



Persistent Systems Limited - Analyst Conference Call

Q1 FY13 Results

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Start Time: 05:00pm IST

MODERATORS

Dr. Anand Deshpande

Chairman & Managing Director

Mr. Rohit Kamat

Chief Financial Officer

Mr. Hari Haran

President, Persistent Systems Inc.

Mr. Nitin Kulkarni

Executive Director & Chief Operating Officer

Mr. Vilas Kate

Chief Planning Officer

Mr. Vivek Sadhale

Company Secretary and Head – Legal & Investor Relations

Moderator

Ladies and gentlemen, good evening and welcome to the Persistent Systems Analyst Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this 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 on the call today Dr. Anand Deshpande, Chairman and Managing Director, Persistent Systems. We also have with him Mr. Hari Haran, President, Persistent Systems Inc. joining from the US, Mr. Rohit Kamat, Chief Financial Officer, Mr. Nitin Kulkarni, Chief Operating Officer, Mr. Vilas Kate, Chief Planning Officer and Mr. Vivek Sadhale – Company Secretary, Head Legal and Investor Relations. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

Anand Deshpande

Let me take this opportunity to welcome you all to the Persistent Systems Investor Call for the first quarter results for the FY13. We also had an Annual General Meeting today. In terms of the consolidated results I want to share with you some highlights first, then I will hand this over to Hari Haran. He will give us an overview on the sales side. Then I will have Rohit Kamat, who will give you some financial highlights and more details on the financial side and with some closing remarks from me, we will get to the Q&A after that.

To give you very quickly the highlights which are already on our investor page, the consolidated revenue was ₹300 crores which is a Y-o-Y growth of 34.4% and a Q-o-Q growth of 11.1%. In US Dollar terms the revenue was 54.91 million representing a Y-o-Y increase of 9.8% and Q-o-Q growth of 1.3%. The EBITDA was ₹806.72 million representing a Y-o-Y growth of 101% and Q-o-Q growth of 4.3%. The profit before tax was ₹575.46 million representing a Y-o-Y growth of 43.7% and a Q-o-Q growth of 4.2%. Profit after tax was ₹415.78 million representing a Y-o-Y growth of 50.8%. The IP led revenue during this quarter which has been one of our emphasis in terms of how we want to grow the business, this quarter was ₹7.65 million as against ₹3.06 million we had for the similar quarter last year representing a Y-o-Y growth of 150%. So overall we see good traction in the market, the trajectory in terms of the area that we had focused on such as analytics, collaboration, cloud and mobility, continue to see significant activities. We have a strategic plan around IP-led business which will yield positive

results. Our partnership with key players has helped us to enhance our offerings. We are on the planned growth trajectory and very upbeat about the market opportunity. Some of the key highlights that I like to share with you is that we have appointed Mr. Pradeep Bhargava as an Independent Director on the Board of Directors who joins us from Cummins.

We also announced collaboration with TGen Bio 4D Software program. A couple of partnerships we announced were with Acme Packet and Appnomic. We participated at the Enterprise 2.0 Conference, which is pretty much the premier conference for collaboration and integration services and then we were part of the Cisco Live Event where we were featured as partners as part of the Cisco WebEx Conference. In terms of the other awards, we were rated top-10 for Investor Relations in India- with Vivek Sadhale, our head of Investor Relations ranked sixth in Best Investor Relations professional in India by the Thomson Reuters Extel survey. We were also leaders in the best 20 leaders in R&D development for IAOP and then we were featured very prominently in the 2012 Zinnov report. The other thing I would like to point out is that we have been working very closely with Satyamev Jayate in terms of doing data analytics on social and media, Twitter feeds, Facebook and other social media, data that we have been collecting and using a data platform which is part of our analytics platform that we have built to test this particular opportunity and if you go to the Satyamev Jayate's insight page, the impact page as they call it, you will see insights from Persistent. Let me now hand it over to Hari who will give you some more information about the sales and marketing update and then we will come back to Rohit.

Hari Haran

Good evening ladies and gentlemen. It is a pleasure to have this opportunity to speak with you regarding our results for the first quarter of fiscal year 2013. As Anand indicated we saw some good customer tractions during the quarter. We added 33 new logos during the quarter and about seven of those were very large corporate clients, billion dollar customers and we continue to see a lot of independent software vendors and enterprises moving or creating their applications to the Cloud. We are seeing good amount of interest in clients wanting their applications to be put in tablets and phones and in the design of many of these applications it is clear that mobility is being incorporated into the design upfront as opposed to being an afterthought. So mobility and in Cloud continues to be in the front and centre of much of our engagements.

We are also seeing tractions in analytics and collaboration as Anand indicated and as part of our deliberate strategy we were able to grow our IP-led revenue significantly. Now while this component can be lumpy and have variations between quarters, we will see a trend to grow this component gradually. We also are able to successfully engage with some of our clients in the area of high-end technology consulting. We have recruited and grown our consulting team to address this part of the business model and our sell with Business Model is working quite well. Our partnership with Salesforce.com and Oracle continues to grow steadily and we are also seeing some traction with our partnership with Microsoft and IBM.

As far as the full fiscal year is concerned we see more IP-led revenue and product takeovers in the mix. There are more customers, more independent software vendors that want to rebalance their product portfolio, and as we see some consolidations in the market and some customer consolidations, this is also causing some duplication in their product offerings and this naturally leads to the need to carve out those products that are duplicated. Persistent Systems is well positioned itself as a suitor to address those needs and take over the products and be a full-scale partner. We are positioning our business as a full scale 360-degree partner with our customers through our diverse business models and a 4x4x4 strategy that we talked about a few times in the past. Regarding additions in the sales and marketing area we have made an offer to quite a few people in the marketing and sales function in North America, Europe and Asia.

These headcount additions should be reflected in our charts in the next quarter as these people join, so we are growing and investing in that area. As Anand indicated we attended quite a few marketing events during the quarter. We also had our first Persistent Customer Day in the Bay Area, California where several of our customers attended and we were able to showcase some of our offerings. We are certainly seeing a growth in the location based business that we acquired as well as the TNPM network management business, performance business that we acquired. We are getting access to quite a few new customers through this business and of course we will actively seek to monetize these clients. So overall we are investing and growing and are quite excited about the progress we made during this quarter and are confident about ramping up the momentum during the fiscal year. Despite the macroeconomic conditions we are in a positive trajectory here. So once again thanks for the opportunity to speak to you all.

Anand Deshpande I request Rohit to provide a little commentary on the financial numbers and Forex and other details that would be of interest.

Rohit Kamat Since Anand and Hari have explained the aspects related to revenue, I will focus on margin movement, CAPEX, hedge status and cash position. Let me start by explaining that our Q1 margins are not directly comparable with the Q4 margins of the previous year because typically in Q4 we see volume growth, we see the benefit of royalty and that sort of creates a lack of direct comparison between the two. Having said that let me explain the margin moment for Q1. On employee related expenses we are seeing 7.7% increase mainly due to 4.2% pay hike that we affected to follow our onsite delivery team effective April 1, 2012.

As a part of our acquisition of network performance management product, we added 72 employees in Malaysia and 12 employees in USA. Our project related expenses went up by 67% mainly due to the applications which we put for US work visas in view of the tighter visa norms. Our sales and marketing cost increased due to again increments given to the sales team in the US effective April 1, 2012 and also due to the participation of some of the branding and marketing event in the US. The administrative cost increased by 6% due to hiring of additional premises in SEZ. Our investment income for the quarter was ₹75 million which was offset by hedging losses of ₹121 million. So we are seeing a net loss of ₹47 million in our other income portfolio. The effective tax rate for the quarter was 27.7% which was slightly higher than that of the previous quarter. Our profit after tax for the quarter was ₹415 million as compared to ₹412 million in the previous quarter, recording growth of around 1%. PAT margin for the quarter was 13.9% in comparison to 15.1% in previous quarter.

Regarding hedge position as we always explained we use hedge as an instrument to protect our project cash flows. We have consistently followed the policy of hedging around 50% of our net open positions on 12 month rolling basis. As on June 30 our hedge position was ₹107.75 million at an average rate of ₹52.91. Our cash and investment position as on June 30, 2012 stood at ₹3596 million in comparison to ₹3393 million as on March 30, 2012. Total CAPEX for the quarter was ₹104 million. You are aware that in the last quarter we completed our CAPEX project at Hinjewadi and Nagpur. So the CAPEX for this quarter was on a lower side.

Anand Deshpande Let me give you a few more comments that I would like to reemphasize. One is as we have been stating in the past we have a very committed strategy to go after four technology theme areas, cloud, analytics, collaboration and mobility I must say all of them are doing very well. The other thing we had decided was to do “Sell-With” partnerships where again we have classified them as platform based services and those are spaces we had pretty good growth here even on a Q-o-Q basis. The IP-led business also on the Q-o-Q basis has grown at a healthy rate.

I would like to also mention that while we did a 4.4% salary hike for US or mainly the onsite resources a 9.9% hike has been factored in for the next quarter onwards and has been already announced with effect from July 1 for the Indian employee salary base. Anticipating a few questions, the attrition rate was 18.9% and if you compare our margins this quarter as compared to the previous year our gross margin this quarter was 44% as compared to 40.8% from the previous year. In fact the EBITDA was 26.9% as compared to 23.1% for the completed last financial year and in all these margins actually look pretty good.

Overall, we do see variability in the market and the market continues to be challenging for ODC type business, that we are seeing growth in IP and platform business, which we think will help us through the rest of the year. So with these opening remarks let me now open out for questions.

Moderator Sure Sir, thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Nitin Mohta from Macquarie, please go ahead.

Nitin Mohta The question that I had was on the margin front, clearly rupee has depreciated very sharply but when I look at the performance, now I understand you eluded that Q-o-Q comparison is not valid given the royalty payment that you received but even then I think there was a little bit of a disappointment on that front. If you can share your thoughts what exactly has gone in that.

Rohit Kamat As I explained the margin compression has happened basically because of a couple of factors like the onsite increase in salaries which has impacted margins by 0.7%. The impact was around ₹20 million. Then addition of people in connection with the product

acquisition which we did, the onsite people,. 72 people got added in Malaysia and 12 people in USA, this has added the burden in terms of salary. The full-fledged impact on the revenue side, we will be seeing in the coming quarters are also transition costs associated with these projects. Then the application, which we made for visas, that has impacted the margin. The total visa cost was ₹18 million. On overall basis the gross margins have impacted by 340 basis points due to all these factors and we see the currency benefit of 270 basis points, so net impact on gross margin was 70 basis points.

Nitin Mohta

That is helpful and just a follow-up in terms of the wage hikes, if I understand the environment seems to be pretty tough, so given that a 4% onsite wage hike and a 10% on the offshore side clearly seems to be a little bit on the higher side compared to your peers, are you seeing a good demand pickup in the second half of the year or is it that what you think your talent set is more amenable to poaching and that is why this kind of a salary hike was warranted?

Anand Deshpande

No. One of course is the areas that we are working in are in good demand right now. We do see an uptake in the business, some of the investments that we have made in some of the new technology areas we think will start to pick up results and we are already starting to see that and also the attrition on some of the key resources has not necessarily gone down so at an 18.9% attrition that we are operating on, we did not want to be looking at a higher attrition than that. We think we need to be near 15% rather than 18% so that has been a number that is a worrying number.

Nitin Mohta

If I can squeeze one more on the competition from captives because a lot of your captive competitors would be working on a cost plus model, given where rupee depreciation is, are there any pricing discussions that you are having because obviously your reported matrices did not show any pressure but just wanted to get your thoughts, are there any discussions around that?

Anand Deshpande

No, at this moment there are no pricing discussions going on and if you see our numbers that we have in the list, the pricing numbers have actually gone up very modestly. I would say they are flat, at least they have not gone down. There are certain amounts of revenues that we have which are tied to pricing in rupees, about 10% of our revenue is directly where the billing rates are given in rupee, so they have actually gone

down because of the rupee dollar fluctuation. So other than that, there is no explicit reduction in rates in any of our projects.

Nitin Mohta

And no loss of revenues to Captive competitive?

Anand Deshpande

Not anything unusual as such, meaning we do have fair discussions with Captives where most of our customers have their own captives and some movement happens on an on going basis but there is no movement from our projects going to Captives. We do compete with Captives on an everyday basis on new projects that get assigned and it could go to us, it could go to the Captives but we have not seen any real change as far as the attitude towards Captives is concerned.

Moderator

The next question is from Anurag Purohit from Systemic Shares & Stock, please go ahead.

Anurag Purohit

I just wanted to again come back to margins because this quarter we saw a volume growth of 4%, pricing in linear business also has remained stable and there was a higher component from IP-led revenues and onsite also increased and despite that there was a drop in margins. So was there any one-time also involved in this quarter's margins?

Anand Deshpande

As you have pointed out all the numbers that you did and it is sort of one of the things that actually contributes to this is on the IP revenues we had expenses as was mentioned earlier, we have taken on a team in Malaysia which came on board from 1st of April and there was an investment for cost- started to hit us from pretty much the beginning of the quarter. However, the revenue has a phase lag. We saw some revenues in this quarter but we will see more revenues in subsequent quarters. So there are certain expenses that came in on the IP side of the business where there is investment but there is not comparable return on it. So effectively you might find that the cost per person on IP would be slightly lower because if you add the equation that you just pointed out where you said rates have not gone down, volume growth is 4% but top-line and margins are where they are.

Anurag Purohit

Another thing I wanted to ask you is that the repeated pricing is stable, and volume growth was 4% but linear IT services revenue growth was very much muted despite a

higher share of onsite revenues. So I just wanted to understand the equation between the three.

Anand Deshpande

As we have also pointed out that we are sort of trying to move more and more of our business into IP-led revenues and also into platform based services which is basically the “Sell-with” opportunities that we have with our customers where we are partnering with some of the leaders in Cloud such as Salesforce and in collaboration we are working with some of the other leading players and we have been working with them and trying to do development work for their customers. Now the consequence of that particular kind of project is that one, because these are projects where we are not offering software services as Java, C++ but going as experts, our rates are lot better. So we are able to get better rates for the work we do out there but the consequence on there is that projects are not contiguous so there are holes that get developed between completion of one project and the next project and the utilization rates for the same resources typically would not be 100% because this is little bit more of a consulting type arrangement. Though I would say it is not pure consulting because even there the utilization that we have is pretty good actually, 80% plus you will get on existing projects once you have them there. Overall we are seeing these trends, which is deliberate and planned but we do find is that more and more customers are thinking projects rather than offshore development center, so in the past we would have had newer projects and many projects where people would have asked us to say “okay start a team of 20 people and keep it there forever”. We are seeing more and more cases where customers are asking us to bid or at least propose on projects that are project based rather than people on projects kind of stuff. So there is a definite shift happening in the business and we had anticipated this for the last several quarters and accordingly we have already shifted our business to other areas which are where we are seeing growth.

Anurag Purohit

And lastly, the drop in revenue contribution from top-5 clients, is the reason with infrastructure also. Any particular reason for that?

Anand Deshpande

Again, these things keep happening again and again and they will happen all the time. One of them as we have mentioned in the past that we have had projects with a large Bank for a while that has been going down steadily as we have completed the project. The last seven months of that project actually finished in the last quarter or rather this

quarter. So there is some of the revenue in this quarter from that particular project. There are other projects that are coming in but overall that revenue from that one particular customer is down and that is the reason why you see that the top-5 contribution has gone down. Other than that I do not think there is any issue and I would not read too much into some of these numbers.

Moderator

The next question is from Rahul Jain from Dolat Capital, please go ahead.

Rahul Jain

Firstly I think a bad debt number is close to ₹40 million in the quarter and was just ₹90 million in full of 2012 and just ₹40 million in full of 2011, so considering our exposure to lots of start-ups, do we see this as a trend now?

Anand Deshpande

Actually, so far as the provision for doubtful debts is concerned we follow the policy of making prudential provision. We provide for all overdue invoices above six months. So that is why some of the invoices which crossed that border of six months, if they fall in a particular quarter the provision is made. We are tightening our recovery process, we are strengthening the follow-ups and collection process. So in the past also out of these provisions we have recovered the things and that impact also you have seeing in previous quarters. So this is the provision made on a prudential basis.

Hari Haran

I think even generally the market conditions are such that it is not just small companies but with acquisitions various other things, there are certain invoices that get left dangling and there are things that we have to work ensure that does not happen on an ongoing basis.

Rahul Jain

So nothing too specific for the kind of client profile we have, it is a general thing?

Anand Deshpande

I would not blame only the small companies there are a few invoices that have gotten delayed because of various situations on our customer side but by and large most of those should be recoverable.

Rahul Jain

So a large part is recoverable. Rest is just a collection in elongated.

Anand Deshpande

That is correct.

Rahul Jain And the S&M part again there is a sharp rise, so anything specific we have done, is it the thing which we are talking about in the US or Malaysia?

Anand Deshpande No, this is in the US. So this is all mostly sales people that we have added to the sales team in the US. Last year in the quarter we had actually reduced some of the sales numbers in the early part of the year. Right now we have added more people on the sales team and that is basically causing the increment to go up in terms of the numbers looking higher. The S&M also gets clubbed with both sales and marketing. We had a few events such as shows that we were participating in at enterprise 2.0 and a bunch of other places. And that also contributes to that expense looking good, better or higher and we also had a customer event for Microsoft where we completed 20 years of doing business with Microsoft, having worked with Microsoft for 20 years we did a celebration party in Seattle and then we had a customer event on 7th June, which Hari alluded to. Those costs have also been added into the marketing budget and they go into the S&M cost. So all of those are happening because of that and overall we are very confident now about the market moving and the fact that customers are talking in the areas that we are focused on that we are definitely trying to add more resources under sales and marketing side. So I do expect an absolute numbers to cost to keep going up for at least one more quarter.

Rahul Jain Okay and lastly on the depreciation part, it is been flat despite a new facility addition, what is the trend going forward?

Anand Deshpande The thing is the depreciation is flat because the facility went up already last quarter, most of it was there in the last quarter as well and the other thing is like continuously we have had sudden infrastructure and facilities that are more than 5 years old and they have been getting off the depreciation chart because they are now getting completely expensed out. So some of that is happening but in some sense I would not read too much into that variation and depreciation.

Moderator The next question is from Manek Taneja from Emkay Global, please go ahead.

Manek Taneja First of all would want to get a sense on the fact that despite the fact that a reported pricing, whether it is onsite and offshore pricing, is up Q-o-Q when I am looking at revenue realization for the linear business that is down by 4.5%. So could you explain

that calculation and second question once again on the margin performance in the current quarter, if you could once again explain the moving parts and also talk about the benefit from currency in the current quarter and the headwinds on margins there?

Rohit Kamat

Most of the growth in the revenues has flown from IP-led business as Anand has explained, so on the linear side the revenues have been flat. We have seen a slight growth in the onsite revenues and onsite trades but if you look on the offshore side the rate and the revenues have been flat. On the margin front, I explained that the gross margin is lower by 340 basis points basically because of three factors, increase in onsite salaries, the addition of visa cost and acquisition of people in the US and Malaysia. So the impact at gross margin level was 340 basis points which was partially offset by 270 basis point currency gain. So the net impact was 70 basis points. On SNM front the increase as Anand explained, there was 70 basis points increase in the SNM cost because of increase in onsite salaries and participation in couple of marketing events. So at EBITDA level we are seeing 180 basis points decline comprising of 530 points decline on account of various factors which is partially offset by 350 basis points.

Manek Taneja

My question on that side still remains unanswered. I still fail to understand when I am seeing a 4-odd percent kind of a volume growth for a linear business and when I am trying to calculate revenue productivity basically our linear revenues divided by the linear volumes I essentially get a 4.5% odd sequential decline which is essentially \$4330 odd million per billed personal, has moved essentially Q-o-Q to 4131. However our reported pricing still shows an increase. That is where I am failing to understand.

Rohit Kamat

No, volume growth is basically related to IP-led business and not related to linear business. That is the point I am trying to make.

Moderator

The next question is from Radhika Merwin from PUG, please go ahead.

Radhika Merwin

Just a couple of clarifications from my end. One of the large client which we are indicating will see impact of ramp down that is Wells Fargo. Just want to know are we through with it this quarter? Is there anything that will drain into the next quarter?

Anand Deshpande

No, I think that one will not, but as we see in the market right now, we will see some ups and downs on an ongoing basis with projects. We run 300 accounts, we have 300

customers at any one time. And every quarter we have some dips and some growth. So that is all part of how we operate and we also have a substantial 13% of our business coming out of IP-led revenues now which will also see a lot of cyclicity. There will be certain quarters where we see very good revenues and some other quarters where we would not. But overall we think we are tracking in the right direction and I am not concerned about Q-o-Q comparison for this.

Radhika Merwin

On the margin front, of course this quarter is quite well explained, just want to get a sense going forward, I mean we are talking about we have taken some people on board, I mean we rebadge basically on the IBM deal. How does it look for the year forward for the remaining quarters? From when can you see significant impact of this business reflecting on our margins?

Anand Deshpande

You will already start to see the impact in from next quarter onwards. Couple of things to note again, I do not want to make any real forward statements here, but if you look at it from a traditional point of view and you compare our margin Q1 to Q2, Q1 to Q1 right now, our margins in Q1 and Q2 are traditionally much lower than what they are in Q3-Q4 and when you compare Q4 and Q1 that is not really the best comparison to look at. If you look at Q1's number and then you compare that where we ended for the whole financial year that will give you some indication of where we are trending. If you look at our numbers for this quarter and compare them to the last year's financial numbers in terms of those packed EBITDA, PBT gross margins, they all look better for this quarter as compared to the whole year. So when you do a flat Q-o-Q comparison sometimes things are not always that clear. We can explain where they are and what is happening and we do not think that, we have done anything that is going to decelerate our margins for the year.

Radhika Merwin

Sure, understood. On the cyclicity which you are mentioning that is ideally because of the royalty that you are mentioning, could you elaborate that a little bit more?

Anand Deshpande

Yes, so as we mentioned to you already we have done several deals with customers where we now own IP from those customers and we have done a location deal for location based services, we have done this deal for certain kinds of network performance monitoring tools and then there are other that we have. Now the way these products are sold to customers and they have already been there and their

maintenance revenue, plus they have cyclical renewals which means renewal happens once a year and whenever somebody buys a product one year from there they pay maintenance and you can buy the product in any quarter. So a lot of these things are not flat. See, the business for us is moving from where we used to allocate members to a particular customer and a team to being slightly different such as IP-led and platforms and all of these kinds of things, so all of them have a situation where I cannot draw a straight line on a graph sheet and say this is where the revenues are going to be. So you will see these ups and downs in the business and we know that this is going to happen. So that is the business that we are in now.

Radhika Merwin Sure. As I understand you correctly the third and fourth quarter are seasonally stronger quarters for this generally?

Anand Deshpande From the margin point of view.

Radhika Merwin Just one clarification on the FTP-led business, I mean we have seen a significant drop if I look at, even on a Y-o-Y basis and even on quarter, from 8% again you are down to 7.5%. What is the trend there because it could be a significant lever for us in terms of margins, so what are we looking at in terms of benchmark level?

Anand Deshpande No, actually what we find is that our linear business and fixed price business pretty much have the same behaviour. Many times in fixed price business, typically the risk is ours in the sense that we do not necessarily have better leverage on rate. So that is really not the leverage that the opportunity that we are pursuing which is an important one is to say instead of offering services where we are offering services for C++, Java-pretty much the lowest commodity of programmers that one can bill and saying okay, I have so many bodies to put on some projects, we are trying very hard and it will take some quarters to move out of this business into a business where we are focused on technology areas where we are now offering services at a very different level. We have changed the SKUs of what we are offering to our customers. We are not just offering people and projects and headcount and numbers. We are trying to talk more about how do we solve our problems and we are starting to move in that direction both with IP and with platform-led solutions. So we are changing our business considering the fact that the business models are changing, the customers are changing and we had predicted this for the last three years and systematically we have been doing that and the

numbers that we have been tracking both for platform and IP which had the key things where we wanted to move the growth, both of them are moving very well. All our expertise around third analytics, collaboration, mobility are all tracking well. So overall I am quite pleased with where we are.

Radhika Merwin On the outlook for the year, is there any benchmark or anything that we are guiding for vis-a-vis a NASSCOM where we would stand overall by the end of this year?

Anand Deshpande Giving guidance is become like a bad word now so I do not know what to tell you but the NASSCOM numbers are fairly conservative. Companies like us should definitely beat it. It is not really something that we are concerned about I will leave it on that and say that we think that we are trending fine, we are on track with what we said both on Cloud, analytics, collaboration, mobility. The fact that we are doing platform, "Sellwith" solutions and IP led, our rates will go up because of that and this is the new business and we just have to be tracked differently that is all I must say.

Moderator The next question is from Grishma Shah from Envision Capital, please go ahead.

Grishma Shah Just wanted to know what kind of deal or project do we have with Salesforce given that one of the companies called Sonata has also signed one deal with them. So is it very different than what we do or how is it?

Anand Deshpande I will tell a little bit about what I can share with you and then I will have Hari comment a bit further.-When we worked with Salesforce, we do engineering work for some parts in Salesforce so that is a business like we do with many of our customers. We have a 360° relationship which Hari alluded to with all these kinds of customers and Salesforce is one of them. When we deployed Salesforce within the company we worked with Salesforce as a customer as part of the product engineering work we do. We also worked with Salesforce on- they have a platform called force.com which is a platform that allows product companies to build their products on the force.com platform. We are their premier partner for bringing customers to them so we have done more than 30 deals in the last quarter, 30 projects I would say during the last quarter to 6 months with Salesforce and their customers in trying to help them move and migrate in use of Salesforce product platform. We are also the Premier partners for small and medium businesses for Salesforce and overall our relationship with Salesforce is pretty wide and

deep and it is not this one project but there are several projects. We have more than 100 people working on Salesforce related activities for us. I will hand it to Hari who can give you a little bit more. We are also at Dream Force, which is their conference, in the next few weeks and we will have the several things that we will showcase at that event.

Hari Haran

As Anand alluded, we have a 360° relationship with salesforce.com, now beyond what Anand mentioned basically when salesforce.com goes out to their enterprise customers and migrates their enterprise applications to the force.com cloud which is the salesforce.com cloud there is typically a lot of services that are needed which is - assessment of the application, architecting the application, designing, boarding and testing all of those things essentially an entire methodology that is used in migrating applications to the cloud and we are one of their partners. So in the bringing of these enterprise customers we get called in and end up doing the actual services work so that is one of the things that Anand was alluding where our business is growing quite a bit with salesforce.com. Now I would like to add that we are also a preferred Platinum partner of salesforce.com in the small- medium business segments. Actually we are an exclusive partner, we are the only one that partners with them in the small- medium business segment where we implement their CRM solutions within small medium business customers. So these are the additional two things that we do as partners and in the general enterprise customers there are other partners as well such as Accenture and you mentioned Sonata so there are a few but we are in a certain area where we have carved out based on our strength and our expertise and relationship with salesforce.com business and we get a steady flow of business. We are investing in marketing and sales, are putting people on the street to spread out so that they can partner with the sales guys or salesforce.com to increase the business in those areas as well. So that is sort of giving a color on the partnership that we have with salesforce.com.

Grishma Shah

But would you have any concrete number, maybe you do not want to share it but a concrete commitment from Salesforce or it would depend on the kind of customer acquisition they do and therefore then you tag along with them to provide your services?

Hari Haran

Actually, salesforce.com does not give any concrete commitment in these areas because they do not demand us to make any commitment on investment either so

since we have been doing this now with them for more than a couple of years. We have got a sense of the rhythm of their business and we understand the pulse and the parent and the type of investment and we have gradually gotten quite well at it that we can pair our investments in a way where we are making good profits out of this engagement and we know how to anticipate and grow that business. So like any partnership it takes a while to exactly understand the parent that will help you to not over invest or under invest but there is no commitment from either side as to level of investment or level of revenue. But we have seen that we will grow Q-o-Q nicely and we expect it to continue to grow.

Grishma Shah

You have also said that you have added 33 new logos during the quarter, what does it signify for us for the year ahead, does it translate and therefore we are confident about meeting the NASSCOM guidance or will these logos take a little while to come on board in terms of contributing coming into a billed customer?

Hari Haran

All of these are the billed customers now so the 33 that I quoted there are not only just signed contracts, they actually produced revenue during this quarter already but all of them will continue to produce revenue during the year and to grow, so the 33 new logos that we added is nothing different than 40 or so that we added last quarter. It is part of the normal business cycle where we continue to add the new logos, some of them through our partnership, some of that are through our lead gen mechanism and customer prospecting and so on and so forth. But certainly we expect them to continue to grow and will be part of the engine that we are saying that will provide our growth during the year.

Grishma Shah

The other question is on the pricing side, pricing has not moved at all if one had to look at it do you see that negotiations or discussions on that coming in middle of the year or this should remain by and large stable given the current environment?

Rohit Kamat

They will remain pretty much where they are, they might go up. We have to understand we are changing what we are selling so that is why we are seeing prices changing. If you have further questions you can always write to us and we will answer them for you.

Moderator

The next question is from Ankur Rudra from Ambit Capital, please go ahead.

Ankur Rudra How is the visibility in your business, I have realized it has become a lot more choppy than before, how does it look compared to a quarter back that is part number-one? Part number two, could you commit a bit more on the linearity expected on IP revenues for the entire year? Would it be similar to the previous year or given the change in volatility it can be different?

Anand Deshpande Let me answer your IP revenue question, we definitely have made several investments in the last six months or so which will deliver results in this year so we expect our IP revenues to keep moving up as compared to what they were last year, so that is the first one. In terms of visibility, visibility is kind of tough in general and we do see better numbers from better market sense right now, than we saw last quarter and over a Q-o-Q basis its improving, this is what I would say. Though as I mentioned to you already the deal sizes are becoming more project driven rather than ODC, kinds of things when we were running a business when it was an offshore development centre life was simpler in some sense, you allocate the team to your project and you could give pretty much sit back and watch it work on its own but that is not the case anymore. So this is the nature of the business. We had anticipated this and this is how it is going to be and we are very well-prepared for it. It will be a little slow for us for few quarters but I think we are trending very well.

Ankur Rudra So can I characterize that by saying that, compared to where you were at this time last year visibility probably is a bit cloudier?

Anand Deshpande No, I would not say that. Actually visibility is better every quarter, it is improving in terms of the confidence, in terms of our strategy, the relationships with our partnerships, the "Sellwith" business that we are getting from an ongoing basis and the fact that we are getting IP led revenues going up is a clear indication of how we are saying we are getting more and more confident about the strategy that we had outlined few years back. It is starting to pay off in some sense so I feel that we have better visibility now than we had earlier. Every quarter it is improving.

Ankur Rudra On the IP question what I was trying to get at really is, will it be second-half weighted like every year or not?

Anand Deshpande Every year we have one sample size of one year, last year was the first year when we had any significant IP revenues. Now if I take that one point and draw another point and top of that I can draw it wherever I want that is why fact is, we have made several investments in the last six months on IP revenues which are starting to show results this quarter. We hope you will see good numbers in the rest of the year and it cannot be more explicit than this. But I do not want to say first half and second-half because you will see choppy quarters as we go along. It is the nature of this business.

Ankur Rudra Is the headcount changes that you were going through last quarter, completed now? Have you changed that in the sales team and some of the workforce?

Anand Deshpande Lot of that has already been done, we have added more people on the sales team which is what is showing up in the S&M budget and you will see those numbers even growing after potentially next quarter. We are now clearer in terms of where the platforms in the IP led business is moving and since that is happening; we are adding people on those parts of the business on the sale side. We have added more people on the India side from our best guys to help out on sales. We think the market is at least in the areas that we have chalked out. We are starting to see definite growth in upside so you will see now we are ready to make the investments. We are not watching anymore, we are starting to act.

Ankur Rudra It seems to an extent last quarter there was still a bit of churn in your teams and is that stable now? I know you will keep adding as you grow but is it more stable now?

Anand Deshpande It is stable but we have this chaotic stability on an ongoing basis. There will always be people who we will boot out if they don't deliver and this is a part of life here. It is very stable but we will see this on an ongoing basis.

Moderator The next question is from Kunal Tayal from Bank of America, please go ahead.

Kunal Tayal Firstly, a question on the margin front. In the past Persistent sensitivity to rupee changes has been in the corridor of 50 to 60 basis points and operating margin level for every 1% change so in that context- 280 basis points of benefit this time on 10% rupee depreciation seems a little lower. So is there a reason why maybe the sensitivity has decreased in the past few quarters.

- Rohit Kamat** It depends on the hedge position in the particular quarter plus in this quarter because we have added lot of on site, our FOREX expenses also increased as a result of impact of these two factors we are seeing 270 basis points impact in terms of currency.
- Kunal Tayal** So the 280 or 270 basis points impact that is pre-hedged or post-hedged?
- Anand Deshpande** That is post hedged.
- Kunal Tayal** Just a couple of questions to Anand on the revenue side. You were mentioning that IP and product takeovers will drive growth this year so if you could just talk a little bit about the kind of deals, quantum as well as size of the deals that you see in the pipeline in these two areas?
- Anand Deshpande** It is a very tricky question because the pipeline actually is very large with lots of large deals. The problem is that the time it takes to close the deals is pretty large as well and that is why I cannot stand up and tell you exactly what number there are. But overall as you would notice lot of the deals that we are going and adding in these areas are several million dollars. High single digit, in some cases and definitely in millions and not in thousands of dollars.
- Kunal Tayal** Lastly of course the decline in Wells Fargo as we have known and going on but I just want to get your thoughts if the decline this quarter was by and large what you had expected or different from that?
- Anand Deshpande** No, it was not at all unusual, it was planned, it was known the project finished. We had some maintenance activities on that, that's all done, taken care of and that was clearly anticipated and planned and in general as I pointed out to you earlier there is volatility in terms of how customers are thinking in the regular product engineering business that we see. Though we are quite upbeat that we will grow that eventually as well including next quarter. But overall people are thinking very differently and that is what we have seen in our business.
- Moderator** The next question is from Sandip from Edelweiss Securities, please go ahead.
- Sandip** I am not able to yet reconcile the dollar growth because volume growth and showing 4% and it is showing that it is linear excluding IP if you see the number of months in the

presentation and the pricing is also slightly up only. So I am not able to correlate why the dollar growth is only 1.3% or some percentage because does it imply that it is more of a cross currency impact or something else?

Anand Deshpande It is not whole lot to do with cross currency. There is some cross currency from rupee side of the picture because some billing is happening in rupee so there is a dip on that. It is a little complicated equation, maybe we should take this offline and I will explain this to you or rather Rohit can give you details. The problem that you will have is that the IP revenues have certain investment that does not reflect in returns so it is a little more of a complex equation than one can put out for a linear thing in it.

Moderator The next question is from Srivatsan Ramachandran from Spark Capital, please go ahead.

S Ramachandran We have seen a bit of transformation happening in the business moving more to “Sellwith” than the traditional OPD. As you look at the business how would this cookie crumble in terms of a traditional services business would “Sellwith”, increasingly become a larger proportion of your business thereby more on site heavy?

Anand Deshpande We do not have real trends on it but overall yes IP business going up that is not really on site, it is mostly offshore related and it is complex in the sense that we now have a team in Malaysia and France which is all relating to IP led business, We are also doing more platforms as I have indicated to you and yes that has requirement for more on-site and that is also reflecting in some of the numbers. Overall we think that the market opportunities when we look at peer group, competition in these areas, leaders who are in these areas so if you look at saying who are the top performance for Salesforce or any of their cloud platforms or any of them, the opportunity market size and all of those things are still very large so I feel like this is a fairly good growth opportunity and there is no reason to think that this is a short term thing or any of those things. So if you look at the leaders and these are not Indian companies, these are mostly US companies who have fairly substantial business in partnering with the leaders that we have picked up and we are well plugged-in to these companies at the very senior most levels.

S Ramachandran The sell with also requires completely different set of sales KRA is another thing. So has this transition been already done because of sales, it is going to be far smaller deals, strengthened the structure, re-working all this is done with, I presume?

Anand Deshpande Well it will never be done with that is not the right thing to say but we have definitely moved from where we used to be and the last six months as you have noticed we have been mentioning that we are doing transitioning in the sales team to look very different. We think that basic investments that needed to be made to see these uptakes, pretty much in place and we are seeing returns already. Now will it all be done ever, there is no such thing as ever, so it is an on going process.

S Ramachandran My last question is on the IP strategy, from here on, would predominantly IP strategy be taking over, end of life for other products and modifying it investing or would you continue to look at internal wide spaces wherein Persistent will come up from ground up products?

Anand Deshpande There are two or three products that we have launched in the last year, which were completely done by us. But the problem that one has when we do these is that the ramp time is a little slower. So I cannot use high single digit millions or even single digit millions on an IP that we start and introduced right now in the market. That transition to get to a million-dollar we will take a year or two year in some of these cases. So these IP transitions that we are getting which are from customers that we are already working with in areas that are already in our sweet spot that is a relatively faster way to get slightly bigger numbers.

S Ramachandran My last question is on the cash if you look at the last possibly a Y-o-Y and the quarter from a pure cash attrition point of view it has been pretty muted so just wanted to know how would you look at cash accretion maybe for next 9 months- one year perspective?

Anand Deshpande Last year if you look at the reason why the free cash flow has not increased as much is because of the investments that we made in Hinjewadi and Nagpur facilities and cash got spent in some of those areas. Those things are done now so we do not expect real expenses of that kind anymore and the operating free cash flow on a month on month basis is about 10 crores roughly so that is where we look at it.

Moderator Thank you. The next question is from Pranav Tendulkar from Canara Robeco Asset Management, please go ahead.

Pranav Tendulkar My question is about your comment that you are quite ready for the next wave or so, basically what I knew from your earlier stance was that the existing focus areas were Telecom, Infrastructure and Life Sciences and as you had said previously that new technology areas like enterprise mobility, cloud, analytics and enterprise collaboration if I'm not wrong, so are you seeing any increasing traction or increasing acceptance of the new technology areas or existing focus areas are receiving more and more inquiries? What is exactly making clients to spend more?

Anand Deshpande We mentioned this before and we have already said this again is that we are seeing activities in these four areas through partnerships that we have already set up. So we said that we are going to work with cloud by doing cloud and definitely going to do product engineering work in the cloud and that is happening. But again that number is not going to grow dramatically and there is no wave that is going to happen on the product engineering business whether it is cloud or analytics. That does not mean we are not going to work in it, we will continue to work in it. But that's right, we think that the waves can happen if you partner with the right leaders in these markets. We think our choice of leadership is pretty good in most of these areas. It took us a while to get our sales team and their sales team and everything else align. On two of the five that we have we are seeing definite growth on a Q-o-Q basis. We think we have plan on those two and for the other three we are seeing good growth and we will start to see more of those picking in as we go along.

Pranav Tendulkar So basically your confidence comes from the partners you have that are seeing good traction?

Anand Deshpande In general yes, I would say that and not only that we are seeing good traction as part of that. Even if they see traction and we are not in the mix, then we will not see the money right, so the fact that we are bitter engaged. They are starting to see traction, more and more deals are being thrown our way that is why the confidence.

Pranav Tendulkar Second question is about I think I have missed exactly what is happening with the investment in Malaysia.

Anand Deshpande What happened is one of our large customers, actually from them we have acquired the assets of a particular product which is related to network performance monitoring. This

team has 75 people in Malaysia, 12 people in US. We have taken on lock stock in barrel the entire team and also now revenues that come from this product and the revenues as I mentioned in some indirect way it is in single digit million-dollar and that sort of where it is moving.

Pranav Tendulkar Any traction on the enterprise mobility?

Anand Deshpande Actually, lot of traction on enterprise mobility. But maybe I will take this offline. We are seeing good traction, if you can come to Pune we will show you some cool demos as well.

Moderator The next question is from Nilesh Karani from Magnum Equity Broking, please go ahead.

Nilesh Karani One question is regarding your Europe business. Can we see some softness going ahead and how is the pipeline working out over there?

Anand Deshpande Europe has a contribution of less than 5% of our business right now. Most of it comes from a small number of well entrenched customers so that is going fine. We are doing more in Europe as compared to what we have done in the past. I am not exactly telling you that it is going to double in the next quarter. Europe has its own challenges; they are all on holiday right now.

Nilesh Karani One more question about KLISMA, online retail platform how is that working out?

Anand Deshpande It is doing well, we are seeing improvement Q-o-Q in terms of the number of buyers, number of sellers and also we have been closing up whole bunch of accounts on that. The basic retail is still happening; the retail business and the valuations retail business in terms of what people are saying for other companies, it is not the hottest segment right now. But people are shopping and we are helping them shop so our numbers, revenues all of those things are actually Q-o-Q improving. Again we have spun this company out as klisma.in and there is a company called KLISMA e-services so they are pretty much out of Persistent. Persistent holds equity in that business but really we are not operating that anymore because that business is very different from Persistent and we did not want their business to cloud our financials. So we are not consolidating them anymore.

- Nilesh Karani** Any current numbers you have the clients, in the last call you told it was around 1 lakh clients.
- Anand Deshpande** 150,000 people are involved in it. There are a number of merchants; we are now in more cities and the number of transactions has increased. But again these are early days for e-commerce in India so I do not want to get comparing them right away. It is going to take some time to incubate. The fact of the matter is people in India like to shop, people in India like deals and we are providing them.
- Moderator** The next question is from Swetha Malik from MSFL Research, please go ahead.
- Swetha Malik** Dr. Anand you pointed out, of moving out from basic service kind of business to more of solution led and if you see the numbers for the net additions to the number of employees for the last three consecutive quarters, we have seen a drop in that numbers. So are we expecting that trend to continue ahead as well?
- Anand Deshpande** Let me clarify, we are not necessarily moving away from our existing business. We are focusing more on these other businesses so that is why the percentage looks the way they looked. So let me comment on that addition in the net adds. Yes, as we have had more business in platforms and IP led revenue we find that we need fewer resources for getting the same revenues and that is the inherent nature of the business and that's the reason why we want to do that business. So that's the reason why you will see that for us to double our business, I do not need to double the number of people. So that will have an impact in terms of how we are recruiting. Again we had recruited about 1000 fresh graduates last year perhaps too many as compared to where the market ended. But we are still trying to consume some of them and we have made offers to 350 people on campus this year.
- Swetha Malik** My second question is towards the new investment that we have made over the last six months is in IP led revenue one is OpenWave and this network performance base business as well. So within these parts we have seen that the on-site share is higher in terms of the employees and do we expect that the gross margins would comparably be lower in this bouquet in this part of IP business than the existing one?
- Anand Deshpande** No, our gross margins in these businesses are actually better than our current business.

- Swetha Malik** No, my question is that because it is more of the on-site part of the people.
- Anand Deshpande** You have to take it in the context of the earnings. Gross margins on all these businesses are better than our current gross margins. The fact is at the moment at least one of these businesses is in transition so you cannot see the real impact but let us wait one more quarter and we will be able to share with you really what that number is.
- Moderator** The next question is from Ravindra Agarwal from Capital Market, please go ahead.
- Ravindra Agarwal** My question is on the guidance, you are fairly confident of beating the NASSCOM guidance so how do you see it across segments like Infrastructure, Telecom and Life Science although it is a smaller part but still how do you see it across the segments and also is it going to be spread evenly across the remaining quarters or we are going to see a better Q3 and Q4 as you just previously alluded Q1 and Q2 being little softer so little more color on that side.
- Anand Deshpande** Again, I do not want to go into this guidance trap because you asked so many small questions, they are all added up to, I must give you some guidance that I do not want to create for you. But the fact that we are feeling very good about the numbers and as NASSCOM guidance is in low-teens and we should be able to beat that and I leave it at that. I do not even want to say that Q2 is bad or anything like that, actually we have three quarters to go and we have to beat the numbers and we think we can do it.
- Ravindra Agarwal** My another question to Rohit regarding the CAPEX, earlier you had mentioned the CAPEX to be budgeted at around ₹ 115 crores so is it going to be the same or is there any difference to it?
- Rohit Kamat** This year we do not have as much CAPEX as we had last year. This year's CAPEX would be around ₹70 to ₹75 crores.
- Ravindra Agarwal** So this is going to be for the rest of the year?
- Rohit Kamat** In the 1st Quarter we have spent ₹10 crores, balance is a conservative estimate for the rest of the three quarters.
- Moderator** The next question is from Dipesh Mehta from SBI Caps Securities, please go ahead.

- Dipesh Mehta** I just want to get a sense on the margin, this quarter some of the margins because we have a higher sensitivity to rupee so if I see sensitivity to rupee and our margin movement so can you brief us about the factors contributed to margin- positive side and negative side?
- Anand Deshpande** Rohit will explain that as well. But what you should look at Dipesh is not compare Q4 and Q1 only. So take a little bit of longer term chart on your sake and you will see the margins coming up and we will give you the exact numbers.
- Dipesh Mehta** Basically, what I wanted is there any one-off which we should not consider to understand?
- Rohit Kamat** If you look at one-off sort of expenses the visa cost which happened in 1st Quarter because of the title visa is not coming in, we could apply and put in more applications so that is one-off expense. Then the transition cost which was for the TNPM project those are sort of one-off expenses.
- Dipesh Mehta** Is it possible to quantify these one-off expenses?
- Rohit Kamat** Yes, it is possible but maybe we should do it offline and on e-mail.
- Moderator** The next question is from Atul Soni from Macquarie Capital, please go ahead.
- Atul Soni** I just wanted to find out on the quantification of the impact of this off-shore salary hike for 2nd Quarter.
- Anand Deshpande** I do not know about the impact but we are contemplating or we have already announced the salary hike of 9.9% for next quarter. So I do not know the number on the impact right now. Let me see if we can find it for you.
- Atul Soni** Just some color on declining number of technical employees in the company, that has been almost for three quarters now, so any thoughts there?
- Anand Deshpande** As I mentioned to you we hired 1000 fresh graduates in the beginning of the year and there will be a slowed down hiring beyond that because we did not need as many people. Growth rate as we had anticipated about 15 months back and what we actually achieved in the last 12 months so there was an inconsistency in that and that has

caused the fact that we have had a lower utilization and higher bench that is why we let the attrition take care of itself in terms of reducing the people. Also we found that our business mix has changed a bit, it allows us to do more revenues for fewer people because of the platform sales that we are doing and also IP revenues that we are working on so all of those factors have been contributing to it. I think overall from my point of view revenue per employee is an important thing that we try to look at internally and we would like to see that go up on an on going basis as we want to increase the IPN grades and non-linearity is that we have all been talking about.

Atul Soni

And IP contribution has been steadily going up and it was 14 crores from this quarter so any target IP contribution by the end of the year?

Anand Deshpande

I do not want to give you an end of the year target. Actually, I have mentioned before and I will be consistent on that we expect to definitely take it up to 20% over the next few years and till it gets there we are not changing anything. After that we will think if we should do more or not.

Moderator

Ladies and gentlemen we will take one last question from Anurag Purohit from Systematix Shares & Stocks. Please go ahead.

Anurag Purohit

It is more on related to data because since you put FOREX losses at operating level in the quarter, did you have any ineffective hedges in the quarter because FOREX losses is pretty higher at 12 crores in the quarter?

Rohit Kamat

No, they are not ineffective hedges. These are realization losses in terms of AS-13 implementation.

Anurag Purohit

Second regarding the new deal that we have from IBM, is it put under linear or IP related business?

Anand Deshpande

IP led.

Moderator

Ladies and gentlemen that was the last question. I now hand the conference back to Dr. Anand Deshpande for closing comments.

Anand Deshpande I would like to thank all of you for being on this call late in the evening. I appreciate your questions. And if you have any further questions, please do not hesitate to write to us by e-mail and we will be very happy to answer them individually and we of course invite you all to come and visit us in Pune and we will be happy to show you what we are up to and also show you demos or some other work we are doing. Thank you.

Moderator On behalf of Persistent Systems that concludes this conference call. Thank you for joining us.