Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q3 FY14 Results

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MODERATORS

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Mr. Ranga Puranik
President, Persistent Systems Inc.

Mr. Rohit Kamat
Chief Financial Officer

Mr. Mritunjay Singh
Chief Operating Officer

Mr. Vilas Kate
Chief Planning Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and Gentlemen, Good Evening and Welcome to Persistent Systems Analyst Call. As a reminder, for the duration of this conference, all participant lines are in the listen-only mode. 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 an operator by pressing '*' then '0' on your touchtone phone. 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. Ranga Puranik – President, Persistent Systems Inc. joining from US. Mr. Mritunjay Singh – Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Vilas Kate – Chief Planning Officer and Mr. Amit Atre – Company Secretary. I now hand the conference over to Dr. Anand Deshpande. Thank you and over to you Dr. Deshpande.

Dr. Anand Deshpande: Thank you very much and good evening to all of you. It is my pleasure to be on this first call from 2014.

Let me share with you very quickly some of the highlights from the last quarter's numbers, and then I will have Ranga give you a little bit of an overview of what is happening on the market side and then I will have Rohit share with you some of the details on the financial numbers, after that I will follow up with some anticipated questions that we have and some commentary on what may be missed out, and then we will take the questions.

So in terms of the financial highlights:

The revenue for the quarter was USD69.94 million, which represents a 15.1% Year-on-Year growth and Quarter-on-Quarter growth of 2.2%. What was interesting of this 2.2% growth was the growth was 3.8% Quarter-on-Quarter in the Services business, and there was a dip of 4.9% in the IP-led revenue and we will explain a little bit about this as we go along.

The revenue in rupee terms was Rs.432.75 crores; this represents Y-o-Y growth of 30% and Q-o-Q growth of 0.1%. The EBITDA was Rs.119 crores or Rs.1,197 million representing Y-o-Y growth of 45.3% and Q-o-Q growth of 6.7%. The PAT was Rs.641.98 million or Rs.64.19 crores representing Y-o-Y growth of 29.7% and Q-o-Q growth of 5.6%.

So overall our numbers actually are on track on every count. Overall for the year to date the 9-months that have happened, the US dollar revenue was $201.42 million as against $175.71 million for the corresponding period in the previous year. I will not read through all the numbers but the other important highlight that I want to mention is that the Board has declared an interim dividend of Rs.8 per share and this compares to the Rs.6 per share that was given last year for a corresponding period. Total dividend last year was Rs.9 per share which was Rs.6 of interim dividend and Rs.3 of final dividend. Currently, we have done an interim dividend of Rs.8 per share.

Few of the highlights that I want to mention one is the fact that Ranga Puranik took over as President of Persistent Systems Inc. and the Head of Global Sales and Marketing. He is on the call today and he will address you to give you an overview of what is happening on the market.

We had a very successful event that we hosted called "Inclusive Innovation Expo 2013." We had almost 100,000 visitors and this was one of the largest events for "Inclusive Innovation" that was organized in India.

Persistent Venture Fund invested in two US companies; Ustyme, a free, video-call app for IPads that creates shared experience through quality content like books, games, etc., and DxNow, a life sciences company that leverages advanced microfluidic and imaging solutions for point-of-care diagnostic solutions. Persistent Venture Fund is an early stage fund focused on supporting innovation in the SMAC stack.

We also participated in Dreamforce and other conferences, and ITAVI was a financial management company that we helped build their product SupportPay.

With this short introduction let me now hand it to Ranga who will give you a little bit of the flavour of what we see in the market and in the customers that we are working with. Let me hand it to Ranga. Ranga?

Ranga Puranik: Yeah, thanks a lot Anand. Hope everyone can hear, I am calling from Berea in Santa Clara. Good Evening, Ladies and Gentlemen. My name is Ranga. This is my first formal quarterly investor conference taking over this role in November third week that Anand mentioned. It is a pleasure and privilege to be talking to you. I hope we will continue to interact quite a bit going forward.

As Anand mentioned, we finished the Q3 just a little shy of $70 million, $69.94 million to be exact, coming on top of a very strong Q2 when we had delivered 8.6% sequential growth. We have a strong momentum in some of our key accounts, some of our key platform partnerships as well as our products business.

Coming to market outlook, as most of you know, Persistent has been a pioneer and established category leader in what came to be called the OPD segment. So the OPD segment mainly targeted the ISV industry. And Persistent developed core competence in software product development as a niche expertise. So from that base when we look forward the new disruptions and market growth that are coming from delivering new technology solutions as opposed to the traditional IT Services they are all very well placed from Persistent capability stand point. So when you look at examples the mainstream adoption of SMAC technology is actually it came to be called SMAC much after I think Anand and the team had envisioned these core to be very key to enterprise growth in the coming years, and then the platform-based solutions that we began about 2 to 3-years back, these are all aligning well with CIOs moving closer to businesses expecting much quicker turnaround solutions. So Agile Software, for example, development methodologies are becoming key to enterprise transformation where we have invested quite a bit. This is truly an inflection point that happens once in several years, and as a result we are seeing new investment and new spends around these new technologies. So Persistent is planning to position itself very firmly to support this enterprise transformation. To that extent we have refocused our business into three things. One is account-led platforms and products businesses internally. We also have classified some of our accounts as growth accounts, so we can take the entire Persistent capability mix to our customer base. We have begun the process this quarter and will formalize going forward FY-'15 starting April 1. Second our platform partnerships in Cloud, in PLM, in Big Data and Social have given us some very good new enterprise customers that some of you have known over the last few quarters, and we have begun a sales process to what is called pursue these accounts to again present and engage them beyond the platform sale. So we have seen some very promising wins including the large one in the Telecom segment, another in the Enterprise Software segment and a few others that are leveraging Persistent's OPD strength, SMAC capabilities, other technology investments, some of you probably had an opportunity to see during our 'Investor Week' in December in Gamification, in Internet of Things and Social Computing. So several technology investments that we have made that align with the OPD and SMAC that we can take to enterprise and the larger customer base.

We are setting a clear focus in our APAC and EMEA regions around account-led platforms and product business strategies. All our marketing and M&A will also be aligned to support this top level strategy. So in addition to the partners in innovation that we really have branded ourselves as we have begun a new initiative around total customer success, where the focus is to ensure the success of our customers towards their goals. So this will make us very relevant, valuable in terms of partnership as we really try to drive significant growth, it is very important for us to hold down to and build large business with our key customers. So I am very excited about our potential market opportunities to drive strong growth. So we absolutely believe with the strong business model, very talented team across all levels, very confident of executing on our growth plan. And I do look forward to many more interactions. Thank you very much. Anand and may be back to you.

Dr. Anand Deshpande: Yeah, thanks, I will get Rohit to give a quick overview of the financial details and then I will follow up with that. Ranga, please stay on line for questions as they come along. Thank you.

Rohit Kamat: Thank you, Anand, and good evening to everyone. While Anand and Ranga have explained how the quarter looks like in terms of business, it is my pleasure to walk you through the quarterly performance in terms of revenue mix, margin movement, and CAPEX and liquidity position. Of our total revenue of $69.94 million that we reported for the quarter Services contributed 82.2% while IP contributed 17.8%. The overall increase in Services revenue during the quarter was 3.8%, comprising 3.4% volume growth, and 0.4% growth in the billing rate.

Our Onsite Services revenue for the quarter increased by 1.6%, mainly due to the increase in billing rates. The Offshore Services revenue for the quarter grew by 4.6% comprising 3.8% volume growth and 0.8% growth in the billing rates.

You are aware that during the quarter rupee appreciated against the US dollar by around 2% which had an adverse impact on our margins; however, our resource utilization increased to 72.9% from 71.7% during the previous quarter which helped us to offset the currency impact and maintain our gross margin at 43.9%. The EBITDA margin expanded to 27.8% from 26% during the previous quarter due to reduction in SG&A

expenses. The various cost control measures which we had initiated and also the strong recovery processes helped us on an overall basis to reduce provision for doubtful debts and improve the EBITDA margin. The FOREX loss for the quarter was 147 million as against Rs.100 million in the preceding quarter. This mainly related to restatement of foreign currency assets at lower exchange rate as compared to the previous quarter and loss on forward contracts which matured during the quarter. Despite higher FOREX loss the PBT margin for the quarter increased by 80 basis points to 20.1% as compared to 19.3% in the previous quarter. The increase in the revenue from SEZ as well as the additional revenue booked in our Singapore subsidy which has a lower tax rate helped us to reduce our effective tax rate to 25.8% from 27.2% in the previous quarter. PAT for the quarter amounted to Rs.642 million representing an increase of 29.7% year-on-year and 5.6% quarter-on-quarter. The PAT margins strengthened to 14.9% as against 14% in the previous quarter. The EPS for the quarter amounted to Rs.16.05 recording a growth of 29.7% year-on-year and 5.6% quarter-on-quarter. CAPEX amounted to 115 million during the quarter.

Net addition to the headcount was 145. Our cash and investment in total stood at Rs.5,949 million as on December 31st as compared to Rs.5,241 million as on September 30. The forward cover as on December 31st was $82 million at an average rate of Rs.61.89. With these updates I hand it back to Anand.

Dr. Anand Deshpande: Thank you, Rohit, and thanks Ranga for your overview of the business situation. We shall open it out for questions, so please start on that.

I just want to close out on saying that we are seeing some very exciting opportunities because many of our customers, even potential customers are looking at a digital transformation story which is based on newer technologies, such as SMAC, and to make this happen we have the product development and product engineering process that fits very well with trying to make this digital transformation happen.

So we are doing very well on the Product Engineering business, the Platform Solutions business, and also on the IP side, and we will be happy to take any questions you might have in these areas.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: I want to start off with a question on the margin outlook. Anand, so far this year you are tracking at 20% EBIT. So want to understand the direction on profitability just going ahead, should one expect that as some of your recent investments in various Cloud products and other areas enter a steady state, should the margins start to drift up or would these be replaced by fresh investments and therefore we should bake in I guess a steady margin profile going ahead?

Dr. Anand Deshpande: The short answer is we would like you to maintain a steady or slightly lower margin profile than we have today, but overall there is definitely an opportunity for us to improve the margins because of the points that you made such as the fact that rates are going up, we are able to get better rates because we are selling different kinds of things; right now we are not just doing vanilla outsourcing and project development of that kind. Our utilization numbers have gone up, but there are opportunities to grow that further. You are right, the IP revenues, as they start to kick in and grow in, that will create a margin improvement and opportunity there as well. That said our overall objective is to essentially focus our investments in the areas so that we can be a serious player in this new digital transformation opportunity that we see. So while we can improve margins at least in the short term our intention is to invest them as extra margins we can make into building better capabilities on sales, and marketing at large, and also on the delivery side. So we would prefer to retain the margins around the levels that we are at, but on Q4 basis typically, we have usually better margins than the previous three quarters so you might see a little bit of that, but on a long term basis I think we do not want to increase the margins substantially even though we have levers to do it.

Kunal Tayal: Specifically could you comment on what is optimal utilization rate and S&M to sales ratio that you are looking at?

Dr. Anand Deshpande: First part is that optimal is always a difficult question to answer, right now, we are operating at about 72.9% utilization; there is an opportunity to take it to 74-75% but even better way to look at it is that we have essentially two categories as services business, there is a part of business that is relating to Product Engineering and Outsourced Product Development work which we have been classifying as the OPD business where the utilizations can be significantly higher, meaning above 80% but the Platform business where we are investing and partnering with customers that utilization will be slightly lower, so that is why the blended comes to 72-73% right now. There is opportunity to increase that but we are not very anxiously trying to increase that because I think it is time to start to hire more people and all of those. And the second question sales and marketing again we need to look at the product sales to be a different percentage as compared to the services part. So right now we are tracking at about 8% roughly. For this year I think it will stay there but next year we may increase it by a bit.

Moderator: Thank you. The next question is from the line of Nitin Jain from Ambit Capital. Please go ahead.

Nitin Jain: My first question on the decline in bad debt provisioning, it was significantly lower than the historical averages. So is there anything worth reading or it should average out?

Dr. Anand Deshpande: No, the main reason why that happened was we had one customer who has been a long standing customer of ours who was in financial difficulty and had owed us significant amount of money. They got acquired by an acquirer who also we know as well. And when that acquisition happened as part of the acquisition we were able to negotiate our payments and payment structure to go with it. So some of it got paid and some portions now have been allocated for further payment in the next two quarters. In general, our intention is to reduce bad debt and sometimes those are fairly old ones. So there is a little bit of a one-off act item here but yes that was the reason why it had happened.

Nitin Jain: Sir, second on the reasons for softness in the IP-led business besides the seasonal weakness in your largest client. What were the other reasons?

Dr. Anand Deshpande: There are no other reasons as such. As you are all aware the IP-led revenue that we have is made up of IP revenues from four or five different products; each of them have a different cycle and different customer profile. The second thing to note is that last quarter we had 38% growth in the IP-led revenue. Now, let me get little bit more specific in this context. All of you are aware that we have a product that we acquired from HP called HPCA, which is the Client Automation product. We had revenues in it during the last quarter for the first time. During this quarter that revenue grew by about 75% on that particular product. We have two products which relate to our top customer which have seasonality involved. We had a good upswing on a specific deal that happened during Q3 for them which is Q2 for us that resulted in fairly high numbers on that particular product in the last quarter's numbers. Now, this particular client, as some of you would track us are aware we get usually a much better return on it in the month of January and February, so we hope that that number should come back to be better in the Q4 for us. So overall we see better growth on the top one customers' IP, and also Radia and others should also give better numbers in Q4.

Nitin Jain: So should Q4 be better than the levels of Q2?

Dr. Anand Deshpande: That is hard to say but it is entirely possible.

Nitin Jain: And sir finally on your Products Engineering business, if I look at outside SMAC, how is the business doing?

Dr. Anand Deshpande: It is doing quite well; we had a good quarter this year on the Product Engineering side of the business also.

Nitin Jain: So can I say that it is growing at company average or below company average?

Dr. Anand Deshpande: No, it is at company average.

Nitin Jain: So both are growing at same rate, your SMAC business as well as outside SMAC?

Dr. Anand Deshpande: Let me be a little bit more specific. The Services revenue grew by 3.8% and the overall company growth was 2.2%, so about 2-2.5% was from the Product Engineering business, the rest of it came from the Platform business, and overall there was a negative number on the Products business of 4.9%.

Moderator: Thank you. The next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: My first question relates to the pipeline on IP business in terms of what traction are you seeing it, and are you marching towards your long term target of 25%? Second thing is for the traditional business, how does the outlook vary for CY14 in terms of the R&D spend for your clients? And lastly, if you could just give us an update on the three acquisitions which is Doyenz, NovaQuest and HPCA, how are we fairing over there?

Dr. Anand Deshpande: Let me sort of prep Ranga to answer the second question which was regarding market outlook in calendar '14 numbers that we are coming in, but before we get to that, let me answer your first and third question. So in your first question you asked about traction on the IP business, there are two parts to this question that I wanted to answer; one is that amongst the IP that we actually have which is as I said there are four kinds of businesses, so we have fairly a very good traction on the Radia business which is the HPCA business, and as I said earlier that grew by about 75% Q-o-Q. We have two more quarters of similar high growth percentage that we expect because this business was as we had described every quarter we are adding new customers which are from the existing pipeline that need to get on boarded one quarter at a time. So we will see some growth before we see a stability in terms of what that number looks like, so that thing is doing quite well. The NovaQuest business, this quarter was flat as compared to the previous quarter, but there are some good opportunities of converting the existing customers that we have received from NovaQuest into long-term relationships and that process is doing quite well. The rCloud business again was flat quarter-on-quarter but the new version of the product was just announced during the quarter and we are starting to see good traction on it. We have done in partnership with Dell which is starting to give us some leads and also their pipeline on some bigger deals on rCloud in the Doyenz acquisition is actually pretty good. Now, let me give you another flip in terms of the IP revenue and how to get that to go to 25%. So there are two things that we need to do to make that number happen; one is of course grow the existing IP that we have acquired, but we also need to go acquire new IPs that need to be added to the portfolio. For that again we have extremely good traction with many of our existing customers who have products that are not as strategic to them anymore, and we are in conversations with them on how we can take on those products but again a lot of these things take a long time, these products have a long history with these customers, so these do not happen very quickly and there are situations where after going through the entire process the customer might say that "Oh! We just do not want to do this right now, we will look at it a year later." which happened twice during the last 6-months. So there is some volatility on that but the discussions and the pipeline is extremely good on that. So we do expect that hopefully one or two of these discussions that we are having right now should close into IP-led revenues for the future. Let me now have Ranga comment on the calendar '14 numbers on what is happening there.

Ranga Puranik: Basically in terms of outlook and the customer spend, so you can look at it two ways. One is the macro segment especially in the US. So as Anand mentioned there is a significant investment in what is called 'Digital Transformation of the Enterprise.' So this is a combination of technologies including things like security becoming very important, so there is a lot of investment being made in terms of the spend. Now, coming to Persistent customer base, the Persistent customer base is comprised of three groups; the accounts that I mentioned, the platform customers; and the product customers. Because we have decided to go back to our established customer base of several customers who have significant business with us which is in at least a million plus kind of reach, at least most of them want to spend and invest in terms of equating themselves with the newer product features and capabilities as they go into the future. So some of the investments we have made across the company suddenly have become relevant to our account-led customer base. So I would see a pretty healthy spend from our customers both the ones that we have right now on the Product Engineering side and the relationship that we have built on the Platform side to continue to increase their spend overall, and we get to play a role in helping them go to the next level. So if you want some very specific ones whether it is, for example, the Cloud platform technologies, where companies like Salesforce are making tremendous progress on how to take enterprises from their current world to the digitally transformed world, on the Big Data side, on the Social side, people are building the communities, so company communities are becoming extremely important, so our presence in that space will help us get a part of that spend the company can begin to take themselves to the future. So I do see all the three components of our customer base spending in a healthy way going forward.

Priya Rohira: How much would SMAC be today in terms of your contribution to the consolidated top line?

Dr. Anand Deshpande: It is about half of our business.

Moderator: The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: I have a couple of questions. First about S&M cost. This quarter it appears to be lower, you partly addressed it. So I just want to get some sense because in some absolute term it is also lower QoQ. Whether there would be any exceptional item there? Second question is about tax rate. This quarter tax rate appears to be lower, partly addressed in prepared remarks, but just want to get a sense how one should look going forward in terms of effective tax rate?

Dr. Anand Deshpande: Let me have Rohit answer the tax rate question first, and then I will give you the S&M one.

Rohit Kamat: Dipesh, basically, coming to the tax rate, we have a lot of capacity available in SEZ and because of the tax restrictions we are not able to transfer the projects, so unless they are meeting certain criteria like new contracts and different technologies we are not able to move them to the SEZ. But in this specific quarter we could do a lot of new projects and also invoicing from SEZ. Secondly, our subsidiary in Singapore also was quite active in the quarter, so we could book some revenue in Singapore where the effective tax rate is lower. The tax rate is calculated on cumulative basis. So you work out for nine months and then you deduct from that what was worked out for the first six months. So, if there is slightly higher provision in the earlier quarter that gets set off. So, on an ongoing basis we can expect from 29% to move down to about 27.5-28%.

Dr. Anand Deshpande: On the sales side, there are two basic things that made the difference. One is of course the fact that when our reports are put up in rupee, because there was an exchange rate difference, in the sense that rupee appreciated, the effective percentage of sales expenses which are predominantly US-driven, automatically start to look lower in terms of percentage terms. And the second factor was – of course, Hari was there, who left, so we saved some money there.

Dipesh Mehta: On the HPCA transaction, whether it is tracking as per what we earlier anticipated in terms of how F14-F15 revenue trajectory would be? And when the contracts come for renewal, what would be our success rate – it is what we expected or how it fairs?

Dr. Anand Deshpande: If you try to track with expectations, yeah, it is nearly tracking on expectations, it has been a quarter delayed in some sense because of the start that we got and the fact that first quarter's revenues we could not book to ourselves because of the way the HP contract got set up, but from the last two quarters I think it has been tracking quite well. Yeah, you will see that eventually that will catch up. So that is how that is. Yes, there is a dropout rate. Typically, we are getting between 75%-80% of the customers who are renewing with us.

Dipesh Mehta: That 75-80% is what we built right or it is lower than what we anticipated?

Dr. Anand Deshpande: No, no, we had actually built even lower than that. Yes, we are able to get 75% of the people that we can get to. So, one of the challenges that we have had is that the exact list of customers and people is always tricky to find. This product is a very small product in HP's portfolio. That has been the challenge, but overall, it is tracking as per our model.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: A couple of questions on the Digital side. Obviously, you have always been on top of it and have been mentioning long back also that this will be the key technology going forward. One, the way Big Data is exploding. Do you think that clients' architecture is currently in a position to face this change or clients will have to also spend large money on the architecture side? Secondly, how much of this will continue to be in a small deal? And for how long you see that? And thirdly, right now like say it is confined to the retail and consumer front ending company. Where do you see it percolating to the other verticals like BFSI, Manufacturing, Utilities, or do you not see that happening?

Dr. Anand Deshpande: You have asked lots of questions; let me try to give you a very quick summary of some of these things. The way we look at this whole Big Data is we call this as a 'DataStack 3.0' So we believe that there is 'DataStack 1.0 which is the system of record of transaction processes systems. DataStack 2.0 is a second DataStack which is a data warehousing DataStack and the big DataStack is the third stack which is meant for unstructured queries – unstructured, in the sense not just in terms of the structure of data, but the structure of the system itself. This is what we call as a DataStack 3.0. Yes, before you can start to really answer good questions in the context of Big Data and do Analytics against if you really need to build the Infrastructure so that you can create the infrastructure necessary with data loaded so that you can ask these kinds of questions. So you are right, meaning people have to get the architecture ready before they can really start to answer questions using Big Data. And that is an opportunity for us, but that makes it slower as well because people have to make the budgets to make that happen, but we expect in 2014 & 2015 that numbers will start to improve. So this is basically what is happening in the market regarding digital transformation and we are seeing quite a few interest and many proof-of-concepts that we have built and we have some customers where we have started to do this activity.

Sandeep Agarwal: Second question was largely on whether you are seeing it only in Retail vertical, right now let us say on the consumer front ending and Retail side, but do you see it percolating in other verticals and…?

Dr. Anand Deshpande: Absolutely, it will go into all verticals. Actually, this is not just vertical-specific, it is a fairly horizontal set of things and everybody who wants to have better data and analytics for answering that question.

Sandeep Agarwal: And sir, last one was that whether the size will increase or do you see the sizes to remain small because of quick execution and quick deliverable?

Dr. Anand Deshpande: No, the project sizes will increase but they will not be in hundreds of millions or whatever, but they will be smaller deals as compared to comparable ERPD, but they will go up and they will continue to be continuous, in the sense that people will want short deliverable cycle and quick response to projects, but relationships can continue for a long period of time.

Moderator: Thank you. The next question is from the line of Aishwarya K from Spark Capital. Please go ahead.

Aishwarya K: After quite a period of softness we have seen in the Life Sciences business last two quarters, we have seen good jump, just wanted to get your thoughts as to what is driving there, something more sustainable or would you want to wait out for a couple of more quarters before taking a call whether this is sustainable?

Dr. Anand Deshpande: So we have few key customers who are our larger customers, in that sense who have decided to go on this path of digital transformation and they are trying to define their new next generation products and architecture and that is helping us grow the Life Sciences business, so this should be sustainable.

Aishwarya K: My next question is on the platform. Just wanted to understand typical sales cycle and engagement time period or contract value you see a good…?

Dr. Anand Deshpande: Let me have Ranga comment on this but overall the platform piece is the piece that is included when we do partnerships with customers such as Salesforce, Oracle and others.

Ranga Puranik: So the way this works is because our investments have been practically in the forward-looking part of this technology stuff. So if Salesforce and Persistent have to go to a customer, there are two or three steps involved. One, to make sure that the customer really wants to adopt a solution that really moves some of their products or applications to a cloud platform. Two, Salesforce for example has the platform that they want to build on. And Persistent works very closely during the phase and sometimes it is a paid proof-of-concepts and sometimes it is an investment from us. But once we do that the next step happens where the platform license deal goes to Salesforce but then the actual development implementation comes to us, even there it is a Phase-I. If it is successful then some of the customers who want to go on for a much longer period of time. As Anand mentioned it becomes a continuous relationship of several things moving into that platform over a period of time. And that is happening in Big Data. I think the earlier question on Big Data as well, we have done probably 60-70 proof-of-concepts in a very recent period and some of these are in the experimental stage from a customer standpoint and some of them will go into a production phase as we go forward in again incremental stages and on Mobility we are doing the same thing, on Social we are doing the same thing. What we have done is we have established these partnerships very closely with select companies and are trying to play in the forward-looking implementation of some of these platforms. Cycle, if you ask could be 2-3-4 months depending on the decisions jointly made by customers as well as us.

Dr. Anand Deshpande: We had also suggested that we will take some questions from Twtiter. So let me just ask a few other questions we got from Twitter and let me have Rohit answer the first one. Why FOREX loss is high as compared to previous quarter?

Rohit Kamat: On FOREX fund, basically there are two things which have contributed to loss. One is we have to restate all our foreign currency balances at a closing rate and take the difference to the P&L account as a loss. So because 31st December rate was lower than 30th September rate, the loss on restatement of current assets, basically bank balances and receivables was taken to P&L. Secondly, we had forward covers worth around 30 million which matured during this quarter and those were taken about a year back between 58 and 59. So on that there was a loss which were of around 12 crores which was also booked under FOREX loss. So these were the two major heads.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.

Vimal Gohil: I just wanted Mr. Ranga to just reiterate his three key initiatives that he spoke about and just give us some more detail and what is happening out there and how you are cross-selling your solutions to the enterprises and then I have a data point to follow.

Ranga Puranik: So as I think mentioned briefly in my opening remarks, this is really a go-to-market view of how exactly we are trying to go to the market. There are three things are account-led, where we have classified some accounts as named are growth or strategic for us and then we go ahead and then continue to work with them on what they are but then also as you said cross-sell what we have done on the platforms and products. The second one is platforms which is more a partnership-based platform-led kind of an initiative where the focus is on a point solution. So it is not really taking everything that we have but the very point solution that the customer wants to solve. Product, as you can imagine, is just most of the times for license sale to start with where a customer wants to buy a license to really use that within the enterprise. So, as you can imagine, we have the opportunity to now have a much larger customer base because of the three initiatives, and convert all of them or at least most of them into this account-led where Persistent has a much broader capability than just the point solution that we were able to sell in the Platform and Products area. So we have been very systematically picking up some accounts, and then spending time with them on taking our broader, deeper picture into the mix, and that is the success that we have seen in the last couple of quarters that we want to build on going forward.

Vimal Gohil: And most of these accounts that you are talking about are enterprise clients, right?

Ranga Puranik: Most of them are enterprise clients, yes.

Vimal Gohil: Anything to read into the 39% sequential growth in Europe this quarter?

Dr. Anand Deshpande: No, I would not read too much into it. There is one new account that it is a small base. So these percentages can be misleading.

Moderator: Thank you. The next question is from the line of Shivam Gupta of Equirus Securities. Please go ahead.

Shivam Gupta: The first one is regarding this matrices that we on the onsite person month. So in this quarter we have an increase in the billable person month but the billed has remained flat. Could you help me reconcile that a bit?

Rohit Kamat: Actual per month billed effort remained flat because there was a loss of some percentage in terms of vacations.

Shivam Gupta: And the second question was that we in this quarter have seen some good improvement on our working capital cycle because of some rise in your current other liabilities. Is there anything structural that improved, or there is a one-off thing there?

Rohit Kamat: No, it is actually more of accounting thing. You are aware that we have this minimum committed liability to HP for the acquisition which we made. It is payable over three years. So part of it has moved from long-term to current liability.

Shivam Gupta: Basically I need some clarification; Mr. Deshpande remarked that Q4 for IP business could be like as good in Q2 in terms of growth, am I correct in interpreting that?

Dr. Anand Deshpande: I would not say in terms of percentage growth, because we had 38% growth in terms of Q2 numbers. What I was suggesting to you is that absolute number that we had for Q2 we expect in Q4 should be comparable.

Shivam Gupta: And lastly, just one data point I had was that since you have capacity available in SEZ, so how does your hiring plans and CAPEX look forward for the next year?

Rohit Kamat: Not just in SEZ, but even in other development center, there is a capacity available. So, the hiring rather actually will be based on the quarterly revenue forecast. But capacities are available at both the places. So if it is possible to move projects to SEZ we will do that first and then people will also be added to STPI, it is more related to how the revenues pan up.

Dr. Anand Deshpande: Essentially, what is happening in the SEZ context is more to do with ability to find new customers who are able to start new projects so that they can start keenly in SEZ. So that is the reason why we cannot move everything to SEZ, not to do with capacity, it is to do with making sure that these are new businesses rather than existing one. Mritunjay, can you comment a bit on the hiring plan for next year please?

Mritunjay Singh: I think next year we are looking at roughly adding around 2,000 people, this includes freshers as well as laterals. Last quarter we have added around 373 gross. So I think we are on track, we see that the trend continues. As Rohit said, we have enough space available. So that is not a problem and we will be able to manage our CAPEX expense within that.

Moderator: Thank you. The next question is from the line of Abdul Karim from Narnolia Securities Limited. Please go ahead.

Abdul Karim: Sir, could you highlight on volume growth of onsite and offshore project, and how do you see the volume growth in next two quarters?

Rohit Kamat: Talking about this quarter the offshore volumes grew @3.8% and onsite as I explained was relatively flat in terms of volume growth basically due to the vacations.

Dr. Anand Deshpande: Trying to avoid giving you projections for the next two quarters. So if we give you volume growth that would be the same as giving you guidance in some sense. But overall, if you look at our last few years numbers and you look at the growth that we have had in a quarter-on-quarter basis matching on Q4-to-Q4, Q3-to-Q3 you will find similar growth or even better growth this year is what I would leave you with.

Abdul Karim: Recently, Persistent Systems has entered partnership with Dell to provide Integrated Cloud-based Instant Disaster Recovery. How do you see it progress in next couple of quarters? And as part of this any progress from partnership with SysCare regarding order inflow and plan for future growth?

Dr. Anand Deshpande: AppAssure product allows us to do backup and recovery using the Dell product and we can sell through the Dell partner ecosystem. The deal was signed very recently. So, it is very early to say what the impact would be, but we are counting on this to be a big channel for the rCloud product. SysCare is a small one actually….

Moderator: Thank you. The next question is from the line of Yuti Dalal, an Individual investor. Please go ahead.

Yuti Dalal: My questions more on your long-term view and also in reference to a comment you made on an interview today saying that you are looking to take IP-led revenues to about 25% in the next year or two. Keeping that in mind what is your long-term view on our non-IP-led revenue? And with regards to technology changes that are happening, how is that likely to impact those revenues?

Dr. Anand Deshpande: When you look at percentages it becomes very confusing, but overall what we are saying here is that we see a lot of opportunity in growing the IP-led business, and that is something we are going to continue to focus on. And we anticipate that it is possible to grow the IP-led business faster than we grow the other business. That does not say we are not growing the other business…

Yuti Dalal: But having said that what are the challenges you are facing in the other business?

Dr. Anand Deshpande: Let me be a little bit more explicit about the challenges we are facing. Overall, in terms of our business on the Services side, there are two or three challenges. The first challenge is in general, when you build in this new technology world, which is Cloud and with the new platform stuff, it just requires less people to do the same work. So essentially work quantum is going to shrink because of this new changes in technology landscape. So overall, we have to ensure that as the business shrinks we have to make other the business happen to cover it. Thankfully, there is enough of that going around. The second part of the problem that we have to address is that as we are selling some of these platform solutions we are entering a big growth opportunity and big market but each of these things essentially requires us to sell. So when you do this sort of new kind of business where we are selling to a different kind of profile of customers, these are not typical Product Engineering customers, these are the customers of Enterprises and all of these things. Our ability to sell to them meaningfully and engage with them at the right level is one of the challenges. And not that we cannot do it, it is just that we have not done it before. So there is that unknown factor here. So as long as we are able to address that part of the problem, I think we should see tremendous growth opportunity in the sort of services part of the business.

Yuti Dalal: But does this imply also that there is going to be a shift in the type of business and type of work also when you have clients changing, with technologies changing, with also the talks of a lot of robotics coming into play, which is going to replace people, how does that impact all this as well?

Dr. Anand Deshpande: It is a very detailed question; let me not give you a big answer here at this time, but overall, I must say that there are opportunities that are very exciting; Some of these opportunity in working with enterprises to help them with their digital transformation are exciting and we really think we are very well positioned to go after that and we want to go after that. So we will see a little bit of a change in the profile of our customers as we look forward, but I think it is all for the good.

Yuti Dalal: Okay, I will take it up in detail offline, thanks.

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

Rahul Jain: If you could firstly tell me about the OPD space, how you are seeing the demand there, you did shared a bit more but about how the start up kind of funding proposition is happening in the valley and how you see other factors benefiting us on that side of the business?

Dr. Anand Deshpande: Overall, the opportunities are definitely there. Start up funding is happening in a big way. We are seeing a lot of such deals. It is just that we are seeing a lot more deals in the larger companies in the Enterprise space which seem pretty exciting at the moment in these new areas. So we have a problem of plenty in some sense. There are many different kinds of opportunities and we are trying to stay focused and prioritize some of these. So that is what is going on as we go along. And that might mean some shift here or there, but overall the Product Engineering business is very healthy and stable.

Rahul Jain: So when you say, 'prioritize,' so is it specific to certain services line or a particular type of industry which we are seeing?

Dr. Anand Deshpande: If some small company asked us to do something that was not relevant or aligned to the SMAC Stack or completely different thing, we may say no to them now, something we would not have done in the past.

Rahul Jain: On the SMAC side of the business, when you say it currently contributes 50% of the revenue and it used to be 40% of the revenue three years ago, so it has definitely outpaced the overall company growth to that extent but considering the kind of lead we had, considering the kind of partners we had, all ISV leaders which we were working on various things, do you think you are satisfied in the sense what kind of growth or revenue run rate you have achieved in last 2-4 years?

Dr. Anand Deshpande: We should never be satisfied. So that is the good part of what keeps us busy and excited. But that said I think overall we have done very well in this area. I think we continue to be a dominant player. All the customers that we work with in this area are doing well and I think we are well poised for growth. So, I think you will see the impact in the next few quarters as we go along. I think we are running towards the end of the hour and I want to sort of get the last couple of quick questions and then get to a closure on this call. And if there are further questions we can always take them offline.

Moderator: Thank you. The next question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee: My first question is on the strategy that we had outlined of accounts related platform and products. It would be grateful to share the number as to how much of total revenues we are getting from this platform solutions? Second is given that we are targeting new set of clients, our S&M expenses is currently around 8.1% of total revenues. What is the level which we should basically target that because of our sales and marketing expenses should ideally increase?

Dr. Anand Deshpande: So they will increase a bit, I do not want to put real numbers at this time, but they will go up. 22% of our business came from the platform part and we have identified 55 accounts which are named as growth for which we are doing a special focus for customers. I am being very short, because I just wanted to take one last question and we will be at the top of the hour.

Moderator: Thank you. Participants, that was the last question. I now hand the conference over to Dr. Anand Deshpande for his closing comments.

Dr. Anand Deshpande: Thank you very much for being on this call, appreciate your support. I know we had more questions that we missed but please send them to us over e-mail and we will definitely answer them. Thank you very much and talk to you next quarter as well.

Moderator: Thank you members of the management. On behalf of Persistent Systems that concludes this conference. Thank you for joining us and you may now disconnect your lines.