go beyond the cost side of the equation; which means the development and engineering, to be in the sell-with professional services, deployment and partnership side of the business for many of our ISV customers. So while our customer focus continues to be working closely with ISVs we are exploring ways to be relevant to them in their sales cycle in addition to their development cycle.

Finally our overall theme of looking for end of life products and products which are non-strategic to customers and exploring ways to see how we could acquire them continues to be strong. Considering the market conditions there are many discussions in process based on what we can acquire from our customers point of view. In terms of the framework of business we have a focus on product engineering services. We are partnering with our customers to sell-with partnership and the IP led revenue is starting to look useful and better and the idea there is, again, to go to customers and ask them the wide spaces that they would like us to invest in and we have a healthy mix of things that we are working on.

I would like to give a comment on the estimates because we anticipate a question there. In December we had given a guidance that our financial year number at the end would be between US $205 to US $210 Million for the topline and the bottomline number was slated to be between ₹ 125 Crores and ₹ 135 Crores, while I do not want to give any further guidance we have done $153 Million in terms of the revenue for the first nine months and the profit so far has been ₹ 100 Crores so we think we can meet the guidance that we have given. That said, overall the market conditions continue to be uncertain and while there are lots of growth opportunities in general it is hard to get very high degree of predictability on a long-term basis. So I would like to leave that with the investors in terms of our ability to predict as we go for long-term numbers, in the short term we are seeing aggressive growth as we move along.

One final comment that I wanted to make, regarding the Indiana University investment that we have made. Essentially what we are doing is we are funding two PhD students one a professor who works in cloud computing and big data and the other one in the life sciences area. It is our belief that by participating with investments in local central Mid-West Universities such as, Indiana, gives us an opportunity for real high-end research content that we can leverage for customers quite immediately, so this is in my opinion, a very good and cost effective investment that comes in as a grant on the balance sheet.

With this I am going to stop here and open it out for questions and I will give it back to Bineeta to coordinate the Q&A session. Thank you very much.

Moderator: Thank you. The first question is from the line of Mr. Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran: Just wanted to get some clarity on the IP investments you have been making because the last two quarters we have seen substantial step up in this, just wanted to understand, is it more of an opportunity wherein, because of the rupee depreciation you want to use it to expedite some of the IP investments you are making or is it more strategic and it will continue at these levels irrespective of rupee movements?

Anand Deshpande: So let me clarify on that. Our overall comfort level on IP investments is about 5% of our resources though what happens is at this time because of the large number of fresh graduates that come in typically we have higher availability of resources in general at this time, so you will find that it is most effective to leverage the extra resources that we have and reorganize the business so that we can do more aggressive investments in IP at this time, because we have a way of monetizing them in the future, so that is one. Second thing that we are planning this quarter, as the market has been rather choppy or our customers and many of our customers have been asking questions about their own future and what they are doing in their market. We have been able to get good discussions going where customers have opened up their white spaces for us, which allows us to do very specific pinpointed investment, which they may not have considered as something that they would have let us do in the past, but this opportunity is great in some sense that some customers tells us that I may not be ready to make this investment, but I think, I can sell this product, so if you build this utility for me then I have a market place for it and with extra resources that we are sitting on. That is the reason why that number was arrived at.

Anand Bhaskaran: Anand just wanted to understand if the Agilent French Business was taken in the entire numbers in the current quarters and if possible what would be that number be?

Anand Deshpande: Those numbers are fully included into system and they are already counted on. I will get you the exact number, just wait a minute.

Anand Bhaskaran: I will take that offline. Thanks a lot.

Moderator: The next question is from the line of Nitin Mohta from Macquarie Capital. Please go ahead.

Nitin Mohta: My first question was related to the employee addition. Now if I look at your sales and business development employees seem to have declined for the two successive quarters, given the environment looks so difficult, your thought process over there?

Anand Deshpande: There are two aspects of what is happening on the sales and marketing side and Hari will add to that comment. Let me share with you a little bit of what is going on. As we had stated about couple of quarters back, specifically a year back we had deliberately decided to move our business from being exclusively on the cost basis for ISVs which has been on the engineering side to move into sell-with and other partnership led business. So, some of the requirement in terms of what you need on the sales side as you go to this kind of business are very different from the one we used to have, so we are looking to add more people on the solution side, people who are more technology savvy, architects who understand what sell-with is and can give a much better position on the market for the customer. So, that is the reason why there is a little bit of reshuffle in terms of how the market, the sales and marketing team is being realigned, but there is no intention to slowdown the marketing team at all. But it is happening at a time when the market is low. Let me now hand it to Hari to add more on this particular aspect.

Hari Haran: Thanks Anand. So I wanted to kind of piggyback on what Anand said. While the head count numbers are trending down or is looking to have been reduced in the last two quarters, which is true, in reality what is happening is the type of people that we need in the front end is gradually changing as we are going into more partnership based selling, more technology consulting and more high value based selling. We are being very selective and are wanting to add people that can solve customers' problem and are very tuned into solution oriented selling and hence we are aligning the sales organization better and of course some other people that are in the sales organization are not suited to do that and hence were doing some head count adjustments. But you will see that in the coming quarter or so this number would go up, these head counts would go up and would be bringing in more people, some of them are already in the pipeline and offers are being made. So what you are seeing is more of a cusp of that change in the shift that is happening in the type of people we need and the way we are executing on that, that is the sales side. On the marketing itself the spend has gone down a bit, because it is more of timing, some of the partner events and some of the partner shows that are coming up is more in our quarter out and you will begin to see that the marketing spend and the spend towards the channel also will go up from marketing expense standpoint. So, you will see the sales and marketing expenses actually go up and because we are actively investing in it now the reduction that you are seeing is for the two reasons that I mentioned.

I want to further reiterate based on what Anand said, just a while ago plus during the December timeframe we had talked about our strategy. Our strategy fundamentally still remains the same in the sense, we want to leverage the fundamental OPD capability which is the product engineering capability because we see the potential in the market, we want to exploit and leverage the opportunities presented in the market in that area, but our go-to-market and the way we exploit and capitalize the opportunity is changing how we sell, to accelerate the execution of our strategy is changing and that is the reason why we are actively making some of the shifts in the sales force to reflect that structural alignment. Back to you Anand.

Nitin Mohta: Thanks, if I can squeeze in a second one, on the margin front obviously a very commendable job this quarter, if I can understand more clearly what part was products related as we think about fiscal 2013 margins, what kind of numbers outside of currency is something which the management team is comfortable with?

Anand Deshpande: I am going to let Rajesh answer this.

Rajesh Ghonasgi: I will deconstruct the rupee and the operational efficiency part. In just simple terms if I look at the EBIT, I am leaving the tax out because there was the change in the tax last year, so if you do whatever analysis, tax can be an additional differential.

Nitin Mohta: If you can talk about operating margins?

Rajesh Ghonasgi: So, if I take the EBITDA, we moved from 19.1% last quarter, I am just talking of sequential 19.1% to 25.9% which is the substantial 6% plus point jump and since this breaks in the rupee I just split it up to see how it will look without the rupee. If I did it without the rupee last quarter was 19% EBITDA margin, would have this quarter shown as a 19.4%. Now that 19.4% to 19% is actual, but half a percent, primarily because employee related expenses as a percentage reduced from 60.1% to 59.6%, so if I take the overall upside half a percent 50 basis point was on account of operational efficiency so balance largely is flow throughout the rupee depreciation.

Nitin Mohta: Thanks and any thoughts on fiscal 2013 margin level?

Anand Deshpande: Actually, as I mentioned to you, we cannot give you any real number at this time. Our objective is to ensure that we are definitely focused on margin and profitability as an overall theme on the company and as we have been working on our objective is to ensure that our profit before tax is in the 18 plus range. That is the equation on which we are operating.

Nitin Mohta: Thanks, that was very helpful and all the best for the coming year.

Moderator: Thank you. The next question is from Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu: Good afternoon the management team. This is Abhiram. First question was on demand. I heard Anand say earlier in the call, you being a little cautious about demand but is there anything specific we should know about your large clients. I was going through your metrics and it appears that there have been some buckets in which client contribution seems to have declined?

Anand Deshpande: No, there is nothing very fundamental that I am concerned about on the client side. All over there is a sense of people not making long-term decisions, so that is the one part that we see that continues. We have most hits on accounts ramping down in August, September but we have not seen any continuation on those during the last quarter. So in the last quarter no new real account slowdowns have happened, overall it is very hard to say anything specific about these kinds of changes. Now, when you look at the numbers on the number of accounts that are in the $2 to $5 Million there has been a small dip there, again it is hard to really say if it just this quarter or if it will catch up by the end of the year, but two of the accounts that we knew have got ramped down during the quarter and these would have contributed to that dip that you see.

Abhiram Eleswarapu: On that I was actually trying to understand more specifically apart from general macro weakness what were these specific clients telling you when they were ramping down, I am sure that might have been more specific?

Anand Deshpande: Each of them had a different reason so one of them had to do with, they being acquired by a very large company so things went frozen, and their products became less strategic and the company is too large and takes six months to figure out where we end up and what we can do with them. In another one, there was a vendor consolidation exercise and we have been working for a smaller company that was acquired by this big company and as part of the vendor consolidation exercise, our one million dollar a year business went down to zero, so that was the other big one that happened and there were couple of others where one of our customers they got acquired again and lot of these M&A kind of transactions can work both ways most of the times we are able to grow the business after an M&A transaction, but it is not always clear in some cases. Let me have Hari comment further as he might have to say from the customer side since he is closer to the customer.

Hari Haran: Thanks. So further elaborating from what Anand said, we are continuously talking with customers and we do not see fundamentally any change in terms of the overall spend itself, but what we are seeing as a change is the cautiousness. So typically a budget, of let's say a million dollar and purchase order up for a million dollar is now being changed, they want to get started and say here is $100,000 and then once that completes lets us talk about the next stage, so it is more of that cautionary nature as opposed to fundamentally saying we are not going to do this initiative or we are not going to go in that direction or any of that sort, so our large customers continue to have the vibrant discussions. In fact in terms of actually spending which is what eventually translates to the business result, we are seeing they are a little bit deliberate and we are concluding based on the discussions that are more because of the market volatility and uncertainty more than anything else. Again to give some more color on the numbers how it is tracking in some of the cases where typically in normal market condition when certain dealers ramping down, our selling process usually starts some of the project either in parallel or as one project concludes another project starts. Now in some cases what we have seen in the last two quarters is that the customers perfectly willing to start the next project but is either not starting that in the same velocity or is starting it in smaller increments and some of those have cumulated as well in causing the dynamics and the number, but fundamentally we are not seeing any change and long-term view continues to be strong because our customer has not guided us in any negative way or we are not seeing any slowdown in their thinking and initiative so on and so forth.

Abhiram Eleswarapu: Thanks Anand and Hari, I have one more question for Rajesh, as I was looking at your EBIT margin and EBITDA margin improvement Q-o-Q, actually it seems to have come in a lot better than what I would have expected it, currency obviously moved some 12% odd but I think something like 6% or 7% point difference Q-o-Q seems a lot, could you tell us if you have done a sensitivity what would 1% change in that help your margins?

Rajesh Ghonasgi: We did this constant currency just to look at that and we are leaving the numbers aside qualitatively we have taken a huge amount of operational improvement. As you recall we had acquired assets, resources in the April to September quarter and we have also immediately moved to make sure that we wouldn’t be ahead of ourselves and we controlled the numbers, you will see, the total number of people has marginally reduced which has pushed efficiency and a whole lot of other operational efficiency, so about 10% of the upside is on account of operational location, the balance is on account of dollar rupee. If I look at the dollar rupee per se, every 1% change could have as much as 60 to 65 basis point impact in margin, I am talking of pre-tax margin, but it is a substantial impact simply because we are largely an offshore based company with salary expenses in rupees while our revenue largely in dollars. It is slightly or maybe considerably higher than other IT services company. I hope that answers your question.

Abhiram Eleswarapu: It does answer my question thank you very much Rajesh and all the best to your company for future quarter.

Moderator: The next question is from Kunal Dayal from Bank of America Merrill Lynch. Please go ahead.

Kunal Dayal: Just continuing on the demand discussion Anand, anything you have picked up from the clients in terms of when this decision making could return to normalcy or any indications on the spend plans for 2012 whether there would be growth or not as such in their budgets?

Anand Deshpande: It is hard for me to give you a real number but I can tell you one thing that maybe indicative, so our largest customer is one of the better organized customers in terms of long term budget planning and this customer is also one of the largest companies in the world as well in terms of IT and technology, so we find that our budget for next year is definitely more than what they were last year, so we are seeing growth in our largest customer. In general, a lot of small to medium companies are just trying to make Q-o-Q decisions because people just feel that it is a safer strategy more than anything else. So every quarter they are looking at their numbers and making calls, that is all there is to it, and by and large nobody has really reduced anything dramatically, nobody knows what is going to happen in Greece and all these are kind of irrelevant in our market, there is a lot of news and newspapers everywhere in the world and everyone is saying I do not want to commit to something for a year let me take it a quarter at a time and that is all that is happening.

Kunal Dayal: On the people side given where your attrition rates are today do you think wage hikes at Persistent this year will be comparable to the industry or could it be higher again?

Anand Deshpande: Our plan for the next scheduled wage hike is for July 2012. Again we are in the people business so you want to pay people well and it is hard for me to give you a number, but we are factoring a wage hike in July 2012.

Kunal Dayal: By and large would you be comfortable with the current attrition rates or of course lower would help?

Anand Deshpande: Our objective would be to see that they come below 15%. That is our comfort level.

Kunal Dayal: Sure one final question, your guidance for the full year FY12 implies that mix for the revenues could be anyway from like 0% growth about 8% to 9% at the top end, so would the variants be all, because of may be let's say the seasonality in the IP business or could there be volume fluctuations as well?

Anand Deshpande: I do not know exactly how to answer your question let's wait for three months and I will give you the real details.

Kunal Dayal: Are you anticipating volume growth in other words for Q4?

Anand Deshpande: We are anticipating growth definitely, but again I do not want to say too much at this point of time. We have been wrong last quarter and so I am just being cautious.

Kunal Dayal: That was helpful. Thanks.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Basically just wanted to get a sense on is the fresher hiring plan for FY12 already completed and in that case could you give fresher addition in this quarter. Secondly any thoughts on campus hiring for FY13 and also in terms of your onsite pricing especially for the linear business we have seen a decline for a couple of quarters and it is now about five quarter low, just want to get sense is there a pricing pressure on that side and then on the IP based revenue are we still looking at closer to $20 Million plus kind of revenue over there?

Anand Deshpande: Let me go one by one, in terms of the fresher side we have made about 350 fresh offers for next year on CapEx already. That number might go up or down, will go up, it cannot go down anyway but it will go up I think depending on how the fourth quarter turns out, but at this moment we believe that there is no reason to be overly aggressive in terms of recruitment for next year because we believe that in general the market will have availability of talent in general, so we are not being as aggressive as we were this year in terms of fresher recruiter.

Hemant Pande: Just to add to the first question about pressure hiring for FY12, yes with 75 odd that you got in the third quarter I think we are pretty much done with the fresher hiring for this financial year.

Manik Taneja: I wanted to get a sense on, is there any pricing pressure on the linear business especially on onsite pricing because you have seen that decline for the past two quarters?

Hemant Pande: Yes, you would see the pressure on onsite rate, but rather than being the trend it is a combination of a few factors. One of them is the number of working days being less in the third quarter which has an impact because of the number of hourly billing and so on, so it does impact onsite rate and we did have certain projects which were completed, which gave us a higher rate and certain projects which started in Q3, which had a lower rate. So a combination of these factors has given a lower rate from onsite in this quarter, but it is not a trend that is talked about.

Manik Taneja: Last question was with regards to the IP revenues when we had initial guidance of $220 million plus we are looking at IP revenues of close to $25 million as we stand now we have done close to some $12 million in IP revenues in nine months and what is the number that you are looking at now for FY12?

Anand Deshpande: We do expect a percentage of IP revenue to go up as compared to the last quarter and also as compared to the year. I do not want to give a real exact number at this time. The IP revenue has a little bit of variability in general.

Manik Taneja: Thanks Anand.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBI Cap.

Deepesh Mehta: Most of my questions have been answered; only one question is about DSO. If I see last few quarters our debtor days have increased so your comment on that and last about CapEx what is our CapEx for FY next quarter and next year?

Rajesh Ghonasgi: Your question on the DSO, now DSO has increased to 68 and part of it was because we had one customer whose money has come in the month of January, it was supposed to come in December, so there is a small two-day increase in DSO on that account. The other thing is of course we also have invoiced a whole lot of staff, earlier it would have been counted as accrual and that has led to an increase. The total increase is about two days and our whole intent is to reduce it to 60, not increase it and this is just an accounting event where this collection happened later, so in that sense there is no trend, you see it reached between 63 and 66 over the last four quarters and we expect that it will improve as we go along, there is no structural change there. Second question was about CapEx, we have about ₹ 20 Crores planned for this quarter of which about 12 to 13 Crores is for completing our buildings which is largely Hinjewadi building for STPI unit and the rest of it is computers that we acquired the servers that we have acquired either for new joinees or for customers. Going forward into the next year, I do not want to hazard a guess, but based on the number of people that we had there is a fairly direct relationship between the number of people we had and about $1200 to $1500 per employee that is the effective weighted average cost per employee on account of machine plus software that we incur.

Anand Deshpande: The other point in that is that building completion, most of which should get spent in this quarter, so the overhang of Hinjewadi construction should complete this year.

Deepesh Mehta: Right now we added around 1250 seats in this quarter; now once Hinjewadi is completed how many more are we going to get?

Anand Deshpande: I think another 1000 to 1500 seats will come out of the Hinjewadi facility and then we have room for adding more in SEZ where we have renting space both in Hyderabad and in Blue Ridge in Pune.

Deepesh Mehta: Thanks.

Moderator: Thank you. The next question is from Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan: Good afternoon sir thanks for taking my call. Sir I just wanted to understand was there any contribution coming from our partner CISCO, Sales Force or Dassault Systems in this quarter?

Anand Deshpande: While we look for that number we have also have that Grenoble number that was asked in between, that is $1.5 Million in the last two quarters put together and this quarter's number is $1.02 Million. Last quarter that number was $0.48 Million, because there was a one-half month in the last quarter and this quarter it is about $1.5 Million so roughly we are doing about $50,000 from Grenoble every month. Now let me hand it to Hemant to answer your real question.

Hemant Pande: On the platform and sell-with business the contribution in this quarter was $2.3 Million, which is about 4.5% of the total business.

Shashi Bhushan: How is the expectation from them in FY13, maybe a ballpark number or may be in the qualitative sense?

Anand Deshpande: Quite a significant jump is expected in both these things and what we have observed in general is two things that I think we are pointing out, one is on the partnership sales for the first few months, it has taken much longer than we had anticipated but it takes a little bit of time to build up because what happens is that you get one of the sales partners to start selling your services, you see a few happy customers and more and more people start selling it, so the pipeline growth that we see which is actually a leading indicator we see the growth much better now so we see faster growth on it next year, so we had expected a much sharper rise than we really got this quarter and last quarter, but we think we have learnt from this and I think expecting a little bit of gradual ramp for the first three to four quarters is the realistic model for modeling sell-with partnerships.

Shashi Bhushan: Can you just give me a qualitative picture for this quarter pipeline compared to may be three months or six months back, has it improved or deteriorated from where it was?

Anand Deshpande: I think it has improved is what I would say. The main theme that as I pointed out to you, see over the last one year or so, we have started to move our business from just cost for these same product company, so people who have named already and some other larger customers and instead of just being providers of engineers for their software product development we are also starting to partner with them to take their products to market and that particular activity has taken much longer as I pointed out, but we are starting to see and making sure that we are their preferred partners, number one partner, premier partner and that is where this is going, we have Hari who may add a few comments here.

Hari Haran: Thanks Anand. Let me give you a couple of examples actually so that gives you a bit of a qualitative color on where this is headed. One of our partners that has a collaboration platform is seeing a lot of traction in the market for their enterprise customer, so we have been offering some innovative solution on top of their collaboration platform and while a couple of quarters ago, we may have seen a pipeline of one or two customers, by now that pipeline the number of customers that we are discussing with is getting to double digits, so these things once they start taking off they have a tendency to widely take off, but of course we have depended on our partners because it is fundamentally their platform that is being marketed and we are basically riding on the platform offering solutions on the platform. The thing that I would like to add here which is something that happened over the last two quarters, since we were working with our partner that is somewhat impactful to their topline, what this ended up doing without having to put a sales effort, is we started getting product engineering work for that platform in the subsequent months. So today we are beginning to do a lot of engineering on that platform. So the learning there was taking a 360 degree approach to that partner, that customer ended up giving us revenue in the engineering area because we were fundamentally helping their topline through the solution on their platform, so those were a couple of things I wanted to say is 360 degree and is helping in our engineering side and two how that the funnel itself is improving. Now this is one example I gave on the collaboration side.

Now on the Big Data side that initiative started about a quarter ago with this partner and right at the beginning itself we are seeing a quality of pipeline that is getting to double-digit. So these are large customers that have invested large amounts of money in their platform because when they go to the marketplace they do not go for revenue or business of anything less than $100 Million because that is their usual outlook so it is a question of just staying patient, investing ahead of time and being an expert in the platform, offering innovative solution and then as that platform picks up then you actually grow with it, but we are seeing as per the collaboration example that I gave, qualitatively the pipeline is rather increasing quite well.

Shashi Bhushan: That was very helpful. Just one more thing, as you said that in the top client IT budget the spend has increased for the next calendar year so how about the rest of the top 10 clients, how is their IT budget spend looking like?

Anand Deshpande: We do not have that much accurate information at the moment.

Shashi Bhushan: Thanks.

Moderator: Thank you. The next question is from the line of Ravindra Agarwal from Capital Markets. Please go ahead.

Ravindra Agarwal: My question is regarding telecom and Europe business, sir this quarter we have seen some softness like going ahead, how is the pipeline, how is the outlook, could you comment on the telecom business as well as Europe verticals? Thanks.

Anand Deshpande: Let me start with Europe a bit, on the Europe side, our business is relatively small as compared to the total. That dip is really less significant in some sense. It is not really that much of an indicator of anything , but telecom business as I mentioned, some of the customers who were having trouble one of the larger ones is from the telecom side, but I do expect some of the other deals that are happening at the moment will help in making sure the telecom numbers will grow up actually, but again from our point of view one customer here, one customer there can make the difference that you see but, I would not extrapolate that to a trend as well.

Moderator: Thank you. The next question is from Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra: I joined the call a bit late so spare with me if the question is repeated. I am trying to decode the volume decline partly adjusting for the one of customer losses, which is not in your control with the overall broader environment you are seeing. You have mentioned three customers who were because of M&A sort of went away, but if you adjust for that can I get a sense of what the volume growth was?

Hemant Pande: See what has happened is that with fresher's population having come in the last quarter, this quarter we have not focused much on increasing our billable head counts further and as you also notice that we have got significant upside in IP led business this time.

Anand Deshpande: If you look at last quarter to this quarter and you put the numbers together we have had a 5% to 6% uptake on the existing business on the revenue growth and almost a 5% to 7% dip on revenue growth from accounts that went down and typically in our business we see 3% to 4% dips on a normal basis that 3% to 4% went up to 6% to 7%, there were 3% to 4% extra dip that would have not happened had these customers not gone. The IP growth has also gone by a bit which is also contributing to the total number being where it is now.

Ankur Rudra: If I understood it correctly you said the 3% to 4% seasonal dip which I understand was higher but that was pronounced because of the 5% to 7% loss on other businesses that went away. So effectively, if I remove those accounts, I will ask it in a different way what percentage of your business was contributed by those customers which you could not build for this time because things matter outside?

Anand Deshpande: Let me take this question offline with you. There are some details that I have to work out and comment and because this is the last minute in the day in a sense it is past 5 o'clock so I do not want to complicate this by providing half the information. Rajesh will share with you this specific detail. We have the data and we can share the trend with you as well.

Ankur Rudra: Last quick question, as your positioning gets realigned particularly, you mentioned a lot about moving from working on development along with ISV partners towards implementation and you have highlighted how you are trying to change and readjust your sales force according to that, should we expect per capita cost go up because you need more experienced hires who can deal with these sort of solution sales?

Anand Deshpande: To some extent the answer would be yes, but the overall trend and overall objective of the company on a long term basis is to see higher yield per person on the delivery side, overall again that you have to move into is to see how we can charge more for the same number of resources, because costs are going up and if we have to charge more for the same resources we have to sell different kinds of things at a higher value addition and higher level within the organization and that is clearly going to get reflected in higher costs and sales per employee and also higher yield per person on the execution side.

Ankur Rudra: Okay fair enough thanks a lot and best of luck for the rest of the year.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Dr. Anand Deshpande for closing comments.

Anand Deshpande: I would like to thank all of you for being present on this call. If you have any further questions please send them to Rajesh or to Vivek and we will be happy to give you more detailed answers. We are going to attend a couple of investor meetings through conferences next week so we will be in Mumbai for those events and we will be happy to meet you in person if you would like to do this. With this I would like to thank you and end this call.

Moderator: Thank you. On behalf of Persistent Systems, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(Note: The transcript has been amended for ease of readability.)