Persistent Systems Limited

Analyst Conference Call

Q3 FY19 Results

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MODERATORS

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Chairman & Managing Director

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Mr. Jitendra Gokhale
President Sales – Alliance Business

Mr. Atul Khadilkar
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Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Persistent Systems' Earnings Conference Call for the Third Quarter of FY19 ended December 31, 2018. As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*'and then '0' on your touchtone phone. 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 – President, Sales Technology Services, Mr. Atul Khadilkar – President, Delivery Operations Technology Services, 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, sir.

Anand Deshpande: Thank you, Aman. And good evening all of you for participating in today's call. I am delighted to share with you the results from the Third Quarter of FY19 and also some of the announcements from the board meeting that was held yesterday and today.

In terms of the consolidated financial highlights for the quarter that ended on December 31, 2018. The revenue in US dollar terms was $120.84 million which was a QoQ growth of 2.2%. In rupee terms that was Rs. 8642.49 million that was a 3.4% QoQ growth. The PAT during the quarter was Rs. 917.17 million which was at 4.1% quarter-on-quarter growth.

In terms of the YTD performance – the revenue so far in three quarters has been $362.67 million US or Rs. 25,340.87 million. The PAT so far has been Rs. 2,672.06 million. During the meeting the Board of Directors declared interim dividend of Rs. 8 per share on a face value of Rs. 10 per share and in addition to the interim dividend, the Board also approved a buyback scheme of equity shares under the open market route for an aggregate amount not exceeding Rs. 2,250 million which is slightly shy of the 10% of net worth of the company at a maximum buyback price not exceeding Rs. 750 per shares.

In terms of the quarter's performance:

We had good set of wins some of which has been shared in the press note. I have been following the discipline of getting customers to speak on our website and we have a set of those that are on our website since we last met during the Investor Day and amongst the highlights, we have several awards which are also included in the press release.

I am going to hand this now to Sudhir Kulkarni first and have him share a bit about business outlook and what he sees from the US side. And then I am going to request Sunil Sapre – our CFO, to give you the financial details and the details of some of the accounting related metrics and other numbers that are being shared and I do realize that you have not have enough time to look through these in detail so Sunil will spend some extra time trying to explain some of these numbers to you in some details and I will follow that with a set of other comments that I think we could anticipate from the question that we would expect. Beyond that we will open this for questions and answers and we will be happy to take any questions that you might have.

Let me hand this over to Sudhir Kulkarni who is up very early in the morning in California to join this call. Welcome Sudhir Kulkarni and good morning to you.

Sudhir Kulkarni: Good evening and good morning here from California everyone. The technology services unit had a 1.9% Q-on-Q growth in the October, December quarter which included a 6.5% Q-on-Q growth in the digital part of our business. As I mentioned last time the pipeline continuous to build up and as a result, the digital business had started showing a reasonable growth. We added 25 new customers in the digital business this quarter of which several are marquee new logos. I expect this growth in digital to continue looking at the current pipelines and new customers and digital projects being added in existing customers.

The launch of Pivot Labs with Partners HealthCare and the impending launch of the health innovation platform with them, they are Massachusetts based large health care provider in US. Along with the business that we expect through the Herald Health acquisitions, portends a pretty good movement on our digital business with healthcare providers in the US. We had a few good wins this quarter as Anand referred to in the Financial Services and hi-tech business. These included a transformative platform deal with a leader in analytics, a major digital initiative with a Global 500 financial power house in Insurance and Investment Banking, Cloud Management and Cloud Migration for another large financial and insurance multinational and finally, a major deal to revamp the cash management system for a large investment bank.

We also had a very interesting digital knowledge management system project that we signed for a carrier subsidiary. I can talk about a few others but I am encouraged overall by how the customers are appreciating our digital offerings. Even as we continue to win these deals, there is enhanced effort on servicing and staffing for some of the existing key accounts both onsite as well as offshore. Some of these efforts have started to yield results in the October-December quarter and more to come during this quarter. So, there has been overall better outcomes on operational parameters like utilization in margins for the unit.

Some of our new partnerships with low-code and robotics process automation type platform like OutSystems and Blue Prism has started producing some results, but it is still too early in my opinion to call them a major success yet.

I will conclude by saying that some of the steps that we took in view of the softness of the last couple of quarters have started yielding results and I expect that positive momentum to continue. Back to Anand.

Sunil Sapre: Thank you Anand and good evening everyone and this being the first interaction in 2019, let me wish you a very happy 2019. While Anand and Sudhir have talked in brief about the market updates, let me take you through the margin movement, liquidity, CAPEX and hedge position for the quarter ended December 31st, 2018.

The revenue for the quarter came in at 120.84 million with a growth of 2.2% quarter-on-quarter and a dip of 1.4% on YoY basis. In INR terms the revenue grew by 3.4% on QoQ basis and by 9.1% on YoY basis.

For the quarter, the linear revenue grew by 3.1% while the IP revenue came in lower with a dip of 0.3% and we will see in my comments little later what are the reasons for the dip in IP revenue. For the 9-month period revenue was $362.67 million with a YoY growth of 2.6%. This is made up of growth in linear revenue of 3.5% while the IP revenue was flat.

On the linear revenue, the increase in volume was 2.2% and the billing rate was higher by 0.8%. The onsite linear revenue grew by 3.2% constituted by 0.5% increase in volume and 2.6% increase in billing rate. Offshore linear revenue grew by 3% comprised of a growth of 2.5% in volume and increasing billing rate by 0.4%.

On the expenses side, you would observed that the staff costs have come in lower reflecting some of the off-shoring of certain projects that we had commenced in the earlier quarter as we had talked. The other items which is to be noticed is purchase and royalty expense which was lower this quarter as in the last quarter there was cost of licenses sold for a customer project, the revenue of which is included in the IP revenue in the earlier quarter. This is also partly a reason for lower IP revenue. With this the gross profit came in higher at 38.2% versus 35.3% in the previous quarter.

So, far as the currency is concerned, we had a favorable impact of 50 basis points on currency. Sales and marketing and G&A expenses were in line. The doubtful debt provision was higher by Rs. 10 million due to couple of receivable accounts crossing 180 days in this quarter and we expect to realize this in the next quarter.

With all this the EBITDA margin for Q3 was 19.7% as against 17.2% in the previous quarter. You would have also seen that the utilization improved marginally from 81.9% to 82.1%.

On the depreciation and amortization front, it was 4.6% of revenue as against 4.8% of revenue in the previous quarter and EBIT was Rs. 1,307 million at 15.1% of revenue as against 12.4% in the preceding quarter.

Coming to treasury income it was Rs. 229 million as against Rs. 195 million during the previous quarter, helped by the M-to-M gain on long-term mutual funds as the interest rates came down during the quarter.

Foreign exchange loss was Rs. 241 million as against a gain of Rs. 36 million and as you know this is largely on account of loss on restatement of debtors. As the closing rate on 30th September dollar-rupee

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rate was 72.38 which came down sharply to 69.70 at the end of December while it is hovering around 71 at this point of time, but as you draw the books on 31st December the restatement of debtors happens.

Coming to the exposures that we have on IL&FS amounting to Rs. 430 million which we have disclosed in the earlier quarter this is in the form of corporate FDs with IL&FS and IL&FS Financial Services. As we know after the intervention by government of India at the start of Q3 and reconstitution of the board of ILFS and its subsidiaries, there have been certain steps taken to control operating cost and over the last couple of months process has been started for sale of certain assets or stakes in certain companies of ILFS in form of SPVs.

The new Board in its submission to NCLT has indicated that it will take 6 to 9 months to reach the resolution of the liquidity problem faced by ILFS. The government has acknowledged that ILFS is a systematically important company and the government will enable necessary support to ILFS. We are hopeful that this will happen given the involvement of several constituent such as banks, provident funds and other investors.

Our deposits fall due for maturity between January to June '19. Given the fact that stabilization efforts are at an early stage, it is not possible to estimate the ultimate probability of haircut that we may have to take on this particular front. We will continue to monitor the development and will review the situation at the end of March with respect to any provisioning or impairment that is required with respect to these deposits.

The PBT was Rs. 1295 million at a margin of 15% as against 15.2% in the previous quarter. The ETR for the quarter was at 29.2% as against 30.5% in the previous quarter. ETR for the 9 months is about 28.7%, and we expect this to be around 28% to 28.2% for the full year. One of the reasons for the ETR being slightly higher in this couple of quarter is the fact that so far as the R&D tax credit benefit that we claim in certain jurisdictions, we expect the process to be completed in the next quarter.

PAT for the quarter came in at Rs. 917 million, with an increase of 4.1% on QoQ basis and 0.1% YoY. PAT margin was at 10.6% as against 10.5% in the previous quarter.

On the operational CAPEX, we spent Rs. 260 million till December 18. The cash and investment on books amounted to Rs. 15,015 million as at 31st December as compared to Rs. 13,266 million as at 30th September 2018.

The value of forward contracts outstanding as at quarter end was USD 120 million at an average forward hedge rate of 71.54 per dollar.

Thank you all and hand it back to Anand.

Anand Deshpande: Thank you Sunil. As we have shared in the past, we have been on this journey of transformation for Persistent and it is heartening to see that some of the operational parameters have improved and are tracking quite well.

If you look at this particular quarter one of the major reasons for the soft numbers have been relating to the IBM reseller business and some of the businesses, we were expecting in the IP revenues being lower than what we had anticipated. While we were involved in a few of those deals which we could see them moving to the next quarter so I still think that we may be able to get some of them during this financial year even though we did not see them in this quarter.

It was also good to see that there are enough opportunities in the system and while we have been able to improve on the headcount hiring both onsite and offshore, there is still a lot more work that needs to be done in the next few quarters to enhance the requirements that we have available to us both onsite and offshore and we expect to continue to hire aggressively during this quarter as well.

During the investor meeting that we had in December, I had mentioned that we had a process going on for hiring CEO and I just wanted to mention that we are very close to making the offer to the person who has been identified and hopefully, in the next month or two we should be able to have this person on board. There are certain formalities that need to be completed from their side as well before we can make this announcement.

With this, I am going to take a pause here and open the forum for any questions that you all might have and we will answer these questions one by one.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: So, how should we see margin from here on we have done a good offshore shift this quarter, so can this offshore shift be a lever and you can sustain this kind of solid margin and second on the onsite cost structure last quarter we had talked about the visa issues, so can you give your outlook on that?

Anand Deshpande: So, I think we are very confident about being able to maintain steady numbers on the operational parameters specifically around the offshore margins and total margins as such. There is some room to invest more in sales and you might see some of the SG&A cost, mainly on the sales side going up as we kind of make some of the changes that we are doing at the moment but I do see steady growth in offshore opportunities being because of the need. There is enough to do and I do see the offshore numbers keep going up and as a percentage I do see the onsite offshore mix shifting towards offshore in the next few quarters so that should help in improving our margins. So, we do expect to maintain or improve the margins slightly over the next few quarters.

Madhu Babu: Secondly on the IBM Alliance business I think that is a 130 million practice annually, so excluding CE/CLM the remaining portion of business do we see risk for that part of business considering the HCL' proximity to IBM post this new deal?

Anand Deshpande: See the deals that HCL has done are different from what we were doing and there is very limited exposure that we have in the kinds of business that they have acquired in the sense that we did not have much of engineering work going in the business that HCL has acquired. I think what we have to see as an opportunity and we do some level of uncertainty in some sense is relating to the new acquisition to the Red Hat business by IBM, but to some extent we see that as a positive opportunity for us. We think that the cloud computing environment that potentially should shake out in the next 12 to 18 months especially with hybrid cloud and the fact that there were a lot of cloud opportunities on-premise side which will move in a Red Hat direction, should give a lot of opportunities around the open shifts stacks and other stacks that are coming in. So, while I am not concerned about the HCL part of it and I see potentially the Red Hat alignment as an opportunity for further growth in that ecosystem.

Madhu Babu: So, we are not concerned about that 70, 80 million of IBM business like CE/CLM that HCL might gain market share or take as a part of under consolidation?

Anand Deshpande: No.

Moderator: The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Sunil how much of the margin gain that we had in this quarter you think was because of some extensive focus on cost and how much you think will be able to retain in the near term?

Anand Deshpande: I think we have had a focus on cost management, but I think if you look at the basic parameters - one rates are not going down actually, they have gone up a bit and I do expect because of the increased requirements not enough people are available and we have the ability to push rates higher. Second some of the works that we have got during this quarter has been on the partnership-led businesses such as Appian Work, Salesforce some of those numbers have gone up which are traditionally at higher rates so rates definitely help in improving the margin. Third parameter has been the fact that the offshore numbers if you look are better this quarter as compared to the previous ones and onsite-offshore ratio which has a heavy bearing on the margins is also in the right direction. The utilization numbers again this quarter are relatively high which I think is not necessarily the best things moving forward especially because we have opportunities in the pipeline. So, I am not terribly happy to see that number going up I would have much rather seen more business because of availability of people, but this quarter if you look at the utilization numbers they are up and that also helps in improving the margins. So, margin improvement has a lot to do with rate improvement and also lot to do with the fact that utilization and offshore numbers have gone up. The headwinds that we will see in the next few quarters I would think one would be relating to the fact that whenever the market conditions get hot in terms of hiring salaries and some additional bonuses and hiring of hard-to-get skills will require additional hiring investment and also additional cost of hiring meaning basically you will have to pay more to people who are coming in with those skills. Some of that will come in but I do think that the market has the ability to sustain that extra cost by improving rates so I am not that concerned on that point at the moment.

Pankaj Kapoor: So, is it fair to assume that a 19% odd is a sustainable margin band as we move into the next year?

Anand Deshpande: It is always hard to answer these questions in isolation. All I can say is that yes there is an opportunity to improve the margins we are doing the right things to do that and we are not dropping margins that side I do think that sales cost needs to be increased a bit. Some of this we will see as it goes along, but I think we can improve the margins both the EBITDA level and also at the PBT level.

Pankaj Kapoor: Just last question on the IoT and IP reselling business what is the sense over there you were quite hopeful of having $15 million to $18 million of revenues from reselling business this year, are those targets still on track and also on the overall IBM IoT business what is the kind of growth that you are expecting for the full year and the year going forward?

Anand Deshpande: Two different questions, overall if you look at the IoT market that has been under a lot of pressure partly with all the other players including GE and everyone else trying to sort of back paddle on that a bit. So, the intensity that we had seen was not as intense and as said our products are very much important and we do have continued it large numbers of customers that are using our products who are asking for more and more things. So, I do expect that the numbers on our part of the business will remain stable and reseller business has been a little lumpy we are learning in the process, but I do see opportunities and customer traction pipeline on several of the accounts. These deals tend to be larger than the traditional Persistent deals so if it gets through a couple of good ones, you will see an immediate impact, but the inability to predict that till the last year of the quarter it makes our life incredibly hard I must admit.

Moderator: The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Anand first question on the digital business of the new client acquisition has been phenomenal this quarter and we have seen that phenomena for last several years. The issue has been scaling or mining of these accounts if you can highlight some initiatives which has helped you to really move the needle there and if you can break the business into how much of it still project led and how much of it has become more longer-term sustainable business.

Anand Deshpande: Since we have Sudhir on this line let me invite Sudhir to give you a comment on this point, but I must say overall things are looking better on both these counts. Sudhir why don't you comment on what do you think is the right way to answer this.

Sudhir Kulkarni: I think the question is very apt in the sense that every quarter we have been announcing these major logo wins, etc. I think they start as a project like you rightly said but the effort to try to move them into a sustainable business model and sell more services and more service offerings or even Persistent IP. It is proving to be a little challenging because we enter into a certain part of the organization and these are huge companies where there are other incumbent IT services vendors, but I think they are making some penetrations and some of them have started showing some sign based on last quarter or two and we have put together a whole team of people we call them as key account managers to try to go in there and start producing increased value from each of these accounts. So, there is some focus going on there is also some amount of reorientation of some other team members on the sale side to try to grab the market wallet share in these enterprises and they do not have a traditional sort of ISV business which is why it is kind of proving to be a little more challenging and that is the reason why we are sort of hiring extensively. Anand mentioned we are going to increase the spend on sales and marketing that is kind of where we are and we are also embarking on an account-based marketing strategy or spearfishing strategy to try to do exactly what you are talking about. So, efforts going on but it will take some time for us to do that.

Gaurav Rateria: So, this is the second question Anand I just want to get a sense that we were very close to clocking double-digit revenue growth trajectory last year. This year is the momentum fizzled out, when do you think we will be able to get back to a double-digit kind of a growth trajectory and would we be clocking somewhere close to industry growth rate or would we be getting ahead of the industry growth rate from a next 12-month perspective?

Anand Deshpande: I think it is a good question if you ask me. Clearly, we are disappointed to see that this does not look like a double-digit growth rate for this year, but definitely the plan is to look at that and there are few initiatives in the pipelines. Hopefully, in the next financial year we should be able to get there. There are a set of things that are happening in the business at the moment which will help us with some of these growth rates, but I think the next quarters call would be a better time to really share with you on exactly what FY20 looks like but there is enough market and there is enough business there are some parts of our business that have not been growing fast enough which has caused the lack of double digit growth, but I think if we can get some momentum to happen on those features as well we will see the growth rate that we are expecting.

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

Sandip Agarwal: Anand just again I know you answered it, but just wanting to get some more clarity on what is stopping us from growing? Whether it is just some kind of cannibalization which is happening or it is to do with something with a leadership issue or you think that we are just there and things will start improving from here?

Anand Deshpande: See the answer to this question is all of the above. When you are in the midst of it, it is kind of hard to see this as such but I will write a book on this at some point. Let me explain to you some of the basic challenges that one sees. See we are trying to make this transformation that we are trying to get from a certain size which was about 400 mn$ to 700 or 600 levels. There are three or four different things we are changing at the same time. One is we are changing the customer mix because we had customer who are in the ISV side, we are trying to get to the enterprise market, there are changes on that side that requires different kind of selling, different kind of execution so there has been set of issues around that. The second set again is that yes, our leadership team has been around for a while they have been used to selling in a particular way there are changes that are happening that need to be addressed and all of these things come in at the same time while the market has also been making through some of these changes. So, I think it has taken us much longer to see the transition I think if you look at the strategy and what we are trying to do you would not be surprised anymore as to what we are trying to do and why we are doing it and the customer base continuous to be healthy and supportive, the partnership look pretty good every customer that we work at one by one when you look at them in individual level there is value that we are providing to them. So, all of those parameters look good when you total it up yes it should total more than where it is at the moment, but we are not giving you a philosophical answer I do not really want to say anything more. The only way to demonstrate is to show performance quarter-on-quarter. So, I think we maintain the momentum I think we should see the numbers going up.

Moderator: The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: I just want to ask, you said that you are on the verge of hiring a new CEO so you could at least share with us I am not asking you to share the name or anything like that, but just some kind of a profile, is he somebody with background on the Enterprise side, is he coming in from a much larger company than Persistent or what is it, it will be useful if you could share because I think he would be an important catalyst to drive growth going forward, so if you could just kind of share with us some broad profile of the kind of candidate that you have almost finalized?

Anand Deshpande: I know who the person is, I can answer that question but I really do not want to. I worked on this sort of issue about looking on missing information and ability to deduce with very little information this is what we do in our data business all the time. I do not want to say anything. There are certain nondisclosures and other things that person has in terms of his ability to really enhance, but definitely in the next three to four weeks we will have him on board and I will do a road show with him so you will meet him, there is no question but I am sorry it is kind of very easy to say things that one should not say.

Nilesh Shah: I have one question that let us assume that your hiring plan gets delayed by a few months and these are things which can happen there is always a slip between the cup and the lip, but I just basically want to ask that how much of our growth for next financial year would really be dependent on the new CEO joining us?

Anand Deshpande: Nothing actually no it does not depend on him right. The business has enough things going on which are there I do not think the immediate growth for next 6 months to 12 months is dependent on the CEO. I think there are opportunities to do in terms of potential acquisitions and various other things that we would do once we get the CEO on board, but till that happens the current organic growth is not dependent on the new CEO.

Moderator: The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: Anand just wanted to ask you on the digital piece so earlier we used to benchmark against the growth rate of north of 30% and while it has come off significantly in the last couple of quarters this quarter was a bit encouraging at least sequentially and I think you also mentioned some fairly interesting deals in the FSI space and some works and partnerships on healthcare, so do you see this turning for the better from here on and probably go getting to the higher growth rates that you think you should be doing in this segment?

Anand Deshpande: I think the opportunity and the goal is to seek growth rates of that kind on the digital side of the business. On the services side of the business it is going to be hard to see those levels of growth but moderate growth rates are definitely doable. When you add them up that should show you some improvements in the growth rates. So, absolutely there is no reason why digital business should not grow at 25% to 30% year-on-year like you mentioned.

Ashish Chopra: And also at least in terms of data what you observed is that this slight increase in off shore has come at a time coinciding with some weakness in digital and you mentioned that offshore should continue to expand as a percentage so just wanted to understand from you as to what is driving that change is it the case of supply situation in the US or it is some of the newer areas of work which are more amenable to offshore versus before and does digital hamper that movement towards more offshore?

Anand Deshpande: I think some of the offshore business has a lot to do with some of our larger client on the services side. So, it is not just digital related business that is moving offshore. That said considering the fact that it is much harder to place somebody onsite customers are also more willing to accept that okay I need the job done Yes okay if I do not have this person onsite, I am okay with it getting done offshore. So, there is a better willingness from customers to make that happen so Yes I mean both of those are contributing towards but I do not want to say that because we are doing more offshore we cannot go 25% on digital I am not making that implication at all.

Ashish Chopra: And just one last question from my side Anand so given that you have been chasing scalable client for a long time now so has it been any change in the way you have been going about selecting your customer or the sales approach continues to be of selling maybe bespoke digital contract and then trying to figure out more ways because this has been a restructuring that has been ongoing for some time?

Anand Deshpande: I think one thing that we have tried to do more and more and Sudhir can comment a bit more on that is that when we are getting in early on the transformation so let me say this way many of our customers who are partners of these local platforms such as OutSystems or Appian or some of the partners such as Salesforce including AWS and others They are also starting to call their piece of activity as piece of transformation so more and more Salesforce is trying to sell as a platform all these other guys are talking about low-codes. So, there intention is to stay and continue and it is not anymore okay you just implement the Salesforce and then we are out. So, the way they are selling, the way we are being introduced and the way we are selling. We are starting to sell more and more as a program and as a first step of a program rather than a project with a completion dates so that change of course we see that. Let Sudhir comment if he has anything more to say on this.

Sudhir Kulkarni: No I think you rightly summarized it not just the low-code platform but also Salesforce. They all are looking at it as a full stack and when they look at it as full stack the first project whether it is a implementation of sales cloud, service cloud, marketing cloud, etc., is just a start of the whole transformation journey. So, while the initial project maybe anywhere between 500k to a 2.5 million there is an annuity kind of a business that can be build and that is the approach. So, we are going in there with an approach saying okay here is the transformation architecture and we are going through a process of design-led structuring of that platform and then carving out projects one at a time. In some cases, we succeed and in some cases, it takes a while to succeed but, that is the approach.

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

Dipesh Mehta: First is about can you help us understand how digital deal sizes are going up and tenure if you can help us understand let us say a year back and how are they different? Second question is about attrition seems to have inched up slightly whether it is still in comfortable range or you would think some action need to be taken to control it to sustain or manage growth and last question is about IBM CE/CLM or IoT platform which we developed three years back, how it played out if you can help us Anand that whether it played out the way we anticipated at that point of time or if any difference is there and if you can help us with areas of where it is missing out or where it brings better than what we anticipate?

Anand Deshpande: So, let me start in the reverse order for you and let Sudhir answer the third of the three and I will try to be brief because we are sort of 18 minutes to go. CE/CLM side clearly, we are not been at the same level as we had expected and this is partly to do with the fact that we were expecting a lot more services business around product that has not come in as much as we had anticipated so I still think that there is a significant opportunity with the customers we are working with and as customer start to get more comfortable working with us we will continue to have better opportunities to interact with them. So, if you ask from the past the answer is no, we have not been at the same level that we had expected that said I still think that the product have lot more action and activity in the product. So, we will see some I still continue to be hopeful on that. Attrition was the second question on the attrition side yes, 16.4% has gone up from the 15.4% and it is certainly not something that we want to let increase so we are taking action. Some of those are relating to the fact that we are trying to pay some skills that are important with higher salaries and also trying to do the standard drill in terms of holding people back by trying to make sure that new projects that come in go to people who are in the system etcetera. So, there is a set of things that are going on and 16.4% is not necessary alarming we have seen more than that. That said any attrition is not good and we want to make sure that we can protect that. I will let Sudhir answer the first of the question regarding the digital deal size and all the other commentary that you asked.

Sudhir Kulkarni: So, the deal size is between what was happening a year ago and now I have not changed that substantially. I still see deal sizes that we have been signing between anywhere between 500 k to 3.5 million which has been a big one for us. Now having said that the nature of the projects as Anand was referring to and I was saying earlier have started shifting in the sense that people are looking at these full stacks. For example, one of the vendors or partners that we are working with this OutSystems as a whole. Pitch is to try and see how core rewrite of application can happen in a banking environment or in a BFSI environment and those are the kind of things that we are getting into. We are also partnered with Mambu which is a digital banking platform to exactly do the same thing which is to try and see how we can sort of rewrite some of the core systems and that acceptance of core rewrite, etc., that are happening in the market are only recent phenomena or maybe year or year and a half I am seeing this kind of a trend. I hope that answers your question.

Dipesh Mehta: When you are writing let us say core system rewriting you are not seeing size increases or you are benefitting from that trend?

Sudhir Kulkarni: We will be as long as we are able to land those kind of projects, but those are just beginning to start showing some signs of entry.

Moderator: The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: I just want to get a sense of, looks like the IP numbers are pretty much flat YoY and Q3 typically see some level better quarter if I call directly should we expect that Q4 will see a normal kind of run down we see as per the normal seasonality or should we say that this time around there was no seasonal bump up and therefore we should still be flattish?

Anand Deshpande: I do not know the answer to that question, I think we will know more about this in mid February. IBM has a big conference called Think that is in the week of 11 of February and at that point we will get a much better sense on exactly what the numbers are. At this moment we were disappointed to see this off-course, but we do not have the detailed commentary as yet.

Ravi Menon: You said that you were expecting more services work around these products, so is this been an issue because the contracts are still with IBM and you do not have accesses to those customers?

Anand Deshpande: It is all of those things but it is not just about services was not so much Q4 thing that I was mentioning to you. It was a question on the last three years that we have had the product what do you think have we lived up to the expectation of what we had set up to do and in that context we had factored in that we will get IBM will take us into bigger deals with CE/CLM customers that has not happened. The fact is that the customers are still better they now know us better and their willingness to talk to us directly has improved. So, we are seeing more activity in that process, but the fact is that it has not happened as yet and I think lot of this stuff actually. There are lot of changes happening in the ecosystem at the moment and I think this conference that is called Think and you should be able to see it online as well. I think lot of these things will get clearer only after that Think conference and towards the end of February, we will be in a position to give you a better answer on this.

Ravi Menon: And on Healthcare you are saying there is some good traction now on the providers so what has been the reception to this new launch that you have done with Herald Health?

Anand Deshpande: No so the pipeline is building up they take while to close the pipeline at least 6 to 8 months cycle, but the pipeline is building. So, it is too early to call again. HIMSS is a big conference for us that is again going to happen in this quarter, but the pipeline is growing quite well. It is still early to see the benefit of that pipeline exactly how the size is, but it a new product for us but the conversations are definitely very good and highly encouraging.

Ravi Menon: If I understand correctly there are no sales direct competitors as such because it is a very new way of doing things.

Anand Deshpande: That is what I understand yes.

Moderator: The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I just wanted your thoughts on the ISV business and how do you think things are evolving there and how things have changed from year ago I think little earlier I think couple of quarters back I suggested that the churn in the business is close to ending over a period of time so just your thoughts there and how you see things going forward there?

Anand Deshpande: So, the ISV business is stable at the moment. See what has happened that deliberately we have decided or otherwise to focus on product development across our broader ecosystem and not be restricted to ISV alone and that is the why we have been trying to all the digital transformation story and everything else that we are trying to build product across a broader ecosystem so market has grown for us. So, yes we have moved some sales people who are selling exclusively in the ISV market now sell product development in the enterprise market. Some of that had an impact I think overall if you add up product development which includes both of them you will see growth while ISV market has been lower than the other growth rates in the enterprise segment, but we are very much in the market and I think we will continue to sell that and I do not see any major issues there. Product development stack has changed to the extent that new products takes fewer people to build and that is the reality, but we are geared up for that. We are winning accounts in that on an ongoing basis and a regular basis as well and we will continue and we are not setting up that box.

Nitin Padmanabhan: But versus let say the earlier years where we have seen very low single digit growth in that area do you think that growth rate can pick up in the context that your own client base would have seen a relative churn in terms of at least from the perspective of the kind of projects that you do for them, so do you think that the growth rates can change over a period of time?

Anand Deshpande: Let me say this again I will comment more on this in the next quarter after the next quarter numbers. See on the select account that we are looking at we do see growth rates to be reasonable. When you look at the cumulative list of things of course we have certain accounts which changing the way they are building product, team sizes are readjusted. So, the growth rates on those are not as much as we would like to see. So, what is the effect of the cumulative list I do not want to comment on today but new business acquisition in this area is pretty good.

Moderator: The next question is from the line of Ankit Gupta from SAM India. Please go ahead.

Ankit Gupta: First question is regarding the transformation journey specifically speaking about the digital and the software 4.0 so if you could just help us understand where would digital fit in the software 4.0 technology and moreover, we have seen that digital shares has been clocking at around early 20s number, going forward what would be the share of digital services let us say next two to three years?

Anand Deshpande: Overall you know we think all business are effectively digital. Digital is going to obfuscate into all of software eventually so that is something that we observe. Now when we say software 4.0 what do we really mean by software 4.0. We think the next generation of software is going to be based on an architecture that includes micro services and components that are going to be built incrementally and iteratively and they are going to be deployed the network of subsystem across wider networks and this kind of software requires a different kind of building of the software and this is going to happen as the journey incrementally and iteratively and people are going to do this as a program rather than as a specific project or a product and this whole change of what we see in the market is what software 4.0 enables us to do. So, that is really what we are trying to work on and we will see overall growth on this overall theme that we are going on and part of what we had done with digital was in the last when we started this journey three years back. We identified the new business that we are getting from enterprise customers or others led by software that is in the transformation space such as Salesforce and others. We had classified that into digital and that is the one that we are trying to show as the digital business. We think that is not product development, to some extent is going to become digital and even product companies the software 4.0 methodology that we talk is also relevant there and we are starting to use there as well. So, this includes combination of Hackathon design thinking, workshops and trying to build these with short cycles and how do you build requirements in short cycles, deliver those in short cycles and then test them and then deploy them in short cycles. So, that is really the methodology that we are trying to push across this software 4.0 only.

Moderator: We have the next question is from the line of Devendra Chawla as an Individual Investor. Please go ahead.

Devendra Chawla: I just want to know how do you see your role and involvement in the business changing once the CEO comes in?

Anand Deshpande: To start with I think there is a very nice article that Benioff has written recently it is kind of worth looking I think you can take a look at it. I think there is a lot that I can still continue to help the company I believe that this CEO will run the day-to-day and the execution of the business which I am happy to hand off to him and I think I can help him with the strategy getting the teams aligned, education training, getting those things going as well as working with customers to work and define the next generation of transmission. So, I do expect the CEO to run the business and I too help him with the future of the business.

Devendra Chawla: The next question I had was what is your thought process regarding buyback both the ones that is happening now and in general?

Anand Deshpande: There are two things clearly, we think that our share price at the moment has been very attractive for us to buy and since other people are not buying we will buy on our own. So, that is definitely one part of it, but also clearly, we think that this maybe an opportunity to provide some cash that we have sitting on our books which we have not used and if you really look at the numbers, we generate about Rs. 900 million of cash on an average per quarter and the buyback is about 2250 thing so about two and half quarters of cash being used for doing the buyback which is a 10% as per the requirements and the law that we are allowed to do. I think that is something that we will do now and if we think this works well looks fine and if this is the prevalent way maybe company should do this every so often.

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

Mayur Parkeria: Two questions one is on the pharma product which we have launched I mean to say which was with the Healthcare JV we had seen a fair amount of investment over the last couple of quarter what do you think is the monetization opportunity and over what period can it really move the needle for us on the digital side given your domain focusing on the healthcare, what kind of opportunity if you can lay down over longer term can move and secondly do you believe that the Accelerite revenues around 50 crores a quarter is now stabilized and we can start looking at moving on from here on?

Anand Deshpande: So, on the Accelerite the idea is to go buy some more things so we will look at that as we go along and on the first one regarding the healthcare market the overall healthcare spend that only in the US is $1.7 trillion and there is a lot of transformation going on in this market. In this market specifically, we have chosen a small part of the market that we want to play in and that is relating to the hospital providers systems which are trying to make this transformation happen. There is a data overload in that market, there is a lot of data that is getting collected from various trends events and things that are coming into the hospital ecosystem. Hospitals have different business model that is coming up which is more relating to value based care and some of the technology on this we have the ability to develop and deliver but to get credibility it was important for us to make the investments in the Partners Healthcare or partnership that we have done and also the Pivot Labs things that we have announced and to get the right kind of domain expertise to be a player in that market. So, I think we are tracking quite well the pipeline is building up. It does take some time to close these deals and as soon as we start to get the pipeline cranking you will start to see more growth in those kind of businesses. I think we will take last question here we will take the question and close out.

Moderator: We will take the last question from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Sir my question is regarding the IP sale by IBM so IBM is selling its IPs to realign its portfolio to develop its portfolio that fits into scheme of things regarding growth in margin improvement, so how does our IP which we are working in association with IBM fit into these schemes of things.

Anand Deshpande: So, again let me give you a very quick answer on this. IBM is trying to look at the IP that they do not want to continue in one bucket and the one that they want to continue within the other bucket. The business that they have which they have been selling is from the bucket that they do not want to be in that business, but they are keeping the parts that they want to remain in that business. We have had conversations extensively with IBM and we believe that the work we are doing is in the bucket that they want to retain. So, we feel that should be fine in terms of where this would go. Again, I just want to put a disclaimer this is IBM business who am I tell you much about it. I think more of it will get clearer in the next conference let us think and then one more round will get cleared after the Red Hat acquisition actually completes. So, we will know more in about how IBM is behaving in the next six weeks and then again in the next 6 months. I would like to thank you all for you time I know it is late and it is 7 o'clock in the evening. So, we will l close this call I would like to thank you all for participating in this call and I know we made a certain promise of making announcements during the middle of this quarter and hopefully we will get them to you as soon as we have clarity on the CEO role and other people that we talked about. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Persistent Systems Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.