Persistent Systems

Analyst Call

Persistent Systems Limited - Analyst Conference Call

Q1 FY15 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Ranganath Puranik
President, Persistent Systems Inc.

Mr. Rohit Kamat
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Executive Director & Chief Operating Officer

Mr. Vilas Kate
Chief Planning Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and Gentlemen, Good Evening and Welcome to Persistent Systems Analyst Call. As a reminder, for the duration of the conference, all participants' line are in a listen-only mode, and there will be an opportunity for you to ask questions at the end of this presentation. Should you need assistance during the conference call, please indicate the operator by pressing '*' and then '0' on your touchtone 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. Ranganath Puranik – President, Persistent Systems, Inc. joining from US; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Vilas Kate – Chief Planning Officer; and Mr. Amit Atre – Company Secretary. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you. And over to you Dr. Deshpande.

Dr. Anand Deshpande Good evening all of you and thank you for being on this call. I wanted to very quickly share with you highlights of the quarter, after which I am going to hand it to my colleague Ranga Puranik, who will provide the market overview, and then I will have Rohit Kamat share more details about the financial side of the business, after which, I propose to give you an overview of the business as we see it, and also provide you some details that may avoid further questions, after which, we will open it up for Q&A.

In terms of the quarter, the consolidated revenue for the quarter was USD 72.66 million which was 15.3% year-on-year growth and pretty much a flat quarterly growth Q-o-Q. In rupee terms that amounts to INR.4,349.87 million, 21.7% year-on-year growth and a decline of 2.6% Q-o-Q. The EBITDA was INR.948.98 million, PBT was INR.954.15 million, and PAT was INR.688.04 million, PAT grew 20.5% year-on-year and 2.4% quarter-on-quarter.

Some of the other highlights that I would like to share are, we were named "India's Coding Power House at the TechGig Code Gladiators 2014 Event hosted by Times Group." We acquired the assets of Hoopz Planet Info Pvt. Ltd., Pune-based web discovery solution provider. We inaugurated a new building in Goa that has helped us double our capacity there to 600 seats. Persistent Foundation won "Rotary CSR Leadership Excellence Award."

During this thing, I would like to also mention that we also had our Annual General Meeting on the 26th of July and members passed all the resolutions pertaining to business listed in the notice of the said AGM. Members approved the final dividend of INR.4 per share for FY2013-14. The company had paid an interim dividend of INR.8 per share and the total dividend for this year was INR.12 per share as against INR.9 per share that we paid in FY2012-13.

I am also really delighted to announce that we have added Roshini Bakshi to join our board as an independent director. She has wide experience in marketing and strategy and we look forward to her insights as she joins the board in the next phase of this growth.

With this initial introduction, let me hand it to Ranga Puranik, our President and Head of Sales, who is based in California and is taking this call very early in the morning from there.

Ranganath Puranik Thanks a lot, Anand. Hello, Good Evening, Ladies and Gentlemen. It is nice to be with you all to discuss our market outlook and Q1 results, as Anand mentioned.

As I start, I will mention some of my observations. As you saw, we completed the quarter with year-over-year growth of 21.7% in rupee terms and 15.3% growth in USD terms. The revenue for the quarter on a sequential basis remains flattish at USD72.66. We added 76 new customers during the quarter, 37 of which were in our Account-led and Platform businesses. I will mention a little bit about that in a moment.

Starting April 1st 2014, we formalized a new organization structure in sales team, based on our three go-to-market models, namely Account-led, Platform-led, and IP-led growth models. We are making sure there is a clear mapping between our competitive strategy based on this and arc structure in resources to enable us to implement our growth plan. So, to that extent the beginning was made as of April 1st. We believe the three go-to-market models will help us drive well managed growth for us going forward. For example, in our Account-led model, we are now selling a broader Persistent portfolio capabilities around Digital Transformation Solutions, SMAC Technology, Platform Solutions, IP led solutions, in addition to our traditional OPD services. So, we have come a long way from just focusing on OPD to add quite a bit in this new context.

We are developing the new “Sales Playbook and Account Marketing” process that will help our sales team to fully leverage our offerings when engaged in Account-led model. Just like how the SaaS model is disrupting software licensing models in software product companies, services model in the post-cloud is different than the traditional model as well. As Anand has been mentioning, customers in the post-cloud era expect projects at half the cost and half the time because of the availability of new open source technologies and platforms and the Agile process model. This disruption is part of the reason why our Q1 performance was a bit below our plans as some of our customers are taking a bit longer to finalize their strategies. At the same time, our increase in US onsite volume and pricing is a reflection of this demand, where our customers are asking Solution Architects and Program Managers to be co-located for several months given this new model. This is important to note as requirements get defined on a more continuous basis and release cycles become much shorter than before. Our early investment in Agile and SMAC technology is helping us lead the adoption to this post new cloud model pretty seamlessly. Our wins in some large BFSI and Healthcare segments in the last quarter is a direct outcome of this. We expect strong growth coming from these initiatives in Q2 and beyond.

From a market opportunity standpoint, several ISVs and Enterprise customers are looking at technology development in 3 distinct ways -- One, Precloud context, where product maintenance and roadmap-based ownership are our opportunities. Second is companies that are migrating products and apps from on premise to cloud platforms. And third is where people are developing in the new post-cloud model right from the beginning. All of the leading, the SMAC platform vendors with whom we have strategic partnerships are doing quite well and we are collaborating with them to build both Technology and Industry Vertical solutions.

So, our business model and market opportunity positions us really well to execute our vision to be global leader in software product development and technology services for both ISVs and Enterprise market. Our positioning as a technology company is a recognized differentiator in the market segments we serve. Our pipeline is looking pretty strong, we expect to convert many of these into revenue generating businesses in this quarter and for the rest of the year. So, when I look at all three models, Account-led, Platform-led and Product-led, we see quite active pipeline, and we expect to build on it as we go into the future.

Dr. Anand Deshpande Let me hand it to Rohit first and let me Rohit give you an overview of the profit and financial numbers.

Rohit Kamat Thank you Anand and Good Evening to all of you. It has always been pleasure talking to you. Anand and Ranga have shared the detailed "Business Highlights" of the quarter. I would like to elaborate on "Financial Data" in terms of Volumes, Rates, and Margins. Let me set the context right by saying that Q1 is generally a seasonally weak quarter for us in comparison to Q4. Therefore, it would be a bit incorrect to compare Q1 performance directly with Q4 of the previous year. This year, this comparison is further vitiated due to 2.7% appreciation of rupee against US dollar in Q1.

Coming to "Revenues", our IP revenue grew 52.9% year-on-year and 1.8% quarter-on-quarter, driven mainly by the Radia sales, which have been tracking very well. On the Services front, the onsite revenues showed an excellent growth of 8.1% quarter-on-quarter, driven by 4.2% rise in volumes and 3.8% increase in the billing rates. The offshore revenue declined by 3.5% due to 3% drop in volumes and 0.5% drop in the average billing rate. The gross margin for the quarter was 40.1% as compared to 42.8% in the previous quarter. While the currency movement impacted gross margin by 60 basis points, US visa application costs and lower utilization resulted in dilution of gross margin by 150 basis points and 60 basis points respectively. The EBITDA margin at 21.8% was comparable with that of Q1 of last year, although on a sequential basis, it declined mainly due to increase in S&M cost by 130 basis points, increase in G&A cost by 120 basis points. We also increased our CSR contribution in the quarter in line with the new company's bill. During the quarter, our treasury income recorded significant rise of 47% due to higher dividend and capital gains from mutual funds. The FOREX gain for the quarter was 133 million as against the loss of 87 million in the previous quarter. This boosted the PBT margin to 21.9% as against 20.7% last quarter. The effective tax rate for the quarter was 27.9% as compared to 27.2% in the last quarter on the back of higher other income. The PAT recorded a rise of 2.4% quarter-on-quarter and 20.5% year-on-year. The PAT margin expanded to 15.8% from 15.1% last quarter. The diluted EPS for the quarter amounted to INR.17.20 as compared to INR.14.27 in previous year. CAPEX for the quarter was 175 million and it related to the new building in Goa and acquisition of Hardware & Software. The CAPEX plan for the year is estimated at around 1000 million. Our cash and investments stood at INR.6,638 million as on June 30th as compared to INR.6,311 million as on March 31st. The forward cover as on June 30th amounted to USD108 million at an average rate of INR.65.08/USD.

So, with these updates, I hand it back to Anand for further discussion and updates.

Dr. Anand Deshpande Thank you, Rohit. As already mentioned by Ranga, we have moved to a strategy where we are looking at our business in terms of Account-led business, Platform-led business, and Product-led business, and this is consistent with what we had projected and market is also aligned to some of the work that we are doing at the moment. As we had anticipated, the business mix for us is changing where entirely our business was based on Product Engineering for product companies. We are starting to see a need where enterprises are also looking at building their next-generation platforms using product technologies or technologies and methodologies that are aligned to product development. This is allowing us great opportunities with a large number of companies who are new to us, but are very large companies and present great opportunities for our business. This change of business mix is causing some of us some of the required training and realignment of resources both on sales and delivery side. To some extent, this has had an effect in terms of the flat quarter as compared to the previous quarter as we make this transition and this is going to be a gradual transition as we go along. But overall, the fact that we are seeing good activities in the market in the way the Platform business is being sold and received in the market, we are quite optimistic that we will see a significant growth in the newer lines of business as is anticipated.

A few things that are sort of visible in terms of how the changes have been made. I would like to point out the fact that you will see a significant addition on the sales team in the charts that you have with you. Some of the addition is actually in the movement of certain individuals from delivery side to account ownership and technology consulting roles, which are necessary as we move to the newer strategy of working closely with customers and solution in the Enterprise segment. This has also caused a lower profitability issue because there are some costs on the US side that would not have been there in previous quarters. We have also added sales people on the product part of our business and IP revenues have gone up, and overall, we released two new products (versions) which will help in growth in our IP revenues in the next few quarters. We had anticipated this for a while. We have already mentioned this before that as you look at new generation technology stack and development in the new generation post-cloud, the efforts required for the same work is significantly lower, and as this change happens, we are in the midst of adding new businesses both from the Platforms and from the IP side of the business, and our pipeline on both these areas is actually very good. On the IP side, we also have with these two new releases, we are seeing growth in our existing products, and also there is a good pipeline from other customers for acquiring other non-strategic assets as we have done in the past.

With this sort of brief introduction, I am going to open it out for questions, and let us answer some of these questions as we go along.

Moderator Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. First question from the line of Omkar Hadkar from Edelweiss. Please go ahead.

Sandeep This is Sandeep, Anand. A couple of things; as Ranga has given some kind of good insight on the demand environment, but just like to ask a bit more on that side. I understand that from most of the competitors' call that Digital is doing extremely well, particularly in the US. What is the reason it has been driven significantly, how do you see it going forward or do you see it is a short term phenomena or do you think it will be a long-driven thing? Second thing which I want to know is that this time we have seen a significant increase in the sales headcount. So if you can throw some light on that?

Dr. Anand Deshpande Regarding the concept of digital, see what is happening overall is that Cloud Computing has started to become mainstream, and what we observe is that more and more companies are migrating to the Cloud. In addition to that, people are also looking for ways to leverage the cloud and mobile devices for next-generation applications. And that is creating some good opportunities for companies including for us. We had anticipated this as we have mentioned in the call before. I think what is unique and you will hear more about this from us and from other people as well is that we observe that there are two kinds of activities that happen when people are moving to this new technology stack. One is driven by cost optimization where people are trying to migrate their existing workloads to the cloud, so for example, if I have e-mail running in on-premise, I take it to the cloud, but what happens is when you are doing these kinds of operational efficiency type work, you no doubt save cost and that is an activity that reflects into services, that does not necessarily transform the business, just because my e-mail is now on the cloud, I do not get any better experience. What we have observed is that all these customers who are progressive companies in the US are looking for leveraging technologies such as Cloud Computing, Analytics, Mobility and Social, and those are the areas that we have had ongoing support and investment in, combining all of these things to get better experience for their customers or their employees. And that is creating a set of opportunities for us, where we think we are at the early stage of this activity, and moving forward this is going to continue to grow in a very significant way. Now, in the context of Persistent that one must note is that this puts us into a new customer segment quite different from what we have traditionally done a few years back. So, while the opportunity window is extremely big, we also have good capabilities and partnerships in place. We are trying to work with businesses and customers who are new to us. And that transition of business mix is where we have to morph our business to the next level and that creates certain kinds of challenges which is one of the reasons why you saw a flat quarterly growth. That said, we are probably best prepared to handle this kind of a situation, both because of the technology connections we have, we work in all these four areas that are becoming important. Second, we had anticipated this for a while and made several investments including in building teams for user experience, building capabilities around this, and we think that the timing is right. In the next few quarters you should see significant growth on this. So, I do not see this cloud computing or any of the new technology stuff as just a one-time phenomenon, in fact, I see this as an early step to a long-term trend that you will see happening across the entire industry. To your second question, as I just pointed out, we are looking at a new kind of market and a new customer mix in the context of this business. So, what we have done during the quarter is, we had identified some smart people with good capabilities of engaging with customers, we have moved them as “Account Owners” and into “Technology Consulting Group” and we have moved that entire group to be part of the “Sales Team.” So, there is an addition of almost 50 people net on that group that has happened. Some of these are offshore and some of these are onsite. We have also added additional people on the sales for the Product business. Now that it will accelerate and we are selling on our own quite aggressively. This is the first quarter when we are selling products on our own and it is still early days, but we are very optimistic about what that will help us. We think the market is in a good shape right now and there is a lot of demand, which is a reason why we wanted to make sure that we have enough feet on the ground, and that is the reason why we have made these investments in sales.

Sandeep Is that infrastructure systems contribution have fallen sharply on a quarter-over-quarter basis from 71.6% to 54.6%, and I am also seeing a fall in one large client in the USD 3 million category, so is there a correlation between these two or something like that?

Dr. Anand Deshpande No, actually the main reason why the infrastructure and systems numbers look lower is because we have carved a number of 13% on Financial Services. That did not exist at all before and that got carved from this one. So, what is happening is as again I should point out we are technology or infrastructure-driven company and less driven by the vertical. So, our verticals are kind of product companies or product development or other activities in those kinds of areas, though that will change over a period of time. At the moment, during this year we have opened several new Financial Services and Banks through the platform technology piece and that has made that our Financial Services business has gone more than 10% and hence it is being reported separately. So the Infrastructure and Systems business is pretty much everything else that is not classified in one of these three verticals.

Sandeep I understood that part. So my question was a bit on the other side, if you take 54.6% and 13.8% it is 68.4%, so there is still a 3% kind of movement. So I was just wondering whether there has been some addition in the Telecom part and some

Dr. Anand Deshpande There is additions in the Telecom side for sure that are visible out there, we had some accounts that did well out there, and a lot of these enterprise accounts are providing us some difference here. But, in the overall scheme of things, if you look at our traditional business which was all Product Engineering work, it would have been 100% in the Infrastructure and Systems area. As we start to build out other businesses, as we diversify, this is the trend that is to be expected. But, I would not read too much into it. In terms of these accounts going down, in terms of the fact that one account has gone down in a large category, it is really early to say that. By the end of the year that might change. The way we are accounting for this with respect to 3 million is saying that we are accounting all accounts that have done USD750,000 in the first quarter, multiplying that by 4 to say that, okay, we can make the 3 million number. But the market is based on lots of small projects, so a little bit of up and down is going to happen. By the end of the year, we anticipate that the number of accounts that are over 3 million will be actually better than what we had last year with this account-led strategy that we have in place.

Ranganath Puranik Sandeep, I think your first question is right with respect to the business model itself, so, there has been several-several instances over the last quarter as Anand mentioned, where we have say worked with a large aerospace company, we have worked with a telecom carrier, we have worked with a hospital to develop a new patient management platform, and we are working on an "Internal Analytics" platform our company is trying to build. So, interestingly, what is happening is enterprises are trying to position themselves in a technology-centric world, very differently than what they have done in the past. I think the combination of the platforms and the SMAC technology mix and the product development DNA that we have built obviously over the last two decades are all coming together to really deliver the solutions to a multitude of these customers. And also, what used to happen in terms of 52-week release cycle is really coming down to 2-week, 3-week kind of prints in what is called the "Agile" model. So, that combination of the first and the second is the one that is changing quite significantly, but I think the expectation is this will continue because the benefits it drives and the competitive nature of how these things evolve here, I think it makes it very natural for us to expect this to be a long-term phenomenon.

Moderator Next question from the line of Pranav Tendulkar from Canara Robecco Asset Management. Please go ahead.

Pranav Tendulkar How much of platform is implementation and how much of that revenue comes to as in maintenance and repeatable business, because a structural problem that we face some years back in our company is a client becoming big or scalability and second is that our businesses we have to keep running to get new business or we have to depend on economy when things start moving and people starting with the new products. So stabilizing that would be if we can get some platform limitation or from other parts of our business, after implementation, some maintenance or some improvement kind of work, so how are we looking for Platform business as a source of that kind of business?

Dr. Anand Deshpande Let me point out two things that are happening -- one is a lot of companies are starting to become platform players, so that is one part of business where we are doing development work to build platforms for companies. It is still early days, but yes, for the next few months at least we have maintenance on it, and we have built an offering to allow people to do maintenance along with it. One of the other terms that you should hear soon from the market is something that people refer to is "Dev Ops", where Development and Operations actually work together. Because you are working on these very short cycles, there is no such thing as building the product and then maintaining it. In fact, you are building and maintaining at the same time. So, a lot of this stuff is changing the way people are doing business. So that is one part. The second part of the work is of course implementation of products and deployment for customers of ours, and there again we are starting to get new leads which are not anymore just projects, but they are long-term relationships where we continue to build enhancements to this platform in a short iterative agile cycle and again here Dev Ops is the way to go where you do development and operations together. So, more and more you will see that operational continuity is part of the development cycle in most of these platform projects.

Pranav Tendulkar So repeat business could go up actually?

Dr. Anand Deshpande Yes, actually that is correct.

Moderator Thank you. Next question from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal Anand, earlier you were mentioning that the market is in the midst of a transition which has kind of impacted your Q1 growth to an extent. So I was wondering from Persistent's point of view, does it really mean that revenue acceleration gets pushed to future years, would you think that the market is still buoyant enough to translate FY15 into let us say a better growth year than the previous year?

Dr. Anand Deshpande No, absolutely the market is quite fine actually, there is nothing wrong with the market, there is a lot happening in the market for sure. What we have done is deliberately and systematically trying to change our business mix to move to businesses beyond just working for software product companies. So, as we had said in the past, we have started out by doing this Cloud, Analytics collaboration and Mobility almost 5 to 6 years back and we moved our ISV business to these 4 areas. The last 2 to 3 years, we have said we are going to not restrict ourselves to those businesses, but we want to go to projects that are with enterprises, who are interested in deploying SMAC technology, and we are starting to see very good traction in that area. That shift of moving people from projects that get over, new projects start out has been one of the reasons why we have a flat quarter. There is nothing wrong with the market, our positioning is quite fine. So, I do still believe that we can make the expected improvements in FY15 as compared to FY14. So, I am not in any way thinking that this is a delay, it is a small glitch that we think we can look at. But in the context of the 4 or 5 quarters that you are looking at, I do not think we are trending any badly from prospects of business point of view.

Kunal Tayal Second question was on the margin front. Have you decided on the quantum of both onsite and offshore wage hikes? Just keeping that in mind, again, could margin again trend in line with the previous year or should we expect a dip?

Dr. Anand Deshpande No, overall, I think the margins will trend pretty much like last year, though last year we had the big benefit of the FOREX currency which kind of helped out in the margins. This quarter, that number might go into other income, but overall we should be able to trend on the margins. We have done a salary hike on offshore and onsite during this quarter which will come in Q2; however, there were expenses such as visa and others, which were fairly high in the Q1, those will not show up in the second one. And as revenue starts to pick up all these things will start to take care of themselves, because if you look at the utilization rates right now, they are trending at a fairly low number and they are at about 68% at the moment. And that number when that starts to go up, you will see improvement in profitability. So, I am not terribly concerned about the profitability at this moment, I am definitely focusing lot more on ensuring that the new business that we are expecting in this area starts to happen.

Kunal Tayal What would be your current sensitivity of margins to rupee/dollar movement?

Rohit Kamat It is about 40 to 45 basis points per one rupee change.

Moderator Thank you. Next question from the line of Vimal Goel from Sharekhan. Please go ahead.

Vimal Goel Sir, my question was relating to your shift in the business mix. I think you have seen two consecutive quarters of your business being shift to onsite and I guess that is primarily because of your focus on enterprises, sir, just wanted to know by when do you see this achieving steady-state and then probably your offshore revenue starting to kick in from thereon, and will it impact the profitability if the onsite ramp ups are to continue going forward?

Dr. Anand Deshpande I think all good questions, I do not know when we will reach steady-state, but you are right in the observation that is we start to change business mix. The requirement to have people onsite to work closely with the customer is going to start to go up. But, as projects start to stabilize, the offshore will also start to happen. So, there will be two trends -- the existing projects that we have started, they will start to give much better offshore revenues within the next couple of quarters, but that said, we have to close lot more new business which will require more onsite set up as well. So, I do not want to project on exactly what the steady-state is going to look like, but your observations are quite right on that one. Now regarding margins, actually the kind of work we are doing is quite different and hence our onsite rates are actually much better in the new kind of business that we are focusing on, and I think we can still maintain margins despite the fact that we have more onsite set up because of the nature of the business we are looking at is not low-end onsite enterprise work but definitely focused on Digital Transformation where our competition is not regular India outsource-offshore companies, but companies that are predominantly US-centric.

Vimal Goel Sir, your S&M revenues have come in at 18% of sales. What do we model in going forward given the outlook that you have given that you will be hiring a lot more in the sales and business development part, so what number do we model in as far as the S&M expenses as a percentage of sales?

Dr. Anand Deshpande I think we are operating between 8 and 9% on the S&M side, that is sort of where it is at the moment and I think we will maintain it at that level.

Vimal Goel I am talking about the combined S&M and probably G&A as well. Would the G&A come down from here on?

Rohit Kamat G&A will be in the region of 10%, overall 18-19%.

Dr. Anand Deshpande 18% to 19% SG&A is sort of what we are building off of, but 8% to 9% on the sales side is what is to be expected. If it goes up again, this is an annual trend, once in a while you will have two new guys got hired, two guys get going, you will see these small dips here and there, but overall that is sort of where our plan is.

Moderator Next Question from the line of Abhishek Kumar from Standard Chartered Bank. Please go ahead.

Abhishek Kumar First question was actually on utilization. Last couple of quarters we have seen sequential decline in utilization and we mentioned some client-specific ramp downs or delays in projects that led to this. So, a question is what are the status of those projects or those issues behind us and can we expect utilization to trend back to 70% levels going forward?

Dr. Anand Deshpande Let me ask Mritunjay to comment on this first and then

Mritunjay Singh You are right, I think the utilization last quarter has been lower, but like Ranga and Anand were talking itself, particular kind of work that we are doing, it requires us to start those projects at the customer site and then do the backend work and it kind of going to continue for some time, it is very difficult to tell you a number where we will end up in a going forward basis, but we think that a lot of work is happening now and that should definitely increase the overall amount of volume that will happen at offshore as well. So the numbers will continue to increase, whether we will end up at 67% plus or (+70%) is something that we can only look at after the quarter is over.

Abhishek Kumar On actually overall EBITDA margin, Anand, you alluded just a little while back that FY15 margins over the next three quarters will trend similar to what we saw in FY14 outside of the currency impact. Does that mean that we should be able to reach say roughly around 25% mark by FY15 or on a full year basis YoY what are the numbers that we can expect in FY15?

Dr. Anand Deshpande We expect the growth for the year to be better this year than the previous year. Second, we are trying to make sure that our profit before tax is between 18% and 20% and we have been trending towards 20%. And both those things by and large I think we can manage, and again to that whatever happens to the foreign exchange and currency will give us some plus or minus in terms of intermediates. But by and large, we should be able to quite comfortably manage within this range. We do have a benefit of other income that we will get in this year if the rupee stays where it is. Again, all this stuff we do not know what happens to the currency, but at the moment we have about USD108 million at INR.65 for the next 12 months. So, that is sort of where we have some cushion in terms of getting the PAT to operate at that kind of level. If you look at the number, opportunities to leverage as was mentioned earlier in your previous question, the utilization rates are fairly low. If you can push that utilization rates to go higher, we can definitely increase our profitability. However, if you look at it from my point of view right now at this time the business is changing a mix, having extra people being trained and getting ready with newer technologies is sort of my focus at the moment. And we think that we should make sure that we should focus on top-line growth and also focus on ensuring that the profit before tax is in the 18% to 20% range. Those are the two parameters that I am trying to work most on, and all the other parameters, I am willing to relax within the company to ensure that we get these two numbers to happen.

Abhishek Kumar Just to harp a little bit more on the next quarter's margin, how much impact should we expect from the wage hike?

Dr. Anand Deshpande 3% or so will be the contribution of the wage hike for the next quarter; however, again as I pointed out there are enough factors that are available in the market in our current number including the fact that we had a fairly significant visa expenses and a bunch of other expenses in this quarter. But I still believe that next quarter we will be able to maintain margins along like we did last year as well. So, I do not want to say that this 3% dip or extra expenses that we are going to have in terms of salary will directly go to the bottom line that is not the case.

Abhishek Kumar One data point if you could please specify what was the growth in the Platform business this quarter versus last quarter?

Dr. Anand Deshpande We do not have that exact number here but I will try to get that data to you we have done some classification on what exactly is Platform and what is not Platform and internally. So that numbers we have is little fuzzy. I must say that we are seeing good growth on some of our leading platforms where we are doing "Sell with Opportunities." I will get you the exact number over e-mail.

Moderator Next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta Two or three things – first is we are doing more and more work on Agile model. Do you expect business volatility would be visible, because a project 10-year old be shorter and depending on what we build and what kind of project we get it would be very difficult for predicting quarterly revenue kind of a thing, and that is why quarterly momentum might be different if one wants only quarterly kind of a thing? That is number one question. Second is about hiring side. Can you help us because of the changing in the business model, what kind of hiring changes we are making or how difficult it would be for us to get right people and training and all those areas? Lastly, a data-related; can you quantify onsite and offshore wage hike?

Dr. Anand Deshpande Wage hikes onsite are typically between 3% sort of average. On the offshore side, they are between 7% to 9% is sort of the range in which they are if you want to look at it. Of course, not everybody gets the same wage hike, the top performers get more and the bottom performers get 0 to very little wage hike. So, that is the last data question that you had. The other 2 questions that you asked about Agile development. The projects are going to be short cycled and we will have to keep doing that. But however, one thing to note is that when you work on these kinds of projects there is always need to do more. So these things do not end actually, they keep continuing around and it is up to the team to keep building and enhancing the fact that when you complete the first sprint, you are also looking for what the next and the third sprint is, so, it is an ongoing activity. But overall, market is going to keep moving fast, there is going to be lots of activities, so agility is going to be a key to success and any company that can respond quickly and get things done very quickly, yes, that is going to be the way things are going to go. But that does not mean on an overall trend you will not see growth or any of those kinds of things. So, we are trending in the right direction, we will see that kind of trending in a long term basis even though if you look at it at the quarterly granularity, you might see some variations here and there. Regarding staffing, you are right, in general, what is going to happen is that the skill mix is changing dramatically we can have a more detailed conversation on this, but in the new stack that people are building out to, there is a whole emphasis around Dev Ops, people are building to a completely different stack as compared to the previous world, and this requires a lot of changes on an ongoing basis and I do not think people are available today who really know how to do these kind of stuff. So, a lot of the work involves training and reskilling people from where we already have or people we are getting new in the market. So, this is going to cause utilization effect but otherwise this is where it is.

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

Shashi Bhushan: You talked about the adoption of the Cloud. Do you think clients are now more willing to open their purse in short term to invest in order to save cost in the long run, because what I believe that there would be higher near-term cost with a long-term cost saving.

Dr. Anand Deshpande: You are right, Shashi, there are two things that are happening – one is of course people are trying to move to the Cloud because that is the way to do it and you will see significant cost savings in the long term, but in addition to the Cloud movement. So the other problem is that while these changes are happening, right, there is also this whole transformational piece, so people are trying to do business enhancements by looking at different kinds of businesses and that is where we are starting to see new opportunities. So there is a IT trend around IT modernization, that will have a different path and then there is the other trend around digital transformation and we are playing in the digital transformation play phase which is the growing market.

Shashi Bhushan: Second question is related to this quarter performance. Strength in the IP business and weakness in Services business was contrary to my assumption during the quarter was it in line with your expectation and are we going to see lesser seasonality in IP-led revenue going forward?

Dr. Anand Deshpande: Lesser seasonality in IP, yes. In terms of Services business going lower, yeah, it was little bit of a surprise but when we look at it from a distance and reanalyze it, it is not entirely surprising, overall the market is changing, and as you start moving to the cloud it requires less work, the product companies tend to move faster than enterprises. So that is probably the reason why some of that is happening. So it is not entirely surprising and we are actually quite well prepared for this kind of trend to change.

Shashi Bhushan: You talked about some 76 new clients added in the prepared remark. How big would be the total deal signed with these 76 clients?

Dr. Anand Deshpande: Average deal size were USD100,000.

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

Sandeep Muthangi: I had a few questions on the Product Engineering business. I believe this is still the bulk of the business. So, Anand, can you give us some color on the demand trends in this business – are there any challenges or what are the kind of demand sense you are seeing?

Dr. Anand Deshpande: I think overall demand is there, so there is a lot of new products being built and also look at existing large companies as well they are trying to build products. That said, there is a shift happening in the market. At the same time while there is a lot of growth in the valley and a lot of activities, it is hard to hire people. People are also cutting jobs at the same time. So there is both hands are moving into different directions and you see a lot of that activity coming to us as well. So, there is growth and shrinkage at the same point.

Sandeep Muthangi: Do you want to disclose this separately going forward the Platforms and IT Services business?

Dr. Anand Deshpande: We will look at that. Right now, we are not doing it, but we may want to consider that. I think it may be useful to do it. Let us take a look at it internally and get back to you. We will do it for all four quarters.

Sandeep Muthangi: On the Platforms business, I understand that, right now Enterprises are looking towards your product expertise, etc., to kind of get a handle on the new technology. But once you get into the client what are the kind of mining options you have within the Enterprise clients?

Dr. Anand Deshpande: Actually, there are lots of options. When you are in a big customer you can do many things; however, it is important for us to stay true to where we want to be. So, all these things have to be figured out, it is all new for us at the moment. I am going to sort of stay brief on these questions to give you short answers because we are running closer to the top of the hour, and I want to get as many questions as possible.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Capital Market. Please go ahead.

Pawan Kumar: We have added financial services disclosure this time. Could you give some color on this? There is an increase in telecom contribution this quarter. Anything great into this?

Dr. Anand Deshpande: Regarding the system, what we found is that as we cross 10% on the Financial Services segment, we decided to disclose this separately, that was recommended by our auditors. The second piece was regarding the fact that telecom has gone up well. Some more clients have gotten added out there. And that is the reason why the telecom number is looking better this quarter.

Moderator: Thank you. The next question is from the line of Dhanshree Jadhav from Anvil Share and Stock Broking. Please go ahead.

Dhanshree Jadhav: If you can just give me some more light on how the revenue growth would be in IT Services and Product Engineering both in quarterly term?

Dr. Anand Deshpande: We expect all of them to grow, but when you look at the distribution today, we have an IP revenue of about 20% at the moment, and I think it will be in the range of 20-22% through the year.

Dhanshree Jadhav: In IT Services how that would pan out?

Dr. Anand Deshpande: That is the rest of the business, right. Overall, we expect the numbers to grow, and I am trying to avoid giving guidance.

Dhanshree Jadhav: But like this quarter, it was lower than what I was expecting, so that is the reason I would like to get some more cues in terms of how the growth would pan out?

Ranganath Puranik: We expect the growth to be better in the next few quarters. If you look at it and compared to last year I think that sort of a good place to go in terms of what the numbers are.

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

Priya Rohira: My first question relates more to the Enterprise clients. Anand, should we equate what you have disclosed on the Financial Services as to Enterprise clients or if there is a separate number, can you elucidate further that what is the sort of growth you are looking from Enterprise clients over a period more on a qualitative front, you had outlined earlier that IP would move from, you may want to reach to 25% similarly maybe for Enterprise clients?

Dr. Anand Deshpande: Again, it is still early to give a real percentage of what the mix would be, but it is fair to say that good percentage of these Financial Services growth clients had have happened would be classified as "Enterprise Clients" and at least in some of the new ones that we have done in the financial sector they are all in the sort of platform-led transformational kind of business that we are referring to. And we see that kind of trend not only from the financial sector, but we also have a few customers in the Life Sciences area in that category, and also in Retail and other parts of the business.

Priya Rohira: But, would it be fair to say that these are mostly on the IP side or the Platform side rather than the OPD side or do they still entirely work on OPD side?

Dr. Anand Deshpande: Our whole premise that we are working with Enterprises is that we are taking platforms and building products for them. What is happening is that a lot of the enterprises are starting to become platform companies. If you look at the overall trend, you will find a large number of companies trying to set up Bay Area offices, because they find that software is the way the future is for these enterprises. So you saw McDonalds has set up R&D development centre for software in the Bay Area so as Walmart and many other companies like that. So, Retailers and other businesses are starting to become software platform companies, and that is the opportunity for us. So we are doing OPD in enterprises, right.

Ranganath Puranik: It used to be smaller in size before but what is happening is some of these enterprise engagements are becoming more like million plus, starting this quarter where we are adding quite a few of those things, because that is a trend that describes what Anand was mentioning.

Priya Rohira: The incremental people which you have taken on selling and marketing side, is it mostly to do with enterprise clients because you are seeing a big opportunity over there or is it fairly balanced across all businesses?

Dr. Anand Deshpande: It is across all three areas.

Priya Rohira: Also, on the Hoopz Planet Info, if you could just share in terms of how do you see this business adding to the overall proposition of Persistent in terms of numbers, people .?

Dr. Anand Deshpande: It is a very small acquisition. The way that product is it is a very cool product, that actually builds off of cell phones and it is a piece of IP that will show up on cell phones with the operating system, and through that you can do some very interesting search and other kinds of stuff. So the revenue impact is not that high and acquisition cost also was pretty small. So, we have not said a whole lot about it but maybe since you pointed this out, maybe a good idea for us to give a more detailed story on this and we will release something in the next few days to explain exactly what that is, But it is not a very huge impact on our top or bottom line or the cost in the next few quarters.

Priya Rohira: What has been the gross addition in selling and marketing team which are more from the outside and rather than the internal change which you are seeing actually?

Dr. Anand Deshpande: I would say about 20 new people have been added gross from our side. We have also exited a small number.

Priya Rohira: This is versus how many additions which you have seen in fourth quarter because if I look at the full year for FY14 and look at this Q1, while you explain on the transaction from delivery towards technology consulting and front end, this by far is like quite a strong change, I am sure you are seeing more opportunities, just wanted a little bit insight over there actually?

Dr. Anand Deshpande: That is correct, you read it right, and we think that as we go to some of this kind of business, we need more people onsite who have technology capabilities and they are not allocated to projects, so they go into sales and that is really what has happened.

Priya Rohira: When you mention at the starting remarks that there might be a little change in business model because you are catering more to Enterprise clients, so is there a new platform of utilization rate which you may want to guide or you think that we can still maintain the ?

Dr. Anand Deshpande: I think it is still early right now, we still do not know how it is different. As soon as we figure it out, we are able to create a model, we will share that with you.

Priya Rohira: Is it possible for you to share what taxation rate we should take for this year and next year?

Rohit Kamat: It will be safe to take it around 28%.

Moderator: Thank you. The next question is from the line of Grishma Shah from Malabar Investment. Please go ahead.

Grishma Shah: Just wanted to check on the debtor days. Are we too worried, is it just a change in the business mix that is leading to it, just your comment on that?

Dr. Anand Deshpande: A lot of it has gone through products as well. Worried? Not really. But, concerned? Yes, we want to reduce that number for sure.

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

Dr. Anand Deshpande: I would like to thank all of you for being on the call. I do realize we had to cut questions towards the end, but we want to make sure we close on time, because I am sure all of you have other engagements as well. For all those questions that we missed, please send us e-mail, we will be happy to respond to you on an individual basis or set up a call. I would like to wish all of you Eid Mubarak for tomorrow and thank you very much.

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