Persistent Systems

Analyst Call

Persistent Systems Limited - Analyst Conference Call

Q3 FY16 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Sudhir Kulkarni
Global Head of Sales & Marketing

Mr. Sunil Sapre
Chief Financial Officer

Mr. Mritunjay Singh
Executive Director & Chief Operating Officer

Mr. Amit Atre
Company Secretary

Mr. Mukesh Agarwal
Chief Planning Officer

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Moderator: Ladies and Gentlemen, Good Evening and welcome to Persistent Systems' Earnings Conference Call. As a reminder, for the duration of the conference, all participant lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of this presentation. Should you need assistance during the conference call, please indicate 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; we also have with him Mr. Sudhir Kulkarni – Global Head of Sales & Marketing joining from the US; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Sunil Sapre – Chief Financial Officer; Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre – Company Secretary.

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

Anand Deshpande: It is a pleasure to welcome you all to this analyst call in the context of our performance for Q3 FY16.

In terms of the highlights for the quarter, the revenue was USD 89.65 million which was a growth of 8.1% quarter-on-quarter. Revenue in rupee terms was INR. 5,921 million which is a growth of 9.1% quarter-on-quarter. The EBITDA numbers were INR. 1,110 million, growth was 9.1% again quarter-on-quarter. The profit after tax was INR.775 million, a growth of 7.8% quarter-on-quarter.

I am also happy to share that the Board declared an interim dividend of INR.5 per share. We are also very pleased to announce that Tom Kendra who is a very well known executive in the technology space has agreed to join us on our Board. He just retired as Senior Executive in Dell Software, prior to that he has worked at Computer Associates, Symantec and IBM where he spent nearly 26 years as part of the sales and various functions he was responsible for at IBM.

In terms of this quarter, the quick highlights that I would like to share with you are, for the third year in a row we were recognize as a leader in the Enterprise software product segment of the Global Service Providers ratings by Zinnov. We acquired the digital content management solutions business of Akumina, maker of Interchange and Innovative Software platform that optimizes user experience for digital business using Microsoft Sharepoint. This was announced in November. We continue to strengthen our partner ecosystem around Healthcare and Life Sciences specifically with the accelerators that we released for the Salesforce platform. We also signed an agreement on January 11, 2016, to acquire Citrix Cloud platform, this is part of the Apache CloudStack product suite and this is subject to customary closing conditions which we hope to close in another 45 days or so. We launched several products as part of Accelerite during this quarter and we had some excellent deal wins.

What I am going to do now is I am going to hand this over to Sudhir Kulkarni first to share with you a little bit about what we see on the customer side, then I am going to request Sunil Sapre to share with us some of the financial nuances of this quarter and then I will have Mritunjay Singh also share a little bit about some of the parameters regarding profitability. After that I will close out on some comments on questions that we have received from some of you on Twitter and various other places and then we will open it out for questions after that.

Let me now invite Sudhir Kulkarni who is up very early in the morning from California to join us and take us through what the sales and the customer viewpoint on the quarter was.

Sudhir Kulkarni: Thank you very much, Anand. I hope you can hear me. Good evening to you all in India. Three months ago, when we spoke last, I shared my views with you on what it means to accelerate growth for Persistent. As I explained then, accelerating growth has two sides, one is the market happening to us and our response to it, and the other is the opportunity for us to happen to the market and shape it instead.

All of you have seen the numbers for the quarter, so today what I will try to do is provide some color on our customers, the market, the technology drivers shaping our business.

So let me start by narrating to you a recent request from a customer CIA and why it is a perfect example of Persistent happening to the market. After meeting to discuss expansion of our three-year long relationship I got an email from him asking if Persistent could help him bring our culture of innovation to their global team. He asked us to organize a 24-hour Hackathon for his team to come up with a radically new product idea and various concepts. I always felt pride in talking about our culture of innovation, our software product DNA and of using Hackathon such as Semicolons that we arrange for our own employees and customers. But it is very different when a customer recognizes this and asks us to do this for their company. This culture of innovation or DNA is why I believe we can happen to the market today and the market wave that we impact, no surprises, is digital transformation.

But we are not the only company talking about digital transformation, so let me clarify what we mean by it. Quite simply, will there be anything digital that has no technology or software driving it or defining it? No, there will not be. So digital as we look at it is all about innovating with software and crafting new software driven experiences and business models. Our approach to digital hence is all about the technology, it is API centric and platform based and draws on our strength and history of building software products. Our acquisitions, including the products in our Accelerite portfolio strengthen our technology stack and expertise in digital transformation, as do our investments through Persistent ventures. So this is driving growth for us supported by the investment that we are making in building solutions and digital sand boxes that bring speed to our customers' digital journeys.

Built around our partner ecosystem, the solutions also shape our industry specific digital forays. For example, Healthcare with Salesforce and Apigee, Financial Services with Apian etc. Another driver for growth has been our unique API centric solution built on the Oracle Identity Management platform, as ideas of identity and access management get transformed in the context of digital. So Enterprise customers with digital and the center of what we do for them continue to drive our growth, now at about 29% of our revenue which you probably all see.

Now we have also seen an increase in the size of deals in our pipeline and the total size of our sales pipeline with the caveat that larger and more complex deals also take longer buying cycle. You will probably hear me say this with pride every quarter that our software product DNA makes us different from almost every IT outsourcing or IT services provider and I take great pride when someone else says this, such as the recent Zinnov report that global service provider rating for a third year in a row we are ranked as the global leader to build Enterprise software products. This DNA captures the sense of Persistent and my enthusiasm about the opportunity in front of us to shape the market in the context of the digital wave. I see opportunity to help and partner with our ISV customers to build the building blocks of digital and leverage that to drive our growth in the Enterprise.

On that note of enthusiasm and confidence, let me hand it back to Anand. Thank you.

Anand Deshpande: Thanks Sudhir. Let me now request Sunil to share a little bit of the financial highlights.

Sunil Sapre: Thank you, Anand. Good evening to all of you, and at the outset let me wish you a very happy new year. While Anand and Sudhir have shared business updates and market outlook, I would like to give you more insights on analysis of revenue, the margins and CAPEX for the quarter and liquidity and hedge position as on 31st December, 2015.

The revenue for the quarter was USD89.65 million recording a growth of 8.1% quarter-on-quarter. The revenue in INR terms was INR.5,921 million with a growth of 9.1% quarter-on-quarter and 19.7% year-over-year.

The growth of services revenue was driven by 1.9% increase in volume and 1.1% increase in the average blended billing rate. The onsite services revenue showed growth of 9.4% quarter-on-quarter which was due to the volume growth of 12.1%, a dip of 2.4% in average onsite billing rate. The offshore services revenue declined by 0.5% quarter-on-quarter a marginal decline, this was comprised was drop in billing rate of 0.8% and volume growth of 0.3%.

On the margin movement, the EBITDA margin came in at 18.8% for the quarter as compared to 18.7% for the preceding quarter. One-time acquisition expenses impacted the margin by 0.5%. The utilization during this quarter is lower in view of the fact that freshers who joined in the last quarter that is Q2 are now part of the billable headcount in Q3.

On the positive side, higher IP lead revenues and recoveries from customers against the provisions which we made earlier for doubtful debts is reflected in lower doubtful debt provision and both these items helped us to absorb the effect of one time acquisition expenses and the utilization impact.

The depreciation and amortization was 4.2% of revenue as compared to 4.3% and EBIT was 14.6% as compared to 14.4% last quarter. The treasury income was INR.119 million while the exchange gain for the quarter was lower in comparison to the previous quarter mainly due to the mark-to-market loss on the hedges with the USD-INR spot rate moving up.

The profit before tax was INR.1,024 million, recording a growth of 6.3% quarter-on-quarter. The effective tax rate for the quarter was 24.4% due to increase in the profit in overseas subsidiaries which have lower effective tax rate coupled with increase in revenue from the SEZ units. PAT for the quarter was INR.775 million at 13.1% of revenue and as Anand mentioned the Board has approved an interim dividend of INR.5 per share.

The CAPEX for the quarter was INR.123 million and is expected to be in the range of INR.250 to INR.300 million for the next quarter. The cash and investments stood at INR.8,699 million at the end of the quarter and the value of forward contracts outstanding at the quarter end was USD 109 million with an average forward rate of INR.68.47 per dollar.

Thank you all and I hand it back to Anand.

Anand Deshpande: Thanks. Let me now request Mritunjay Singh to give you a little bit of an overview of the operational parameters of the business.

Mritunjay Singh: Thank you, Anand. If you look at last quarter, typically it is a little soft quarter from our utilization perspective, Sunil covered that a little bit while giving he financial numbers. There is a 1.6% impact of utilization due to leave and holidays, last quarter actually had 62 working days, so there was a bit of impact of that. We added some fresher, around 138 people into our pool, billable headcount, so that has a bit of impact. There was a 50 basis points impact of some of the integration that we did. So going forward we think that some of these opportunities can be improved and from quarter four onwards we see a minimal impact on that. Overall for quarter four we continue to be on a hiring plan that we had envisaged at the beginning of the year and we will have a net addition of almost 1000 people for the year and we expect that number to be able to achieved this particular quarter.

Thank you Anand, again back to you.

Anand Deshpande: So I just want to cover a few questions and other comments that people have sent to us and then we will open this out for questions. So if I were to distribute our overall growth of 8.1%, roughly half of it came from organic growth and the other half came from inorganic and the inorganic part of the growth was partly by Akumina but predominantly driven by the Aepona acquisition that we made during the early part of the quarter. Aepona acquisition has been integrated into the business, both costs and revenues are part of that and on the Akumina stuff it was a fairly small acquisition but it is an important one from our enterprise digital transformation story.

In terms of the organic part of the business, as Mritunjay Singh mentioned, this is usually traditionally the last quarter of the calendar year with Diwali, Thanks Giving and Christmas, there is an impact on the working days, but overall we are quite excited to see the 4% growth that we had during the quarter on the organic side. Some of it was driven by services and the other came from IP and other products that we had acquired in the past. Overall, the services side we had very good traction on some of the partnerships that we have with Salesforce and Appian and overall the Enterprise part of the business grew to nearly 28% of the total number. A lot of it was driven from the Financial Services industry, so the FS part of the business actually grew very substantially during the quarter. I must point out that some of the projects that we have won during this quarter and some in the last quarter both in Salesforce and Appian have long-term opportunities for growth in those accounts and they are not just one-off projects that necessarily have to end at the end of the current SOW. So I am quite optimistic about the opportunities that we see there. The IP side also we had some of the older IPs that we had good revenues on during this quarter and overall that should also help us in terms of the outlook that we have for the IP revenue at the end of the year during the Q4 as such.

On the ISV side, overall we have always found out that there are some disconnects in terms of how the customers are changing their priorities, so there are some changes that are happening. If you look at percentages, it does appear that the ISV business has gone down as compared to the previous quarter. But we think that there are opportunities that have gotten created because of the changes that are happening on the ISV side. So for example, the Aepona product that we acquired was part of our customers, some of the work that we were doing for Intel now becomes work that we do for ourselves as we have acquired that product from Intel. Many such opportunities are opening up where we have opportunities to extend the portfolio that we have with the ISV customers.

In terms of new deal wins, Sudhir already mentioned the things but out there we had a pretty good year, during the last two quarters we have had in the previous quarter we had 91 new accounts, this quarter we had 103 new accounts. Of those 103, 32 came from acquisitions of Akumina and Aepona, the rest of them were from our own work, a lot of them are platform and sell-with kinds of opportunities but there were some very good logos and long-term contracts that we were able to sign on projects that are related to product development or ODCs that we were looking at.

Moving forward, for the year and for the next year we see very good traction on our Enterprise Digital Transformation story. Our strategy of building an architecture based on data, APIs and experiences is getting good traction from our customers. Many of the customers where we are selling through partners is giving us good opportunities to extent from being just deployment of a product to being a partner for Enterprise Digital Transformation and we are seeing very good activity in that market. As Sudhir mentioned, the deal sizes have also gone up for Enterprise Digital Transformation. Previously as we had mentioned, those were USD250,000 to USD300,000 but now we are seeing discussions on some of these projects being in upwards of USD1 million to USD3 million. So overall, the Enterprise Digital Transformation story is starting to get root and we are very excited about what we have built. Some of this we had showcased during the investor day when we shared some of the sand boxes and how we are delivering them, we are starting to show these two customers and overall the reactions are very good.

In terms of the next big thing, we are looking at participating at the IBM Interconnect Conference in Las Vegas and at the HIMSS, which is a fairly well-known Life Sciences conference or Healthcare conference in Las Vegas, both of these are in February and we shall also be at the Mobile World Congress.

I am going to stop here and open it out for questions. I would like to suggest that if you have questions please send them on Twitter as well, we are tracking what is coming on the Twitter handle and then we will be happy to take those questions as we queue them in. Let me now hand it back and start the Q&A process.

Moderator: Thank you very much Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: Anand, I have one difficult and one easy question for you. So first the difficult one, the quarter has been much better than expectation obviously with the help of inorganic part, but if you see Anand our Enterprise business still is 30% approximately and 15% to 20% is the range in which our IP business moves. So broadly even if we take 50% of the business which we expect will do great and 50% business may do lower growth, and by lower growth I mean that the way we are seeing that this year the numbers could be low single-digit as well. So even if we do excellent growth in our strong business, and that is the Enterprise, digital and overall Enterprise and also the IP, we actually have to struggle a lot to have to even meet probably NASSCOM's last year's guidance, I am not talking about this year but in the future if the same range comes from NASSCOM so that will be a challenge number one, how do we justify that on a small revenue base as ours? Will it be fair to say that this is a temporary problem of six months and nine months and by the time Enterprise becomes relatively even bigger from here this number could be much better. Or secondly, you see that even in the ISV it will be fair to call it as a bottom out kind of scenario right now. So that is my question number one.

And question number two, you do not disclose the total number of customer, probably you disclose 1 million to 3 million range and above 3 million, so if you can throw some light on how many total number of customer broadly we have and what is our strategy? Because if you see I think we are very good in adding customers and we are doing a great job there, but given the size of the deals which are small probably we are not able to get as much revenues as it should come because of the number of clients which are adding, or you would like to say that since these clients are new and digital itself is a new thing which is happening so obviously the sizes will grow gradually. Any comments on both these questions would be greatly helpful. Thank you.

Anand Deshpande: I think they are sort of related but I am going to try to give you a general answer first and then we will specifically answer the two questions that you said. See overall we have maintained this for the last several quarters that in general because of newer technology the effort required to do the same work is going down and this is going to happen in the ISV market, it is also going to happen in the non-ISV market. And what is happening is in general that lot of the spend that is typically traditional business spend is getting compressed because you are able to do the same with lot less, and some of that is moving into next generation products or next generation activities. So there is a shift happening in where you are currently working to where you would want to do things, this is true for ISVs which is our traditional business and it is also true in the Enterprise side. So here is what we have to deal with and I am just sharing that with you and I will show you what we are doing in this context. So one is very clear that our ISV customers are going to have a challenge in terms of how do we work with them and we are defending something, we are already working in their traditional business and we are going to see a shrinkage of activities because it just requires a lot less to do the same work. That said, we think that the ISV market as such is not going to die and we have a great opportunity in two areas, one is to go after new set of customers and second, go after customers in their new kind of spend and both of those things I must say in the last two to three quarters we have seen a very good opportunity and growth in some of the activities. So I think if you look at the ISV business in isolation, maybe after a few quarters or a little bit of adjustment that we need to do you will see healthy growing numbers both on the ISV business independently, as an ISV business alone. I do not believe that we need to write that business off. So that is first comment I would like to make.

On the Enterprise side, we are going after the next generation spend on the Enterprise. Again the same kind of situation is going to happen on the Enterprise, the existing work that enterprises are doing today, people will use automation and technology to make that faster, better and cheaper and you will require fewer people to do that work. While that happens, the enterprises are going to look at the next generation spend where they are going to look at how do they go after new things, and since we are not defending a whole lot in the Enterprise market it is prudent for us to look at the next generation spend in the Enterprise and as the adjustments happen you will see more and more of our business moving into next generation spend both in ISVs and enterprises and there it will create the growth opportunities for us.

And third area if of course the IP opportunities. One of the strategies that ISVs will use for transforming their current traditional business to the next generation is going to be focused on few things and basically let some of those other products which are not strategic to them hand them off. We are actually very well positioned to do some of those acquisitions, we think that is extension to our ISV strategy and that is giving us good results. In the short-term we do not have to spend a whole lot, we get new customers and we are able to build a consolidated portfolio as we do more and more acquisitions in a more focused area. Now cloud becomes a big part of what we are doing and you will see more opportunities for us to pick up these kinds of deals.

So here is what it is, so for the last three to four years we have mentioned to you that there are changes that are happening in the market, I think the way we had projected and predicted those changes we see them happening and it is quite real in terms of what we had said three years back, two years back, one year back, we see that happening. We have also shared with all the investors what has been our strategy to diversify our business from being exclusively ISV product development to something else and what that something else has been is enterprises and the fact that we are starting to do more and more IP and both of those you will see are growing at a healthy clip and I think that is a good situation that helps us give a consolidated total which is not dependent on only one part of the equation. Because that is what we are trying to do and that is what the plan is and I think we are executing to a plan that we have shared with you for the last several quarters and nothing much has changed this now, just that you can see the results of what we have been working on and lot of this has a flywheel effect, the deals, the pipeline, all of those are very healthy and you will see the results of the what we have been doing for the last several quarters.

Now just to give you a quick context on the number of customers we have, we have 337 customers where we are doing services kinds of businesses which includes projects and long-term contracts and we have 291 customers from our IP lead businesses which tend to be license, mainly some maintenance plus license and some small services but mostly license and maintenance.

Moderator: Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Hi sir, a couple of questions. First, when should we see your offshore revenues also contributing or start contributing to growth in addition to onsite? and second was related to BFSI vertical growth, so can you give us some more details in terms of either type of assignments or client profiles in that vertical?

Anand Deshpande: So clearly we are seeing more growth onsite as compared to offshore in the last few quarters and I see that sort of in that range steady for the next two, three quarters as well because we are starting to do many more things on the Enterprise side, we really need to get the initial contracts to be exercised from there. Also, one of the other things that is happening is that some of the IP acquisitions that we have made, we are acquiring people in different geographies and they are all getting counted as onsite as well. So, our number of people on site or out of India has gone up quite significantly in the last year and a half. I do expect that once things kind of get to a point where we get the hang of exactly what these enterprises need and we start to leverage IP to deliver on that you will see more offshore contribution coming up. Let me have Mritunjay who is closely working on the Financial Services side, he will give you more details on that side.

Mritunjay Singh: See on a Financial Services there are two kind of things that we are seeing – one which is particularly driven by the core platform of Appian and a little bit on the Salesforce side. These are what we are trying to build is mostly pre-built "Know Your Client" kind of solution. This is driven by not just the data which is sitting inside the bank but also collecting data from social network and other sites and data lying outside in the public domain. This is a very-very powerful tool especially in today's world of regulation, etc., so that is one pre-built solution. We are also working on things like loan origination. We have talked about Loan Origination System that we built for one of the companies in India where we cut down the origination time from seven days to half an hour, now we have built a loan origination system on Salesforce where you can literally do it in minutes. So these are like disruptive solutions which are pre-built, pre-fabricated and now what we have started to see that when we deploy these solution they need to be integrated with legacy and other existing technology and products and we are getting up called and we have actually signed in one of the banks a three-year contract to maintain the system which is built on top of this platform and also built integration around that and we expect these kind of deals to increase as we go forward because more and more banks are going to start to put systems built on newer technology which will inherently connect with the data which is available in a public domain and these need to be maintained very differently, these are all cloud based kind of systems working in hybrid cloud infrastructure. So that is the new flavour of the deals that we are expecting to sign in the Financial Services.

Mohit Jain: Anything on the type of clients, the kind of banks you are working with?

Mritunjay Singh: So these are the Tier-II banks in the US and a couple of Tier-Is, Tier-Is are still experimenting with this so the division of Tier-I which we are working with, but the Tier-II banks one of them is implementing this across the bank.

Anand Deshpande: And the Tier-II banks in the US are actually fairly large as such. I would like to add one other thing in this whole thing. So overall we are seeing a lot of opportunities where instead of selling headcount based or T&M type projects we are pre-building a lot of solutions. So one of the things that we showed you during the investor days that we have been running Hackathons and activities with customers to get ideas and pre-build a lot of solutions where we are now selling IP plus services where the IP frameworks have been far more effective. We have found two things, one on the Enterprise side, more customers are more open to these ideas of starting to use pre-built solutions. Second thing is that with the whole advent of app stores and app store driven sales like Salesforce is now selling platforms plus apps, this whole model of common frameworks that everyone has talked about in the past is starting to be quite real which is where the multiplier or the advantage of getting better utilization efforts and all that stuff is going to happen. So faster we are able to get to a point where we are selling framework or IP or what I might call an app store driven component plus some customization, the more revenue per person you will see from us and that is really the goal where we are heading to.

Mohit Jain: Lastly on the IP side, is there any one-time or one-off revenue in this quarter, should we expect a decline in the next quarter or do you think this is a sustainable rate?

Anand Deshpande: The one-time revenue is not very substantial at this moment in the current quarter. There is a one-time cost for sure that has come in because of cost of acquisition since the Aepona deal was fairly complicated, we had much higher cost of acquiring lawyers, professional fees and a whole bunch of things. But overall I do not think there is a whole lot of one time thing sitting in the numbers.

Mohit Jain: So margins can actually start trending up?

Anand Deshpande: Yes. There is also of course the Q4 seasonality that you have to factor in, so there are some of our revenues which are tied to the end of calendar year for license revenues. So Q4-to-Q4 that number growth we have seen in the past, I would say that was also a part of what happened in this quarter in couple of IPs. But yes there will be some fluctuations and seasonality but overall there is nothing that is unusual that has happened in this quarter.

Moderator: Thank you. Our next question is from the line of Vimal Gohil from Union KBC Mutual Fund. Please go ahead.

Vimal Gohil: My question again relates on margin sir, given the fact that we have taken care of growth for now the deal sizes are getting bigger and I assume that the pricing will stay put out there. And we have been in this investment phase since the last six to eight quarters now, so if I assume that the investment intensity does not go up from here on can we expect a good amount of margin shift trending back towards a 20%, 21% odd levels on the EBITDA front in FY17?

Anand Deshpande: So it is a good question and aspirationally the answer is yes, but there is a lot happening in the market at this time. We do need to increase our marketing presence, our marketing presence right now is quite limited, our marketing spend has been fairly low, there is a need to up that, we need to improve our thought leadership, some of the recruitments that we need to do, also there are some expenses that I think if we invest a little bit more we should get some long-term benefits out of that. So we are definitely concerned and looking at ways to improve margins but we have to run this as a long-term business rather than just as next quarter. So yes aspirationally we know we want to operate much more efficiently, there are some basic things that we know we can do which we are focusing on but beyond that we are not going to hesitate to spend and invest if we have to get to where we need to go. And I think the opportunity is really good in the next few quarters and if we do not do that now we would regret it later. So, I do not want to let any growth go away at this time.

Vimal Gohil: But sir on the financial front if I look at your operating expenses, we ended FY15 at about 15% of percentage of sales, I mean the operating expenses were at about 15% odd in terms of sales, we are trending to 21% now. So do you see that going up as well or do you think that will stay in control?

Anand Deshpande: No, I think we have opportunities to improve that and see what happens is once you get the revenue numbers to go up faster, then the percentages automatically take care of themselves. So you have to invest a little bit ahead of curve, we have added new facilities, we might have to do more of that. But overall you will see a benefit of some of these margin improvement programs that we are working on. I want to ignore the fact that margins are not important, I am completely in aligned with what you are suggesting and we really need to improve our margins and there is enough opportunity to do that. But there are some things that have happened in the last year or so which are quite visible, the number of onsite positions has gone up that creates a margin pressure, utilization has been lower, sales have to go up, cost of marketing needs to go up. So we have to balance all these things.

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

Dipesh Mehta: Sir I have a couple of questions. First, I just want to understand about, because I was not clear about efforts. When we are expecting efforts to go down and automation and other things to catch up? If I look now over hiring side considering where we are in terms of utilization we intend to have very high hiring plan, so Q4 is likely to be what Q3 is in terms of hiring. So if you can help us understand this thing, whether we are seeing some skill mismatch which lead to some kind of hiring upfront kind of thing? Second question is about billing rate weakness, can you provide some color about onsite offshore billing rate, how we expect them to go in future? And last is about effective tax rate, how we see that too in coming quarters or years? Thank you.

Mritunjay Singh: On the hiring front, the number that I talked about includes the freshers that we are trying to hire, this is part of the hiring plan. If you know typically freshers take roughly six months to get productive, so this is all the freshers that we are supposed to hire earlier this year and we are hiring now as a part of our supply chain management to ensure that these people are available to us next year. So a big chunk is freshers and the rest is replacement and little bit of incremental hiring that we are doing to take care of the additional business. So this is not something that we are seeing a sudden spurt in hiring.

Anand Deshpande: And the other one on fact that effort is going down, that is a global macro trend. What happens is if you are starting to build on the cloud it just does not require that many people to run lot of the code that you would have written otherwise. So essentially you can do the project with far fewer people and that is a trend that is going to happen which is across the board and it is going to happen incrementally every quarter, you will see newer projects getting done with fewer people. But it just means that we have to find more projects for people and overall we are selling differently by selling IP and services. So I think that is really the story that we have to work on for the next few years. In terms of the billing rates, there are two factors that one has to look at when you look at billing rates. One is that the demand situation or availability of people in California or in the US specifically Silicon Valley and other geographies where there is a lot of activity, in general I think it is hard to find people there. So we will not have a whole lot of pressure on billing rates as such both onsite and offshore because of the lack of availability of the people for the kinds of jobs that we are looking at right now. So I do not expect major billing pressures on a macro level, of course there are certain customers we will always push and we will see some of that but overall billing should be fine. I will get Sunil to comment on the tax rate question.

Sunil Sapre: Yes Dipesh, see the ETR for the nine months is at 26% while for this particular quarter you might have seen a little lower ETR but on an ongoing basis the ETR would be in this range of 26% to 27%.

Dipesh Mehta: Just one question on the effort and other thing, we are not seeing issues like mismatching skill sets or further training requirement for our existing workforce kind of situation.

Mritunjay Singh: See, training is a continuous thing in today's fast changing technology world and we have invested heavily in our training infrastructure using mobile devices, hi-tech training, that is a continuous requirement, there is no difference, we are fully prepared for it and we expect it to continue to change. So it is not that we have arrived at a new world and we can just train people in our factory and work in the new world.

Moderator: Thank you. Our next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: The first one is, your last two IP acquisitions Aepona and cloud platform have been new age acquisitions rather than end of life products, so should we expect more of this going forward as on a change of strategy from earlier? And my second question is that you mentioned that when you acquire products from your customers some of your ISV revenue goes away as you are now extending effort for yourself rather than for your customers. Could you quantify that for this quarter?

Anand Deshpande: So the answer to the first question is yes, we are looking at non strategic projects from our customers where we can take them to the next level. So yes absolutely we are looking not just as end of life products and we are able to take some of these products that actually there is an opportunity and fairly long runway on them as well, so definitely that is the idea. I think a lot of that has to do with the fact that having done a few acquisitions, demonstrated it to customers that we are able to deliver that, show references of a win-win-win where we have benefited, the customer who gave us the product has benefitted and their customers have benefitted. The fact that we have a track record of doing that allows us to do bigger deals, better deals and potentially more strategic deals, so that is really the part of the game and I think this is a great way for us to acquire sizable chunks of business on an ongoing basis at a fairly reasonably valuation. So that is something we will do more off and we will continue to do that. Well, we had a fairly, I would not say it was a huge part of our business but we had a team let's say about 30 people or so who were working on this particular product as an outsource project that we were doing, we then now moved those people to work for our team on the Accelerite side. But some of this can happen, I mean if we are working on a project we have a pretty good idea of the product and if the customer decides that that is really not going to be very strategic for them then we get an inside track on trying to acquire that product. The revenue actually improves in a way because we were getting paid dollar rate which was fixed on the number of people on the project, now we are actually responsible for revenues. So some of the revenue that you saw in the product that we are in, it came from some of the work we were doing there. So it is not a loss in that sense but actually we would much rather prefer doing that than the other way around.

Moderator: Thank you. Our next question is from the line of Ganesh Shetty who is an individual investor. Please go ahead.

Ganesh Shetty: Sir my question is related to Digital India initiative by the Government of India, so can you please elaborate on how we are going to benefit and from where the revenue will come from this part of the business?

Anand Deshpande: I am not quite sure I caught your question, are you asking about Digital India and what we are doing in the context of Digital India?

Ganesh Shetty: Yes sir.

Anand Deshpande: So what we have done in the last few years is we have built technology solutions around data analytics, search and various other areas like that which are kind of becoming very relevant. We have seen a few cases, we have done one very specific deal this quarter with UP Government where we are digitizing for them all the data around the Vidhan Sabha sessions, proceedings and all that and including audio, video, text so that we can index and search through this data in the future. So this is an example of some of the work that we do around data analytics, search and we have extended our platform to be multi-lingual so that you can deal with various languages and we were able to sell integrated solution to the UP Vidhan Sabha to actually do this digital search on records in the Vidhan Sabha. Now this is a product that we have built which we are deploying in Vidhan Sabha UP but we could do the same in other similar places where there is lots of content and documentation that needs to be managed and searched especially when you are looking at languages and various other areas. So these are examples of things where we are taking the technology that we have built and into the market for the Indian market. Another example is the location technology we have worked for the last several years with one of the acquisitions to provide the E911 service, we think that Indian Government is also keen to get some of this kind of technology in India and we are trying to find our ways to sell these products in India. So again we think that India could be a big market for some of the technology and products, we will partner aggressively with integrators and other people to help deploy these kinds of products in the country and we think that in the long-term this could also be a profitable business opportunity for us. So that is on the Digital India side.

Of course on the other side we were quite delighted to see the Prime Minister talk a lot about Start-up India and early stage companies, we have had a VC fund and we are committed to early stage companies, we think every large business starts small and it is imperative for companies like us to invest in this ecosystem, our venture fund has been doing that, we hope we will get many more opportunities to invest in the Indian market as people get excited about Start-up India.

Ganesh Shetty: Sir my second question is regarding our IP revenue growth, our IP revenue growth for the quarter is fantastic. Sir as far as our core services revenue is concerned the growth is not that effective and we have got a lot of capabilities and lot of strength in our own service business also. Sir going forward after about two quarters where we will be relatively stabilizing on acquisition front, can we more concentrate on our core business of services? That is all from me sir, thank you very much.

Anand Deshpande: Your point is noted, we are definitely not giving up on the Services business but there are challenges that we have identified in this business and that is the reason why we had chosen to ensure that we had other levers as well and that is really what is happening. So your point is well noted and let's hope all this works out.

Moderator: Thank you sir. We have the next question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir on the sales the headcount has been declining over last four quarters, any reason for that? And how many of the sales persons are in Accelerite and Enterprise digital transformation, could you give the breakup of that sales force?

Anand Deshpande: See, if you look at it, yes it has declined a bit but it is not dramatically different, as we come to the year end, there are some people who were not performing, we have exited them and also some of the pre-sales people we readjusted a bit. So if you look at it, it is a small difference here and there and it is not something that I would read too much into. The other part regarding digital transformation, we have not quite called out how many people there are in that area, let me ask Sudhir if he has any comment on that.

Sudhir Kulkarni: So Anand this is one of the growing areas for us, so we are going to disproportionately invest in people that are selling digital solution, we are already doing that so we have kind of grown up a pretty significant team now and I think it will continue to grow. So we are not breaking out team wise numbers here but we are definitely growing in that area.

Madhu Babu: And sir secondly, apart from Financial Services and Healthcare where we are doing well on the EDT side, any other consumer facing verticals where you see rapid traction in Enterprise digital?

Anand Deshpande: No, right now we are focusing on these and then one-off deals in various areas as we get them. So these two areas there is focus, everywhere else it is opportunistic. We want to sort of give short answers from here on, we have about 10 minutes to go and we have a fairly large list of people who have questions in the list right now. Let's try to get through them quickly.

Moderator: Thank you sir. Our next question is from the line of Raj Kantawala from Equirus Securities. Please go ahead.

Raj Kantawala: So if you could just throw some light on the most recent acquisition in January you have made, so how does it fit into our business?

Anand Deshpande: So what we have done is we have picked, so let me explain a little bit about what they do and I will be very brief but we will do this another time offline. So essentially CloudStack is a platform for orchestration of the cloud, this is an open source, this was done by a company called cloud.com and they have released the code to Apache Open Source as Apache CloudStack. Citrix was providing a supported version of this product after they acquired CloudStack and cloud.com and we have picked up the team that was doing this support. Now they do have some very good customers in this area, it is a product that works, there are many customers who use it, we see an opportunity in two ways. One opportunity is to ensure that the current customers stay happy and as they add more and more licenses we are adding features into what they are looking for, and also there is an activity going on around containers which is sort of next generation of how clouds are getting deployed. We think that there is an opportunity for us to extend CloudStack to the container world as well. So again, a lot of this we will announce once we have more details after the completion of the acquisition.

Moderator: Our next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir in the Enterprise segment we have platforms, product engineering and EDT, we understand EDT is a very small portion of that but just a monitorable how do you see the breakup between these three in terms of Enterprise currently and maybe let's say two years down the line sir?

Mritunjay Singh: The Enterprise segment that we report, the 28.8% largely is comprising of the platform and the product engineering that we do, almost evenly distributed. The EDT as you know is very small right now but the deal pipeline on the EDT we see is much higher and that is what we are really excited about.

Anand Deshpande: Yes, the other reason why we are pushing EDT kinds of deals is that we are not selling by headcount in those deals, we are selling platform, reselling some other partners and selling a bigger kind of an offering which includes long-term opportunities to continue and sustain that account. So we hope that if we do this right our investment will pay off and we will see much better revenue per employee which is one of the important metrics that we track.

Mayur Parkeria: Sir on this only just a small thing, is the last two quarters strong growth in Enterprises is also driven by platforms and product engineering or has EDT a role into play?

Management: No, it is driven by EDT as well.

Moderator: Thank you. Our next question is from the line of Kaushik Banerjee who is an individual investor. Please go ahead.

Kaushik Banerjee: My question was really on the margins front, compared to last year if I look at the year-to-date figure there is almost a 200 basis points shrinkage and if I just compare sort of relative margins you earn in the different sort of verticals, the industry verticals that you focus on, Financial Services which has grown the most seems to have the least sort of margins. I just wanted your comment on that and is this going to continue and will this have a long-term effect or are there some plans to counter this and improve it? Thank you.

Anand Deshpande: No, so the main reason that is there because since we are starting out in these banks there is higher percentage of onsite people on that account, that is the reason the margins are affected. We have seen an opportunity to systematically move extra work offshore in those so we think that over a period of time the margins will improve. Second, when we start to move into EDT type stuff the whole point of not having to sell by resources but trying to sort of invest in the platform, sell the platform and then sell resources or services around that basically is a margin game and that is really where we hope we can improve margins. So your point of the dip in margins is well noted but we have to find innovative ways to address that and just trying to beat up on the T&M business to get margins is not going to work for the future.

There are two questions from Twitter which are a little bit futuristic, are there any large deals of more than 5 million in Q4 and also inorganic deals in Q4?

Unfortunately, we are not able to comment on Q4 deals at this time because it is still very speculative, I do not know what to say there, I will leave it at that and we will answer specifically to them if there are anything specific there.

Let's take another question from the board.

Moderator: Yes sir, it is from the line of Vallabh Shah from PI Square Investments. Please go ahead.

Vallabh Shah: Sir my question is, we are continuously seeing a repeat business going down like from 87% it has reduced to 82%, so any guidance on that thing?

Anand Deshpande: Well, no it is a way we count it, repeat business is that we reset the clock at the end of the year. So what happens is in the first quarter you will see highest repeat business, as new business comes in it just kind of goes down.

Vallabh Shah: So is it the licensing thing that enters in the last quarter so we will see that coming more in the last quarter or something?

Anand Deshpande: I am not sure I follow your question, this is relating to repeat business. It is mostly relating to the Services business that we are doing and what happens is if you sign new accounts and those are not percentage of repeat business will go down.

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

Anand Deshpande: I would like to thank all of you for being on this call and really appreciate your questions and your detailed analysis of our numbers. If you have any further questions, please send mail to Anukool who will definitely get back to you with an answer. We look forward to talking to you again in a similar forum at the end of our Q4 or at the end of the annual results sometime in the month of April. Thank you very much for being on this call and have a good evening.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Persistent Systems that concludes this conference call. Thank you for joining us and you may now disconnect your lines.