Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q1 FY16 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Ranganath Puranik
President, Persistent Systems Inc.

Mr. Rohit Kamat
Chief Financial Officer

Mr. Mritunjay Singh
Executive Director & Chief Operating Officer

Mr. Amit Atre
Company Secretary

Mr. Mukesh Agarwal
Chief Planning Officer

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Moderator: Ladies and Gentlemen, Good Evening, and Welcome to Persistent Systems Analyst Call. As a reminder, for the duration of the conference, all participant lines are in the 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 him Mr. Ranganath Puranik – President, Persistent Systems Inc. and Global Head of Sales, joining from US; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre – Company Secretary. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you.

Dr. Anand Deshpande: Good Evening to all of you in India and those who have dialled in from the US, Good Morning to all of you. I would like to share with you the highlights of the Q1 revenue numbers today. The way we will run this call after a short introduction I am going to hand it over to Ranga Puranik to give you an overview of what is happening on the sales side, then I am going to have Rohit share a little bit about the financial details and some of the numbers and implications on this quarterly results and then I am going to give you a quick overview of some of the questions that we have heard from some of you and give you a little bit of those answers upfront so that we can have a more efficient call.

We also had the 25th Annual General Meeting of the Company on Friday and all the resolutions have been approved by the Members with requisite majority.

Let me now give you a quick overview of the revenues for this quarter: We are delighted to share that we were able to cross the 5 billion rupee mark for the first time and our revenues were Rs.5004.16 million, in US dollar terms, our revenues were US$78.61 million which was a negative (-1.8%) QoQ growth; EBITDA was Rs.969 .08 million, the PAT was Rs.672.16 million.

I want to share a few acquisitions and other investments that we made during the quarter: We announce this on Thursday that we entered into an agreement to acquire Aepona Holdings Limited and its subsidiaries to extend our Telecom Services and allow Accelerite to expand into a growing field of Internet of Things. We acquired RGen Solutions strengthening the company's Microsoft Technology stack expertise. Based in Redmond, Washington, RGen is a privately held consulting and IT company with deep expertise in Microsoft Technologies and a strong presence in the Microsoft Ecosystem. That will help expand Persistent's reach into larger enterprises and also grow our presence within Microsoft Ecosystem. We acquired Convirture a unified management provider for virtualization and cloud environment. Persistent's products, our Accelerite will offer Enterprises and service providers a freedom to choose and deploy any combination of hypervisors and Cloud platforms. So, this one was done in May, it is a fairly small team out there, so it is done for an IP acquisition. In addition to these three acquisitions, we made two investments as part of Persistent Ventures - We invested in Jocata Corporation which is an innovative product and services firm specializing in Big Data, particularly in the context of Know Your Customer (KYC), anti-money laundering and combating financial terrorism, compliance to financial services industry clients and we also invested in OpsDataStore Inc, the company has an innovative solution which enables organizations to manage all their IT operations data in one easily accessible real-time data store. I am also delighted to share that for the second time in a row, Persistent Systems won the coveted India's Most Prestigious Coding Competition claiming the title of India's Code Gladiator. There were more than 121 companies and 80,000 coders who competed and we are proud to say that we were the winner in this particular competition.

With this, let me hand it to Ranga and he will share with you what is happening from the customer point of view. Ranga, over to you.

Ranganath Puranik: Hey, thanks a lot, Anand. Good Morning, Ladies and Gentlemen from here in Santa Clara, California. Hope you are all doing great. It is always great pleasure interacting with you. While our revenues showed a dip on a quarter-over-quarter US dollar basis, as Anand mentioned in his press statement, this has been an important quarter for the company in the context of a) winning one of our largest deals which was Digital and a good part of that was based on our IP; and b) getting significant traction in our Enterprise business development. We are on course to building the solid business model that is domain and technology-led that will give us industry-leading longer term growth in revenues. The ability to win in world's leading financial institutions, banks, insurance and hedge fund companies and healthcare enterprises is a great validation of our strategy and opening us to a new world of opportunity. As enterprises are clearly becoming software-driven businesses and as Cloud takes the centre stage of how businesses will be run in the future, API, Agile, User Experience-led Design and Implementations based on both industry platforms or Open Source platforms are becoming the preferred ways to drive the transformation. Fortunately, we are very well placed to serve this large, new addressable market and with our software product development competence, are well differentiated to win in these transformations. Of course, at Persistent, we are ourselves transforming rapidly to serve the growing and huge Enterprise market that has opened up for us. As you all know, Digital Technologies include the SMAC stack, platforms, API, UX, Agile Technologies, IoT and Cyber Security. Our strength in all these areas gives us an opportunity to help customers build their solutions. Hope many of you recall our account-led platform and IP-led sales model that we have been driving for the past 5-quarters. We saw very good growth in our named accounts this quarter even as some of the legacy customers ramped down. We are confident of building growth around our named and growth accounts, platform partnerships, Enterprise sales and Accelerite-led IP sales. We added 49 customers this quarter including some solid large Enterprise customer. One thing to note here is Accelerite customers are typically license renewals. Many platform projects end during the quarter and there is attrition with some legacy, especially small customers. Internally, we track the number of customers that are more than US$ 5 million in our named category and more a million dollars in our growth category across all segments as well as new logos that have the potential to become long-term accounts.

We have announced, as Anand mentioned just now, the acquisition of RGen Solutions to strengthen our Microsoft Ecosystem and an agreement to acquire Aepona that will provide us an opportunity to serve Telecom customers while expanding our Internet of Things portfolio.

We are focusing on retraining our sales teams on selling to Enterprise segment while replacing some of the sales guys with some top sales talent from the industry just to make sure that we have a balance in terms of what we have traditionally done selling to the ISV world and what we are now opening up to sell to the Enterprise world. All these and more should help us achieve aggressive growth targets. Our APAC business and rest of the world category actually has been growing well especially in the Digital space over the last quarter. Thanks a lot for listening in. Let me turn it back to Anand and I look forward to the Q&A Session.

Dr. Anand Deshpande: Let me now invite Rohit to share the financial details:

Rohit Kamat: Thank you, Anand. Good Evening to those of you who have joined from India and Good Morning to those of you who have joined from the US. It has always been pleasure talking to you. While Anand and Ranga have given business updates for the quarter, I would like to share with you some data and analysis of revenue, margins, CAPEX, for the quarter and liquidity and hedge position as on June 30, 2015. As Anand mentioned, our revenue for the quarter crossed the mark of 5 billion for the first time, recording 15% growth year-on-year and 0.6% growth quarter-on-quarter. In US dollar terms, the revenue grew by 8.2% year-on-year while on a sequential basis, it dipped by 1.8%. The IP revenue remained flattish for the quarter. The Services revenue dipped by 2.2% mainly due to a spill over effect of a ramp down of a large customer project in the preceding quarter.

Now, let me give you some Analysis of the Onsite and Offshore mix of the business: The Onsite revenue grew by 0.4% in the quarter due to 1.1% increase in the average billing rate and 0.7% decrease in volumes. The Offshore revenue dipped by 3.4% in the quarter due to 2.1% drop in volumes and 1.3% drop in average billing rate.

Now, let me comment on the Margin Movements: The Gross Margin was 39.7% for the quarter as compared to 40.2% for the preceding quarter. The lower utilization, the impact of H-1B application cost impacted the gross margin by 80 basis points and 100 basis points respectively. However, lower gratuity provision as a result of increase in 10-year GSec yield improved the gross margin by 70 basis points, further, currency benefit and lower royalty cost improved the gross margin by 50 basis points and 10 basis points respectively. The EBITDA margin dipped by 80 basis points from 20.2% to 19.4%, out of this 50 basis points dip came from drop in gross margins as explained earlier. The additional dip of 30 basis points came from rise in SG&A cost by 50 basis points which was partially offset by reduction in doubtful debt provision. Depreciation and amortization was 4.6% of revenue, taking EBIT to 14.8%. The treasury income contributed Rs.128 million and the exchange gain contributed Rs.69 million to the quarterly profit. So the profit before tax was Rs.940 million which was 18.8% of revenue as compared to 19.3% in the preceding quarter. From April 1, 2015, as you know, the Government of India increased the surcharge on corporate income which resulted in increase in corporate tax rate from 33.99% to 34.6%. During the quarter, our Pune SEZ unit completed first 5-years of operations and moved to a second phase of tax holiday where the tax deduction available is 50% instead of 100%. This resulted in increase in income tax provision. The PAT was Rs.672 million for the quarter as compared to Rs.761 million for the preceding quarter. The CAPEX for the quarter amounted to Rs.236 million, out of which Rs.152 million related to hardware, software and equipment and balance of Rs.84 million related to buildings, interiors and facilities. Cash and investments as on June 30, 2015 was Rs.8,492 million. The value of forward contracts outstanding as at the end of the quarter was US$ 107 million while the average forward rate was Rs.66.49 per US dollar.

With these updates, I hand it over back to Anand.

Dr. Anand Deshpande: Thanks, Rohit and thanks, Ranga for your overview. Let me now take a few minutes and try to share with you some of the details around questions that we would expect anyway. So, I am going to pre-empt those by trying to share some answers that I know you would be very curious to know and I am going to try to keep it very simple.

So first question of course would be that if everything is fine why is there a revenue decline?

Let me answer what is happening in the market and why the revenue decline happened this quarter and what are the reasons for it when the previous quarter was also a flat quarter. So, what is really causing all this stuff? So, essentially, as you all are aware, we work with large product companies and many of our product company customers are going through business priority changes. When that happens, if we are in a project that is going to be cut then we tend to have a sharp decline on our project. However, if we are on a project that ends up being the priority item for that company we have fairly good growth on those projects. So there is a lot of volatility amongst our customers and some of our well-known customers are fairly well-known and their volatility is quite visible to all of you. These changes cause us to have changes on our project on an every month basis and when you added up this quarter we found that the dips that we had were more than the growth that we saw and that is where the dip happened. Now, I would like to also use this opportunity to share with you that these dips and growths are an ongoing thing and they do not happen only in one direction and for that I want to share with you a few items that you can look at in the 'Fact Sheet' that we have shared to give you some evidence of that. So, our top one customer in the last three quarters back was at about 19% and then we had two successive quarters where the percentage of the top one customer came down quite significantly. But if you look at this quarter that has come back to beyond 18%, and that is a signal of when the company stabilizes and we are able to identify the growth areas in that customer we are able to see growth in those accounts. Another heartening thing that you could look at in terms of what is happening is the customer engagement chart that we share. So, we have today now 15 customers who are more than US$ 3 million revenue per annum for us and this is more than what we had in all our previous quarters. We also have 52-customers with more than a million dollar run rate which is also a much higher than what we had in previous accounts. So, summary of this is that we do expect the Product Engineering business which has been the mainstream of our business to continue to see growth while we see volatility in the customer accounts and we will see some ups and downs on a quarter-on-quarter basis. In the long-term scheme of things some of these customers will eventually succeed and we will get some opportunities in it. The other thing that I want to point out which is again somewhat visible in this quarter's call but you will see more of this in the next few quarters. As companies decide to change their priority, one of the things that they look at is to hive off their non-strategic assets which then become available to us at a fairly competitive price and with kind of very limited cash outflow. So we can do some good revenue share deals from customers where we are working on a project and if the company decides to deprioritize that project we have an opportunity to buy that from them and that helps in getting our IP revenue to get better. So that is something that we are seeing a lot of activity and you will see some evidence of it already and some in the next quarter as well.

Since we moved into the IP and IP-related stuff, let me share that there are some very basic data that we can share on RGen. So the RGen numbers that we have shared in the past but I will reiterate here: RGen did about US$ 7.5 million of revenues in the trailing 12-months… so from July to June of this year. We expect that with our Microsoft team and their Microsoft team together we should see a bigger growth in the revenues for that team. Most of the team members on RGen are US, Seattle-based people who are working onsite with Microsoft projects. The Convirture deal is extremely small; it is like an acqui-hire deal and most of the people have come on board, it is less than 10 people, they have some very interesting IP that allows us to manage on a single pane of glass, multiple VMs being provisioned across multiple Cloud platforms. And that was a very useful product that we found in terms of the portfolio that we have in Accelerite and that is why we acquired this small team. Aepona one, I am not able to share a whole lot of information on this. This is along the lines that I shared where we are working with some of our partners and this has certain closing conditions, so we have only set of things that Intel has pre-approved that we can talk about but depending on the questions and if we find a match in the pre-approved questions we will be able to answer those. But we expect that the closing should happen in the next 6-8-weeks and once that is done we will be very happy to share with you what is going on in that context.

Let me share a little bit about the impact of pay hike in Q2. We have done 8% offshore pay hikes and 3% onsite pay hikes for the year starting July 1st 2015. This has an impact of 250 basis points on our numbers. We think that we can offset that cost through higher utilization and also the fact that we have a visa cost that is there in Q1 which will not be there in Q2 and that will account for about 100 basis points impact which we can cover through that one. So, overall if we see growth in revenues I would expect that the pay hike will not really contribute to a huge drag on our margins in our bottom line.

I want to comment finally on small set of things around Enterprise Digital and what is EDT and what is going on in that. I know there is a lot of jargon throwing going around at this moment about what is Digital and what is not Digital. Let me share with you what our position on Enterprise Digital Transformation is and how we see that as an opportunity for us and where we see the growth happening. So the way we believe Enterprise Digital is all about a business solution that requires business model changes, it is about how do you create experiences for customers and how you engage with customers and finally the ability to personalize to provide every individual customer a power of one type model. So, every customer can be looked at as a single individual and be able to provide business value on a per customer basis. So, this is really what we refer to as Enterprise Digital Transformation, and we have started to see customers who are coming to us with this kind of a model. When it comes to how do you go about digital transformation and that is really where Persistent has been very focused on. Our point of view has three points in it – One is we believe that IT modernization and Digital Transformation are two different things, they should not be mixed and we have enough evidence to say that this is being verified and agreed to by many analysts including Gartner and McKinsey; the Second thing we believe in terms of doing this Enterprise Digital Transformation is to start with an API layer. So a lot of people talk about Cloud first and Mobile first but we believe that if you want to do Digital Transformation you should start with the API layer first, focus on data and apps. It is all about data, API and apps as the architecture that you need to build for Digital Transformation.

And finally, if you want to do a Digital Transformation project, you have to build it like a software product which means you build incrementally and iteratively to a roadmap rather than to a requirement and focus very strongly on UX. So, our expertise and experience in Agile fits very well in our ability to deliver these products to our customers. We have had excellent success on the customers we have gone to and as was described one of the largest media houses and a several other large customers where we have started this kind of activity. So, what exactly are we doing for these customers? One, we have defined an architecture which shares this API-centric view on what happens north of APIs and what happens south of APIs and we have implemented internal IP that allows us to deploy. So, the IPs that we have such as Share Insights, Peas, eMee, Hoopz etc. have been integrated into our EDT stack and we are able to deliver a solution that includes IP and Sandboxes that are able to deliver these in a very effective way so that we can get into customer’s business very quickly. We also have signed up a large number of partnerships who have agreed to our architecture and our viewpoint on Sandboxes and we are able to ship their products as a part of the overall scheme of things. So, I see a great opportunity for us in the Enterprise Digital Transformation space. We think we are very well equipped. The initial reactions in customers have been excellent and we think that we have now the ability to deliver a compelling solution in the Enterprise Digital Transformation space.

So, with this I am going to take up calls here and we will open it out for Q&A, it is about 5:25, so we have got 35 minutes for Q&A and I would request you to keep your questions short so that we can get through as many questions as we can. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our next question is from Priya Rohira of Axis Capital. Please go ahead.

Priya Rohira: Anand, just a question on the Aepona deal. While I understand we are yet to close out the deal but I think it would be helpful in terms of revenue and the capabilities we had been given to understand that there are around 300 people, all the 300 people get absorbed if you could share more on the capabilities which come on board?

Dr. Anand Deshpande: Unfortunately, we cannot share a whole lot at this moment, I do not know how to tell you, what exactly I can share at the moment really, but we have sort of legal agreement where we are not allowed to share anything beyond the questions that we have pre-approved answers for. So, if you have asked a very specific question for which I have a pre-approved answer, I am happy to read it out to you. But I really cannot go too far beyond that.

Priya Rohira: On a client concentration which Aepona would add because they have really marquee clients at least from what it comes through?

Dr. Anand Deshpande: Here is a question that sort of relates to clients maybe. Aepona's primary customer base is Telecommunications customers who are using Aepona's platform to expose APIs to serve their application provider and IoT partner base. We certainly hope that the acquisition will strengthen our presence with this customer base. Beyond that we cannot comment on specific customers. I am just reading out to you what we have approved written down stuff that we can share at the moment. Trust me… we will tell you everything that we can as soon as the deal is closed.

Priya Rohira: Second thing on the Enterprise clients. You would have done your round of views with them in terms of their transformation. Directionally, how do we see this segment for us, I know it would grow greater than the company average but any direction in terms of the client additions you had this quarter would be helpful?

Dr. Anand Deshpande: Here is what is happening and I will tell you what our challenges as well are. What we have done is we have been working on this platform strategy for a while where we have been going with our partners to customers and going to them with their implementation of Salesforce, SAP AG, Appian, Attivio, all these kinds of customers. So we have been going back to these customers and suggesting to them that we have a point of view on Enterprise Digital Transformation and whenever we have shared our point of view with them good number of them have invited us for workshops, we are doing workshops with them and we are showcasing our end-to-end solutions and we have like a Sandbox where we can come in, in a couple of hours, get you started with a large number of apps that you can actually download on your phone or your mobile device and start to use it. There is a lot of work that has gone into it and every meeting that we have had has been incredibly encouraging. The challenge of course we have is that we are not in as many enterprises as we could be and that sort of where we have to go one-by-one and build our credibility into these accounts and deliver it. So, there will be a slow pace on this one to get things started. We are getting good traction. There are lots of customers who are doing this work but in terms of revenue impact you will see it over a few quarters, but the overall market opportunity for this is very large, it is still early days and a lot of it is going to get delivered by being very efficient, agile and using automation to deliver. We have quite a bit of assets that we can demonstrate and showcase at the moment to our customers in this. We will try to figure out a way showcase what we have built to you all as well. Let me see how to do it and maybe we can set up a self-service portal where you can download some of these apps as well. But we will figure that out.

Priya Rohira: One question to Rohit. What tax rate should we assume for '016 & '017? The impact of visa was 80 basis points or 100 basis points?

Rohit Kamat: Priya, impact of visa was 100 basis points. As regards taxes, yes, this SEZ thing has come this year which has reduced the benefit from 100% to 50%, so our ETR would go up a bit. I guess that on global basis it will stabilize between 27% to 28%.

Moderator: Thank you. The next question is from Yogesh Agarwal of HSBC. Please go ahead.

Yogesh Agarwal: I just have one question. I want to just go back to the Financial Services. Outside the top customer you have historically, has the entire growth come from platforms, the (sell with) strategy you have with partners or you are directly contacting the banks as well to sell your Digital offerings?

Dr. Anand Deshpande: Some of both, but the growth that you see during this quarter has come from partners. What you will see in the next quarter will come from the work that we did during this quarter.

Yogesh Agarwal: So when you go with a partner I assume the leads will come from somebody like CRM or the other partners. So ideally your margins should be higher because you are not spending any sales and marketing on that business. Is that right understanding?

Dr. Anand Deshpande: No, that is not entirely correct because the way this happens is we are building a lot of POCs and pre-sales material to help the partners sell and choose us as our partner of choice. So, in a sense it is not any lower actually, let me say that. But if we were to go completely on our own, it would be much higher. But I would not say it is negligible.

Ranganath Puranik: This is Ranga. Just I think very quickly adding to that, right, I think the sell with partner-led customers that we get I think I mentioned very briefly that we are now converting them into global MSAs with long-term relationships, that break which we have been attempting for the last 2-3 quarters has shown a lot of progress starting this Q1 of ours. It is not just the partner-led reason for which we are doing business with the Enterprise customer but it is more than that, including what Anand explained just now in terms of the Enterprise technologies.

Yogesh Agarwal: If I connect the dots, margins have come down from around 20% to now 15%. So, over the next three years since large part of these investments are done with the partners, can margins go back to the historic averages as you scale up the Enterprise business along with the partners?

Dr. Anand Deshpande: Let me comment on the following: There are opportunities to improve margins in the business that we are, but at the moment at least what is happening is we are investing quite heavily both on building capabilities, building some of these sandboxes and technology thing and also upgrading and re-factoring some of the sales teams to help us sell into the Enterprise market. So, it is a tight line right now in terms of how much you should really try to squeeze the barrel to improve margins versus where we should do the investments. So, again, I do not want to go too far on this if the revenue line picks up faster you will see better growth in margins, otherwise we are very sure that we must invest at the moment rather than not invest.

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

Mohit Jain: I have two questions; One is on your cost line. Should we assume that the bottoming out has already happened in this quarter and we should expect growth from thereof or do you see some more volatility going forward? Second is why is your Enterprise business growth slowing down on a QoQ basis? We have data only from Q1 of last year, but it seems like on a quarterly basis it was flattish. If you could help us understand what kind of growth rate should we expect?

Dr. Anand Deshpande: So first one, "will the volatility stop?" The answer is "no" actually the volatility will continue. We do not expect that volatility to result in a negative QoQ growth like we have this quarter which we think is unusual but that said, I would not go out to say that there will be no volatility in the next few quarters. Actually, if you look at our customers and the volatility that you can see in the news reports about our customers, it is quite clear that this is not going to end very soon, so this volatility will continue, we have to figure out a way to live in this volatility and volatility is not always all bad, so there are opportunities that come in. That is how I see it and we just have to figure out a way to deal with this. The second part of it regarding our Enterprise customers. Yes, the number of Enterprise customers during this quarter has gone up. Many of the Enterprise customers again, let me sort of segment them into three parts – one set is traditionally the Enterprise customers with whom we have been doing somewhat Product Engineering type work in the past; the second group is the one we have gotten from platforms or the sell with strategy; and the third group is the new Enterprise Digital story that we have. Clearly, the platform projects are project-centric. At the end of the project, they kind of end and then you have to go hunt a new one. Our focus around customers to try to see how to get long-term revenues from them is where this Enterprise strategy is working out and you will see longer growth in them. So, we are definitely focused on Enterprises and I would say that the flattish number that you see from Q4 to Q1 is an aberration rather than anything else. Overall, it looks quite healthy. By the end of the year you should see a number that goes up. This is the first time we have started to report these numbers. So there will be some lack of clarity in this, but give us two quarters and you will see the clear trends. At this moment it is kind of hard to make that up.

Mohit Jain: How did your top customer grew so fast in this particular quarter and what kind of work is it, is it the next-generation work that is coming back to you or do you see revival in the old project investments?

Dr. Anand Deshpande: No, it is not old project investments. Large companies when they decide that they want to transform themselves or refocus or whatever you want to call it, they usually follow an approach where they say "Okay, let us pick a top few things that we are focused on and we are going to shut down certain businesses." That is the normal thing that they do. They do a reorg and then they reassign leaders in the areas that they want to focus on and deprioritize everything else. So, this is what happens. And we see that in every large customer. Now, what has happened in this particular customer, you can map it to their work chart and work chart settling down. Two things have happened for us – one is that we were able to find out what are higher priority items for that customer and align our business and sales strategy to those individuals who are focusing on high priority items – and second, organization settle down, the heads of those groups kind of now are thinking what their future is and are starting to put plans together and that creates opportunities. I would not say that the old projects that were shut down have come back up again. That is not the case. We were able to form new business in areas that are growing in that customer.

Mohit Jain: Is your growth target intact for the full year?

Dr. Anand Deshpande: Yeah, we are seeing growth in that account.

Mohit Jain: Overall 12-13% growth target for the company after 1Q or do you think there is some risk there?

Dr. Anand Deshpande: Yeah, we do believe that we can grow, meaning that is the overall plan, but I do not want to really say too much at this time, Q1 at the time when we are sitting on a negative QoQ growth, I do not want to make some stupid statements here at this time.

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

Ravi Menon: Anand, first question is about you made a change in your clients…you have made a software product lines and if I understood correctly you are focusing on the new areas but what will this be something that they outsource less, I thought that part of the reason why they gave you so much work earlier was because of the portfolio they had accumulated through M&A and some of its not being core anymore, so do you think that you will be involved as much with these clients going forward?

Dr. Anand Deshpande: It is a combination of things. What you point out is also true that in certain cases they may choose not to outsource as much; however, when you look at traditional large companies they have to move very fast and time to market at this moment is very critical for most of our customers. So that creates opportunities for sure. People are willing to take revenue share risk and other risk at the moment, but I do not think per se on a global or a macro level outsourcing as such for sort of product development is going to go down as much, meaning people are going to need those products anyway, how you build and how you set them up may look different but you will need people for doing the kinds of things.

Ravi Menon: Secondly, Ranga, you mentioned about hiring some more experienced sales people on the Enterprise set. If you could give me some more color, are you focusing on some verticals or certain geographies models, are you trying to build to address these Enterprise clients or in some sort of collateral or business analyst pool or anything else?

Ranganath Puranik: I think it is a combination of that. Obviously, the business analyst pool is an extremely important part of serving our Enterprise customers. We are also looking at bringing some domain/industry experts who have really sold to Enterprise customers, for example, in BFSI and Healthcare and even in a segment like Europe where we are getting significant traction with customers and we need to really have people who have done more in the past. So, it is more a rehashing of our overall sales team to make sure that we have a balance between what we have done in the past and what we will be doing more in the future.

Ravi Menon: Just a clarification on that; so you are saying this is more a plan and present you are putting it into action now?

Ranganath Puranik: We have begun the action last quarter.

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

Sandeep Muthangi: Anand, I had a quick question on the Enterprises business. You said this quarter was an aberration. I just wanted to dig a bit deeper in that as you have said this consists of three distinct components, you are calling it an aberration because you think the platforms business that projects end up roughly and the back sell may not happen, is that the kind of aberration you…?

Dr. Anand Deshpande: No, sorry, I may have misrepresented it. When I am talking about aberration, I am talking about aberration across the entire quarter as such. Now, the second part regarding the Enterprise mix, my point is like this – it might look like it is a flat quarter, but we had good growth and good opportunities during the quarter on the Enterprise side. So the long-term sustainable Enterprise accounts that we want to see in that mix that will help push the revenue numbers that percentage go up that mix was much better than it has ever been in the past. As I was explaining the mix, the mix comes in from three parts – it comes from the Platform business which has short life but it gives you an entry and you are going through a partner, it is either some of this Enterprises Digital story which we think is a longer life project and is strategic and you have the opportunity to get long-term benefits because you are changing business outcomes, and the third is the traditional part. The ones that we won in the Enterprise Digital side were actually very good customers and we think that we trended right or the trend on that is pretty good on this quarter even though the financial number looks like it is flat, the qualitative number on the Enterprise business this quarter is actually very good.

Sandeep Muthangi: On that part that you have just mentioned about the deals in the quarter, so earlier we have seen the deal sizes to be fairly small about $0.5 million odd, are they trending up in especially the recent deal that you announced are they significantly larger?

Dr. Anand Deshpande: Yes, so the one that we talked about is a 4-5-year deal and it includes fairly exhaustive transformation and it includes several of our IP components such as Share Insights, Peas, eMee and Hoopz all of them sold as IP licenses plus maintenance and then there is a services component that extends it, then we have pre-built solutions that we had built which we were able to incorporate. So this included all of those kinds of things and the deal size is actually in multi-million dollars over the next three to five years.

Sandeep Muthangi: Should we take the Aepona acquisition to be EPS-dilutive in the near-term?

Dr. Anand Deshpande: I do not want to say anything about it, but just to say that we have done this with our eyes open, let me leave it at that.

I am going to get Munjay to talk about hiring plans. We are looking at questions from Twitter right now and you can of course shorten the queue by getting on to Persistent results. So Munjay can you talk about hiring plans and headcount numbers? Two questions there.

Mritunjay Singh: We had talked about hiring roughly 2,000 people gross for the year and we are on the target, we have set out across multiple quarters, out of 2,000 people there will be 800 freshers will be joining in batches and the remaining will be laterals. In terms of the next question about headcount drop, our portfolio is a mix of IP and Services. So it keeps varying and headcount is not necessarily the way to directly plot it and of course we do a very tight supply chain management including investments. That is the effect that you see. Other than that I do not read anything more in this number.

Dr. Anand Deshpande: Can we have Rohit share on the CAPEX which is one of the questions that is there on the Twitter.

Rohit Kamat: CAPEX for Q1 was around Rs.24 crores and for the year as a whole we are expecting it to be between Rs.80 to Rs.90 crores. This is purely organic business. If something happens on acquisition that will be separate.

Dr. Anand Deshpande: Let us go back to the call again.

Moderator: Thank you. Next question is from Sagar Rastogi of Ambit Capital. Please go ahead.

Sagar Rastogi: First is regarding IP. Sir, in the last quarter I think you had told us that one large customer of that particular IP had sort of postponed the decision to renew. So has that come back in this quarter?

Dr. Anand Deshpande: Some of it has but there are still some negotiations going on.

Sagar Rastogi: So we expect IP to see a bit of a boost next quarter because of that or it is not that material?

Dr. Anand Deshpande: It is not clear yet, meaning it is not that material, but there are things going on. So, we have not done any IP acquisitions in the last year. So, some of it is what the reason is but I am not too concerned on this one actually, you will see a growth rate this quarter.

Sagar Rastogi: And then secondly, given that you have made a number of acquisition announcements. I just wanted to understand on an overall basis would you be comfortable taking on debt to fund all these acquisitions or you would ensure that it is only through whatever cash you have on your books?

Dr. Anand Deshpande: So far we have Rs.800 crores of cash on the book at the moment and a lot of these acquisitions… again I do not want to say too much, but we are not going beyond our book at all.

Moderator: Thank you. The next question is from the line of Adhik Balasaria of Capital Metrics. Please go ahead.

A Balasaria: If we see the volume in the blended yield, then we can see that Persistent historically had increased the blended yield. So this current quarter if we see there is a decrease in yield as well. So, how do we see that going forward?

Dr. Anand Deshpande: Clearly, the reason is because we have had dips on customers, so people had to be moved from projects that ended and they were not deployed fast enough. That is the reason why the yield dips. So, if we get the growth that we are expecting and we see that we do not have the dips that we had this quarter, I think a lot of these numbers should be able to take care of themselves.

A Balasaria: So that is not because of the Enterprise segment is increasing?

Dr. Anand Deshpande: No, actually, Enterprise segment, the rate per person is actually better, that is not the problem at all. There is also an onsite/offshore mix shift that is happening because of the Enterprise accounts which should give you better yield per person overall.

A Balasaria: When our top customers in the top-10 and the top-5 customers will see traction, is any light you can give on it would be helpful?

Dr. Anand Deshpande: Top-1 has moved up. We are where it is. I am not too sure …

Ranganath Puranik: This quarter actually we have seen already uptick on top-1, top-5 and top-10 customers.

A Balasaria: Yes, that is because the last quarter was not very good for us, that is also one reason because…?

Dr. Anand Deshpande: No, it is not just that, I would not go that far. What happens is that the large customers they are going through changes in their priorities and this quarter we saw that one of our largest customers which has the highest impact on all of this stuff, there volatility has stabilized and they now have a plan and they are moving faster. So, all of a sudden, our top-1 looks like it is pretty healthy right now and we see this growing up.

A Balasaria: The margin part, is it because of the yield is also going down, the margin is going down historically, I am not talking about comparison with last quarter but the overall margins?

Dr. Anand Deshpande: Two reasons – One is of course if growth rates move faster you will see better margins; Second, we are investing in technology, we are investing in sales, our SG&A has gone up higher, we are investing because we are hitting a new market. So that is the reason why the margins are lower.

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

Sandeep Agarwal: A couple of things; one, seeing the numbers again I agree that you have already clarified that the second quarter where we are seeing some weakness. But, my broader question would be like this; are you seeing a trend which is suggesting that the Digital deal sizes are generally on an upward trend versus earlier and if that is the case then where you are seeing them trending towards, are the consumer facing businesses where deal sizes are increasing more or it is across the business when the deal sizes are increasing?

Dr. Anand Deshpande: On the Digital Transformation side, we do see deal sizes going up and overall that is looking good, we are focusing very heavily on Healthcare deals and also in BFSI sector. That sort of where we are getting in through the partnerships and the architecture that we have set up. We are happy to showcase that architecture in a call or whatever else we want to do in between but definitely we will show it during the investor day stuff on how we are implementing and how we are selling this stuff. But yeah, it is all trending quite well on that side. Now, the challenges have been that we are in a volatile market. So, you see some ups, some downs, sometimes when you total it out, the down was more than the up.

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

Shashi Bhushan: If I look at Convirture acquisition, it looks like that they have an excellent IP that can deal with multiple cloud platforms. Can you please help me with the rationale of the founders behind selling that product? They could have built some client base for the product and sold at a much higher price. Because if there is no revenue the payout must not have been great either?

Dr. Anand Deshpande: No, it is like an acqui-hire, it is a very small company, they did not have the sales and marketing capability to sell that product on its own and it is very hard to sell as an isolated product but for us when we are doing a lot of Cloud services, it fits in well and we are able to make something out of it. So, like an acqui-hire we get them on board, they are part of our team, we get some capabilities that we were missing and overall if we make money they will get a better share of returns out of it.

Shashi Bhushan: Were there any shares also given for this acquisition?

Dr. Anand Deshpande: No, there is no shares component in any of these things. They have commissions in the sense that if their product sells well in the context of what we are doing, then they will get a better commission just like a sales commission would be. There are no shares involved in this.

Moderator: Thank you. The next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

Srivatsan Ramachandran: Sir, just wanted your comments in terms of the whole building up of domain vertical knowledge that is happening, would you explore maybe partnering with existing firm in this space maybe a consulting firm or a firm which is already focused on, is there something that has been explored? The background for the question is we have seen the likes of Accenture or Cognizant substantially step up in this space and they come with a substantially higher domain vertical knowledge.

Dr. Anand Deshpande: You are right and we are looking at some of those, we are doing some partnerships in those areas and I do not know how much of it we can announce, the reason we are saying Financial Services and Healthcare is for that reason. Second thing though slightly different is that what we find is that many of our customers are asking us to provide them the technology expertise as much as domain expertise. So, we are looking at. We have some partnerships that we have set up and I am not sure if we need to acquire them but we are doing some of both, focus on solutions with very clear sort of micro services and then focus on some verticals to go with it.

Srivatsan Ramachandran: My second question is on the whole Enterprise Digital Transformation theme that you are driving at. How have we seen clients respond? You mentioned that the clients are looking at more from a technology help point of view is what they are focusing Persistent with, but if we have to go after US$5 million, US$10 million deals do you think pure technology-led deals can inch up to that size?

Dr. Anand Deshpande: No, we will have to do the domain deals as well. We are working across spectrum at the moment.

Moderator: Thank you. The next question is from Dipesh Mehta of SBI CAP Securities. Please go ahead.

Dipesh Mehta: I have two questions: One is just want to understand how one should read a decline in head count, whether it is also giving some kind of adjustment to the employee skill set what we require for future growth opportunity? Second question is about our 3 million plus clients. If I look for last couple of years, it remains closer to 15 kind of numbers. If you can help us understand considering the growth opportunities and the way we approach now for the business, how we expect this to trend in next three-years kind of a thing?

Ranganath Puranik: The first one about people what I explained earlier. We have a non-linear business which is around 18-20% and we of course do a very close monitoring of people projection. We tightly control it. So, I would not read anything more into this net headcount reduction overall on a quarterly basis. We have a good enough pipeline to be able to recruit people at a very short notice. As you know that out of 2,000 gross that we have planned to hire, around 800 are freshers and the remaining are actually laterals, which we do it based on the projections. So we are very comfortable with that.

Dr. Anand Deshpande: Regarding the 3 million customers, yeah, it remains 14-15, but it has gone up from 14 to 15. The $1-2-3 million has gone up from if you look at it just exactly a year back that was 38 now it is 52. So, that is a significant growth and some of those will inch into the 3 million fairly soon.

Dipesh Mehta: On gross side 2,000, what was the Q1 addition?

Dr. Anand Deshpande: 430.

Moderator: Thank you. The next question is from the line of Girish Pai of Nirmal Bang. Please go ahead.

Girish Pai: Anand, what are you saying in terms of billing rates in digital, are they kind of flattening out or coming off or going up because it is kind of becoming a slightly mature situation right now, we have been talking about it for a while, what are you seeing on the ground?

Dr. Anand Deshpande: No-no, I think it is very early days for Digital, how Digital will get sold is still evolving.

Girish Pai: So you are saying the billing rates will go up?

Dr. Anand Deshpande: It is not going to be only about headcount and rates, it is going to be about IP, automation, partnerships, reselling, it is going to be a very comprehensive solution and it will be very different from just a headcount based deal, and we do think that the net revenue per person on Digital deals will be better than other deals.

Girish Pai: My second question is you mentioned about sell with, why should a platform player tie up with you and not somebody else, what exactly do you bring to the table which another player does not?

Dr. Anand Deshpande: We are the best at delivering the services. What can I say? We also work with those companies. Munjay, do you want to add something?

Mritunjay Singh: If you look at for example, we have a lot of accelerators and a lot of pre-built solutions. That is why they work with us.

Dr. Anand Deshpande: Again, what has happened is that the newer products and their platforms that you are selling and buying today, people are looking for real techies to solve programming problems, not just a consulting stuff. A lot of the consulting stuff has become so trivial that you do not need consultants for many of these things any more.

Girish Pai: You have about 280 clients in services. How many of these would be EDT clients as things stand right now?

Dr. Anand Deshpande: No, right now it is very small because we have defined EDT in a very narrow way. A lot of these have a potential to be EDT clients. Right now, we would say it is less than 10.

Moderator: Thank you. The next question is from Anuja Barve of Wealth Managers. Please go ahead.

Anuja Barve: My question is that as discussed before Enterprise revenue is about 23% of the total revenue and you expect it to go to 50% of total revenue over a period of 5-years, that is FY20, so how shall be the share of Platform and Product Engineering in this 50%?

Dr. Anand Deshpande: Actually, we have not quite said that to be 50%, we do expect IP to also contribute to a very significant portion, but we think it should grow from where it is.

Anuja Barve: Which segment will grow better like Platform or EDT?

Dr. Anand Deshpande: When something has to grow, someone else has to come down. So it is a little complicated. Both of them are growing. Let us take this question offline, we are at the top of the hour and I would like to end the call here.

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

Dr. Anand Deshpande: I would like to thank you all for being on the call. And if you have any further questions we will find a way to get you the answers; if you have questions you can tweet them as well, we will tweet back answers all through the night and tomorrow as well. So thank you very much and we will see you again next quarter.

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