



Persistent Systems Limited

Analyst Conference Call

Q4 FY11 & FY11 Results

Date: April 18, 2011

Time: 05:00pm IST – 06:00pm IST

MODERATORS:

- Dr. Anand Deshpande – Chairman & Managing Director, Persistent Systems Ltd.
- Mr. Rajesh Ghonasgi – Chief Financial Officer, Persistent Systems Ltd.
- Mr. Hari Haran – President, Persistent Systems Inc.
- Mr. Nitin Kulkarni – Chief Operating Officer, Persistent Systems Ltd.
- Mr. Hemant Pande – Chief Planning Officer, Persistent Systems Ltd.
- Mr. Vivek Sadhale – Company Secretary and Head – Legal & Investor Relations, Persistent Systems Ltd.



Moderator: Ladies and Gentlemen, good evening and welcome to the Persistent Systems Analyst Conference Call. We have with us on the call today Dr. Anand Deshpande, Chairman and Managing Director, Persistent Systems Limited. We also have with us Mr. Hari Haran, President, Persistent Systems Inc., joining from the US, Mr. Rajesh Ghonasgi, Chief Financial Officer, Mr. Nitin Kulkarni, Chief Operating Officer, Dr. Hemant Pande, Chief Planning Officer, and Mr. Vivek Sadhale, Company Secretary and Head –Legal & Investor Relations. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

Anand Deshpande: Thank you, very much and welcome to the Analyst Call. I am going to give you an introductory set of remarks that will give you the highlights of the financial quarter, the year and other highlights during the quarter. After that, I will hand it over to Hari Haran who will give you a customer and sales oriented perspective of what is going on in the market and then finally he will hand it back to Rajesh Ghonasgi who will share more details on the financial highlights. After the set of remarks about 15 minutes or so we shall open it out for questions and we will take questions one by one. Financial documents are already on our web site and you will be able to download them at any time to suit your convenience.

Let me share with you the consolidated financial highlights for the quarter ended March 31, 2011. During the quarter the revenue was ₹ 2128.21 million representing a year-on-year growth of 23.9% and a quarter-on-quarter growth of 9.2%. In US dollar terms this was US \$47.02 million representing a YOY increase of 25.9% and QOQ growth of 8.8%. The EBITDA was ₹ 380.87 million against ₹ 383.24 million YOY, and ₹ 427.75 million QOQ. The profit after tax was ₹ 331.35 million against ₹ 396.77 million for the year back and ₹ 362.43 million from the previous quarter. Now when you look at these numbers on an



annual basis consolidated financial highlights for FY'11 revenue was ₹ 7758.41 million indicating a growth of 29.1% over the previous year. The revenue in US dollar terms stood at \$117 million indicating a 33.7% growth over the previous year. The EBITDA was ₹ 1583.06 million for FY'10-11 as against ₹ 1463.65 million in the previous year. Profit after tax was ₹ 1397.37 million indicating an increase of 21.5% over the previous year.

In addition to this, the Board recommended a dividend this year in its Board Meeting held earlier today. The Board has recommended a final dividend of ₹ 1.5 per share for financial year 2010-11. The payment of this final dividend of ₹ 1.5 is subject to approval of the shareholders in the Annual General Meeting of the Company. We had given an interim dividend of ₹ 2 per share and a one-time special dividend of ₹ 2 per share on the occasion of completion of twenty years of the Company. This was declared during the Board Meeting that was held on January 20, 2011. The total dividend recommended for the year is ₹ 5.50 per share. This is as compared to ₹ 2.50 per share that was given out the previous year. The other items that are worth noting is that subject to shareholder's approval the Board has approved the merging of two of our subsidiaries Persistent e-Business Solutions Limited and Persistent Systems and Solutions Limited, both wholly owned subsidiaries of Persistent Systems Limited.

A few highlights from the quarter. We have announced a joint venture with Sprint Nextel, which was announced a couple of weeks back. During the quarter we have acquired the OPD business of Infospectrum Inc., and its subsidiary Infospectrum India Private Limited and we had an analyst call on this specific item in the month of February when the acquisition was announced. We have signed up a partnership with 1 million / 1 million initiative to connect entrepreneurs to customers. The 1M / 1M initiative has a goal to help a million Entrepreneurs reach \$1 million in revenue. We were ranked fifth in the PWC Global 100 leader's 2011 list. We won the Asia's Best Employer Band Award in 2010-11 in western region and then CFO-100 Roll of Honor and we were recognized as an R&D center by the Department of Scientific and Industrial Research in March 2011. All our facilities were



recertified for ISO 27001:2005. This is an Information Security and Management Systems Audit. The number of active customers for the year was 302 as compared to 293 on March 31, 2010. The number of employees as on March 31, 2011 was 6360 as compared to the 4662 on March 31, 2010.

With this let me now hand it to Hari Haran to give you a customer side overview of what is happening in business.

Hari Haran:

Thank you Anand. Good evening ladies and gentlemen. It is a pleasure to be on the call today. In fiscal Q4 we saw a higher degree of activity in the market. We added 22 new customers; some of them were old marquee names. We continued to see a strong growth in the market for Cloud computing based services, Mobility and Analytics. We also added new customers in Europe and Japan. So we are seeing that is only optic in those two regions as well. At this time the count of customers that have revenues in excess of billion dollars exceed 40. These should help as we are going to the next year in leveraging the customer base and leveraging them for further growth during fiscal 2012. As we look ahead, we are excited about the opportunities and prospects presented to us by the market. We are seeing software product companies and also enterprises that, through custom product development robustly are expanding their product offerings and this have definitely resulted in potential for us. With that let me hand it over to Rajesh Ghonasgi.

Rajesh Ghonasgi:

Thanks Hari. Hi, friends, another result day. Just to take you through some of the financial ratios, all the data is there in our presentation. I am specifically moving to slide #8 and #10. To take you through some of the highlights, in the last quarter we had talked of pay hike that we had proposed with effect from January 1, 2011. This was a mid-term pay hike. We gave an average pay hike of around 10% across the Board. There were variations, but 10% was the average. Because of this there was about ₹ 7 Crores additional cost in absolute numbers and that is visible in our current financial. There is also some additional salary cost because we also acquired some people from Infospectrum. We have also had a small addition in another acquisition (Arion) but more importantly we have been able to reduce attrition substantially. The



attrition rate that we show in our matrix is the trailing 12 months figure, but if I look at it at the quarter-to-quarter basis we were able to substantially drop attrition on a pure quarter-to-quarter basis. So in that respect we were able to not just add people through acquisition but we were also able to stop the people exits that were happening. So, all this put together is visible in our salary cost. If you see the salary figures, it is ₹ 125 Crores versus 110 Crores of which 7 Crores is on account of pay hikes and the balance on account of additional people whom we had acquired.

The second metric that stands out is in terms of S&M cost as a ratio. We have increased it marginally by 50-basis points, but we have strengthened our sales team in the US. We have got five additional sales people in the US, the productivity of this group will be visible in the future. So it is an investment that we have made. We are in effect, replacing some of the costs that we have reduced in the earlier quarter. In G&A there has been an increase of around 1.7% and much of this is on account of prudential provisioning for outstanding. So these are not costs element that gets repeated in the future, but they did happen in this quarter. We have also had certain other costs. We have been looking at acquisitions and growing our businesses in other territories so there has been some amount of professional cost in the form of tax and legal counsel as we have looked at other geographies. That is also immediate here, because we have chosen to charge off those expenses.

In addition, to this I talked about the provisioning perspective of the debt and that has laid to a lower tax rate than the normal. This doubtful debt provisioning leads to a deferred tax credit and the reason is that just across the border of March 31, we get into taxable territory so in accounting terms since we are taking a provision for which a tax deduction will be available in the future; we had to take a deferred tax credit. If I strip that deferred tax credit out our tax rate would have been around 8.3%, and if I take out that one-time debtors provisioning plus this tax credit our margins would have been higher. It would have been higher by about 3-3.5 Crores on top of this 33 that we are talking about. So some of the margins cut has been on account of prudential provisioning on account of bad debts.



That way, we had slated that we would be around ₹ 138-139 Crores in PAT, we are there. We are slightly higher than we had expected to be, and the margins show you the variations. That is what I wanted to explain as of now.

Anand Deshpande: Thank you, Rajesh. Let me now open the floor and send it back to the moderator to start the Q&A.

Moderator: Thank you, very much. We will now begin the question and answer session. The first question is from the line of Priya from Enam Securities. Please go ahead.

Priya: Anand just wanted more insights on how do you see the budget or the R&D spending happening for FY'11 especially from your top 10 clients? That is my first question. May be I will just come up for a couple of follow-up questions.

Anand Deshpande: Overall we are seeing robust growth on our existing customers especially the top 20 accounts that we track and the key accounts, and I should mention I think might as well do it right now, we are providing or suggesting that we will do a guidance of \$220 million for our next financial year.

Priya: Which includes Infospectrum as well?

Anand Deshpande: Yes.

Priya: Sure. Even just a direction on how do you see the budgets improving like and if you could just do a little bit on the areas, especially the four areas of your focus which includes Cloud Computing, Enterprise Mobility, Collaboration, and Business Analytics?

Anand Deshpande: We find that our customers are by and large looking at fairly good growth and we do not see any dip in that. So overall we are quite positive about state-of-our customers and current business that we have in our existing business portfolio and we expect to see the growth rates that we are suggesting going from \$ 170 Mn to \$ 220 Mn to be consistent across our existing customers. In terms of the four areas we are seeing growth in all four of them via analytics,



collaboration and mobility, and we expect that these will contribute roughly 43% to 45% of next year's revenues.

Priya: Sure. Also on your guidance and topline, if you could just also throw some light on how do you see the EBITDA margins moving across? You know basically in terms of salary hikes, which you are looking for your annual year?

Anand Deshpande: Correct. We think that we will be able to maintain EBITDA of the same range as this year and profits before tax guidance to be the same as what we had this year, and next year we expect that with the additional tax the total net profit might go down, but we think we will still end the year with a positive EPS.

Priya: Sure and just a little bit of colour or more on the joint venture with Sprint-Nextel in terms of what is the likely investments you would have to do?

Anand Deshpande: Let me explain that JV a bit. Sprint of course is a well-known company in the US. We have been doing some work with them in the past. Sprint is the third largest telecom Company, US based Telecom Company and amongst other services that they provide, they provide wire line services to customers, so if there is a Sprint customer in the US who has offices all across the world, then they can provide wired connections, and other services to these companies across the world. When they want to do this in India they need a license for doing this and there are services they have to provide in India. So as a partner or assistant we are going to invest in this joint venture as our contribution being 26% of the JV at ₹ 1.35 Crores and that is the extent to which our investment is and long - term opportunity is that as these customers look for services within India, we have an option of getting some of that business.

Priya: Also if you could touch the base on the salary hikes, which you are contemplating for FY'12?

Anand Deshpande: The thing is we are going to watch and see what other competition does in terms of the salary hikes, but we expect our salary hikes to be between 7%



and 9%, in terms of the consolidated basis at the moment, but we will watch and see where that goes. Our salary hikes will be with effect from July 1.

Priya: Okay. I have just one last question from my side. Your business development team has been quite strengthened with 108 people. Is there a major factor or is there a difference in way you are going to funnel the top 10 account monitoring or chasing or is it more towards the new business development team?

Anand Deshpande: It is all of those crazy things going on at the same time. Let me give you a little bit of colour on what we are trying to do for the next year. Essentially, we will continue to grow our existing business line of outsourced product development work that we have done in the past. We expect that to continue both from existing customers and from new customers. So that business line will continue. During the last year, we have added a new business line around what we call sell-with business, where we have done partnership with some of our existing customers and together with them we are selling together in the market, and that business is starting to also look good. So that is the other business line we are going to do. The third business line is what we have been calling the Technology Consulting Group, which is high-end premium technology consulting that we are providing. This group is focused again on the four initiatives that we have done. We find that our investments that we have made in Cloud, Analytics, Collaboration, and Mobility are in position for us to provide technology consulting and strategic help to our customers at large in the US. So we have started a premium group that is focused on these kinds of areas. Our IP led revenue, which we have done in the last year, has gone up as well. So if you look at this year's number we have 8.8% of our contribution coming in from IP led revenues as compared to the 7.3% which we had in previous year and we expect that number to go up again next year to more than 10%.

Priya: Sure. Thank you very much. Wish you all the best.



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

Yogesh Agarwal: Hi, Anand, just have a couple of quick questions; one you just mentioned that you are looking to achieve flat EBITDA margins next year.

Anand Deshpande: Flat PAT, Flat EBITDA margin, yes in terms of ratios.

Yogesh Agarwal: So if I look at the exit from this quarter it is already around 300-basis points lower than the average for the full year and then there has been another round of wage increments during the year in July. So what do you think are the margin levers not only that will offset the wage inflation, but actually have to expand by 300-basis points?

Anand Deshpande: Of course like you know - there are two to three margin levers we have. One is as we start a new financial year the number of junior people that get hired in the pyramid will start to increase; the fresher's start to come in. So that is one factor. The second one is of course we are seeing rate increases, which will happen. The utilization rates also we expect to grow for the next year as we look at it on a consolidated yearly basis, and in addition, to that two or three lines that I described the sell-with business, the IP led business and the technology-consulting groups. We are anticipating higher revenue realization per person in all of these three areas so the overall rate increase that we expect will be a combination of a better rate that we get on these three new service lines and also incremental rate increases that we are seeing on contracts that are up for renewal. We do expect to maintain margins at levels that we have this year for the next year as well.

Yogesh Agarwal: Just a quick one from the net hirers this quarter, how much has come from Infospectrum?

Anand Deshpande: The Infospectrum hires were around 200 people.

Yogesh Agarwal: So both the cost and the revenue impact will come from the next quarter?



Anand Deshpande: And also the earnings will come in, yes. It is a growing concern so that will pretty much just continue in the same way.

Yogesh Agarwal: But even excluding that the net increase was 13%, was there some good fresher joining this quarter?

Anand Deshpande: No, if you look at the numbers - real growth on the topline as well - you would have seen a growth on the topline. We are seeing robust business. So we have added people ahead of potentially what we see in the quarter.

Yogesh Agarwal: And those people joined during the quarter. This was not that it happened at the end of the quarter?

Anand Deshpande: It happened all through the quarter. Infospectrum effectively joined us on March 1, and there was another small group called Arion which we have acquired, that was a bulk hire of about 40 people that came from one company.

Yogesh Agarwal: Thanks Anand

Moderator: Thank you. The next question is from the line of Kunal Tayal from Merrill Lynch. Please go ahead.

Kunal Tayal: Just two questions from my side, Anand, like you noted earlier in the call that IP based revenues have done well for the company, so going into FY '12 can you give us some sense as to what the traction should be like in this revenue segment for FY'12?

Anand Deshpande: As I mentioned we have an endeavor to increase our IP led revenue percentage of total on an ongoing basis. We have moved it from 7.3% to 8.8% this year. We expect that number to be in excess of 10% as we look at the next financial year's numbers.

Kunal Tayal: Secondly, the growth in the top two to ten accounts looks pretty robust for this quarter. So does that have some kind of a positive impact from the acquisition or there is no change in the top ten accounts?



Anand Deshpande: The acquisition specifically the Infospectrum acquisition that we had has had no impact on our top ten accounts. Their accounts are all fairly small relative to our top ten accounts.

Kunal Tayal: What would be the quantity annualized attrition rate for the quarter?

Anand Deshpande: The trailing twelve months attrition rate is 19.6%, but during the quarter if you look at quarter's beginning number and the end numbers of the quarter it is less than 15%. So during the quarter if you look at for that quarter it is less than 15%.

Kunal Tayal: Thanks

Moderator: Thank you. The next question is from Subhashini Gurumurthy from Ambit Capital. Please go ahead.

S. Gurumurthy: I am not sure whether this question was answered as I got disconnected, but what is the kind of organic growth we have seen in this quarter?

Anand Deshpande: If you look at our numbers, the only inorganic piece is the piece that we have done with Infospectrum and that was one month of revenue of Infospectrum which was half a million dollar. If you look at our QoQ growth and that 8.8% QoQ growth if you do not include Infospectrum and the revenue line that we have.

S. Gurumurthy: Sure and in the guidance of 220 million what is the revenue from Infospectrum which we are factoring?

Anand Deshpande: 8 million

S. Gurumurthy: Sure. Rajesh if you could give some more clarity on tax reversal, which we have had in this quarter?

Rajesh Ghonasgi: I will give you a little bit of data on the way the accounting works. We provided for a couple of customers where there was doubt and this was a prudential provisioning. Had we not made this provision our profit would have



been higher and this is not a repeat. It is not going to be repeated. Since we did this provisioning in March and from April 1 onwards the tax gets charged on our income, in effect the write-off which should happen in future would give a tax deduction, which will lead to tax reduction. So the accounting standards as they exist in cases where there is a proven virtual certainty that the tax reduction would happen and since the tax law has changed, it is proven certainty - we were forced to take a credit on that account. That credit is not a very large amount, but it reduces the tax rate from 8% to around 5%. Now that is why to just normalize this if we did not take this provisioning which is one-time charge and the related tax credit our profit could have been higher at about ₹ 37 Crores, our tax rate would have been around 8.3%, effective tax rate, but let me also add that all these effective tax rate that I am talking about is for the quarter ended or the year ended March 2011. Going forward from this quarter onwards of course we are going to face normal taxation and the tax rate that we would face that is effective tax rate including SEZ profits that we had will probably be in the range of 30% to 31%.

S. Gurumurthy: Sure and what is the kind of margin lever, you exactly foresee for FY'12 given that you would have another round of 7% to 9% wage hikes coming through FY'12?

Anand Deshpande: Actually I did answer that question. I will repeat the margin levers that we talked about. So one of course is that, you know, in the month of June, July and August we have a large number of fresh graduates who joined, who come at a relatively lower salary as compared to the rest of the business. We are expecting 1000 new fresher's to join this year. So that is one lever. We expect the utilization numbers to go up by a couple of percentage points this year for next year and we have a margin lever opportunity of improving the rates that we have and the charges that we are making from our existing customers, it should result in a couple of percentage point and increase in the rates that we have. Finally, as I mentioned earlier we have created these two new business lines, which are sell-with and technology-consulting groups which though may not contribute a significant percentage of our next year's earnings, we expect them to come in at a much higher rate as compared to our current business



and to provide some opportunity for us to increase our margins as we go along. IP led business also has been a better margin generating business for us. We have seen it go up from 7.3% last financial year to 8.8% in this financial year and we expect that number to be in excess of 10% of our revenues for the next financial year.

S. Gurumurthy: Sure, what will be the fraction, which we are seeing in professional services given that, that is also you work at much higher margins in the service line?

Anand Deshpande: There are two kinds of professional services work that we are looking at, one of them which is specifically that we have created around technology consulting group as we have called it. It is a relatively small team, but it is our premium service which is aligned to the businesses line these four thrust areas that we have had around cloud analytics or collaboration and mobility and what we are trying is to provide customers at large strategy and services, the way you do cloud deployments and cloud engagements on the technology related side. We believe that if we are able to lead the businesses from the technology direction as strategy side and our ability to pull through other revenues at better rates will improve. That is the main motivation why we are doing this. As a fraction of the total earnings that will not be a very significant one, but some of these kinds of new initiatives take a few years to really be effective and this could be our first important year in that kind of endeavor.

S. Gurumurthy: Sure. Thanks. I will come back for more questions.

Moderator: Thank you. The next question is from Ravi R from Daiwa. Please go ahead.

Ravi R: My question is that when you have given a guidance of around \$220 million, translation into a growth of around 27% , if we compare with the FY'11 \$170 million, what kind of volume versus price growth you have factored while giving, just want to get a clarity on that, because that is very critical for getting the number?

Anand Deshpande: You know the price increase that we are looking at is only 2%-3%, the rest of it is all volume growth.



Ravi R: But from this quarter result, your top clients are actually grown much faster and if that be so, is it client concentration, if it goes up can they not arm twist and seek for billing rate cuts and we have seen many times in the recent past that once the certain client accounts for certain proportion it is a devil and the deep-sea situation, one if you account for larger proportion, you have to give billing rate cuts and if you do not give the client goes for ramp down, so is it not a casualty situation for you?

Anand Deshpande: What you are saying can happen definitely, but if you look at our current business the fact that we have 300 customers and a large number of them are very small, I do not see this as a major risk for us at this moment and the other thing we are actually in our second year as a public company, we have just completed this financial year and we want to beat our guidance next year as well.

Ravi R: I just need some clarity on the point that if I look at your billing rates, how much of the blended billing rate is being improved on account of IP and how much is going on absolute term on YoY business, because if I see the on-site rate nine month, in Q4 it is 12766 over 13101 and offshore has increased, but the blended billing rates have fallen, I just wanted to know how much is the yield going on account of IP and how much is being driven by IP led solutions?

Anand Deshpande: Actually we would have Hemant to answer this question.

Hemant Pande: For IP-led business, since it is actually non-linear business it would not be appropriate to talk about billing rate, so our billing rate for linear business has been increasing 2% and so on. In terms of yield that we see yields from our IP business is 10% higher than the rest of the business.

Anand Deshpande: That must have answered your question probably. If we get it right the question was actually more complex than that.

Ravi R: Actually all I want to convey to you is that if you do a solutions business on a like-to-like basis, your on-site for this quarter has gone down by 2.6% and your offshore has gone up 1.1% and your blended basis has gone down by 0.6%,



but if I do the total the yield has gone up, I just wanted to check how much of it is driven by the yield because your solutions revenues on a blended business billing rates has gone down?

Anand Deshpande: So on the on-site front in Q3 in fact we had some specific projects, which gave us higher.

Hemant Pande: Actually during the month of December we had a few deadlines, so we had an extra billing that happened because people put in more than 100% billing in that, which caused our rate to look higher because the utilization is more than 100% on on-site revenue. If you discount that out it is 12766, there has been a real increase in on-site rate.

Ravi R: Okay thank you.

Moderator: Thank you. The next question is from Jigar Shah from Kim Eng Securities. Please go ahead.

Jigar Shah: I would like to congratulate the management team at Persistent for good numbers. My first question is to Mr. Deshpande on the IP led business, we have seen the contribution increasing to 8.8% and you are talking about 10%. I wanted to know in this regard what will be the future strategy, whether we would be happy with growing this proportion by a few percentage points every year or we want to limit to let us say sort of 15%-20% kind of contribution, it could exceed over a period of time substantially in three to four years timeframe and if that were to happen what could be the driver there?

Anand Deshpande: Again we have fairly steady growth in our existing business as well, so when we change percentages, means it is growing much faster than the other businesses. In the medium term, in a three five years' time our objective is to take it near to 20%. I do not see becoming more than 20% over the next three to five years and after that we will see how it works and I do not want to project beyond that.



Jigar Shah: This would be driven by like which segment, just if you can say which segment?

Anand Deshpande: It depends upon what exactly are we doing in this IP led revenues that might give you some understanding of what businesses and how this comes up. So what happens is we have a few specific things that we are doing, which contribute to majority of the revenues that we get on IP led revenues, so one of them, it is the biggest percentage of our IP led revenues comes from building connectors and adapters for one of your big customers, so the way it works is we invest in building these connectors for that company, they sell the product and our connectors get sold with them, so they do sales and marketing and actually everything that goes with it and we get a royalty report every quarter and every month that tells us what the percentage income is and we get a certain percentage royalty for every license sold and the companies that we are working with are very large companies, so they have a fairly predictable and reasonable stable revenue stream that we can predict and approximately predict what we will make on a QoQ basis. We have added a few more connectors, so we are doing one set of connectors which are relating to Microsoft products, now we have added more connectors such as SAP, TIBCO and a bunch of other connectors like that, so we have now far more connectors for next year as compared to what we had this year. This is one line of business, which contributes to roughly half of our IP led revenues this year. The other two that we have which are significant is that, you may be aware we had acquired a group and assets of that company called Paxonix, which is a product that essentially allows you to build workflow and business processes for packaging and printing solution and that one contributes some revenue and we have also acquired from Agilent a product called ChemLMS which is a LIMS product and we have a product called Driver Central, these two- three products actually add up to additional revenues. On an ongoing basis we have been making investments with our customers on adding tech features and functionality to these products and they pull through other revenue as well for us, so we are constantly looking to find from our customers what other businesses they maybe wanting to de-prioritize and



equally acquire or things, that they are not doing themselves, that we can invest in and build upfront for potentially long-term revenue stream strongly.

Jigar Shah: I think that was quite elaborate. Thanks a lot. I have one last question for Rajesh. That is regarding the other income. It is around ₹344 Million for FY'11. Can you give an idea what is the breakdown of this and whether this will come down or it will stay at that level and quite well?

Rajesh Ghonasgi: Just to break it down, I will give you the figure, the forex gain was ₹173 million, and I am rounding off the figures. Forex gain was ₹173.21 million for this full year, for the full financial period. Other income, which is largely interest income on mutual fund investment, was ₹ 171.15 million. Now going forward the forex part, one cannot talk about it because forex is actually a moving target while the actual amount of being will be dependent upon the closing and the average translation that will happen in the future. In terms of other income, we had substantial amount of money during the year, so the money that we generated plus the money from the IPO and over the last six months we have had higher interest rates and that were in existence earlier, so we have got some deposit at a very, very decent rate, we have got other portfolio of fixed interest income, which is spent decently, which is at decent return right now, so number one going forward it would be dependent, there is an interest rate risk, but the other point, I would like to identify here is that this money is growth in a growth capital, we are looking at building capacity as well as in growing our business by acquiring capacity or other businesses that would add value, so depending upon how that happens with this, other income would depend upon how much of that cash would be in our hands for the year, so subject to that I think the current interest rates would continue, although I cannot say that we can guarantee that to happen.

Jigar Shah: Thank you, very much Rajesh and wish you all good luck for FY'12.

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



Shashi Bhushan: Congrats on a great quarter. In FY'11 our G&A has come down by almost 120-basis point compared to FY'10 in a year when there was unplanned heading so in FY'12 are we expecting the percentage of sales to come down further?

Rajesh Ghonasgi: We are looking to do get this operating leverage, we are looking at controlling G&A, so barring any event cost, we should be able to bring that ratio down by at least half a %, 50 basis points, so the current ratio of YTD figures of 10.1% we would like to bring it close to 9%.

Shashi Bhushan: What is our hiring guidance for FY'12 both fresher's and lateral breakup please?

Anand Deshpande: As I mentioned earlier, we are looking at making about 1000 offers for fresher's, so we are expecting 1000 to join, but we will make more than 2000 offers and we expect that total to be 2500, gross hires will be 2300 to 2500.

Shashi Bhushan: So around 1300 would be the lateral hirers?

Anand Deshpande: Lateral yes that is correct.

Shashi Bhushan: Also during the call you mentioned that some of the client wins were from Japan, so when you are guiding for FY'12, are those ramping up of the project started or you know, we are factoring that in our FY'12 guidance?

Anand Deshpande: As you would notice that most of our business comes from the US, the Japanese customers are just starting now, and they are a very small amount in the total scheme of things, they are ramping fast but they are so small in terms of sub-million dollar and they do not really have a significant impact on the total topline as such.

Shashi Bhushan: Are we witnessing bigger deal size compared to that of year ago, if yes what are the average deal sizes if it has improved from the year back?

Anand Deshpande: We are definitely observing our engagement with customers, the deal size with customers have gone up, if you notice we have more customers, more than \$10 million like three of them as compared to one we had last year, so



the total number accounts more than million dollars has also gone up, but it is not necessarily all one big deal, it is all multiple projects and some of that has continued the way it is.

Shashi Bhushan: Thanks that is all from my side.

Moderator: Thank you. The next question is from Kunal Sangoi from Edelweiss. Please go head.

Kunal Sangoi: Thanks for taking my question. My question is to Anand, what could be your assessment of investment in a lot of front-end sales people over the last one year, suddenly you talked about deal sizes going up, but maybe if you could talk in terms of some of the deals that are there in the pipeline plus some wins that how they are different from what it used to be earlier and how strengthening the front-end has helped?

Anand Deshpande: Let me request Hari Haran to answer this.

Hari Haran: Thanks Anand, so in sales and marketing just to cover on the types of investments that we are making and I can get into some specific results, so if you look at pure quota carrying sales people, obviously we have increased numbers carrying sales people and as we have been growing our business and mining our business with our existing larger customer base and in terms of giving you exact numbers I think we have increased that by almost 40% or so the sales head count of our mining the customers, which allows quickly the growing accounts that we opened through the sell-with strategy, so that is the first component, the second is the sell-with component, as Anand alluded we have driven to invest in partnership-selling program, whereby first 60 partners with full, we will go jointly to the market and we set as a vehicle to bring in new customers and this greatly brings down the amount of investment that is taken for finding new customers because we end up latching with the bigger partners and for better joint value proposition that helps us ease with the customers. We have added about four or five head counts exactly in that area and we are already beginning to see some results in it and we should see more during the year, the category is technology consulting. Now that brings



without getting into actual numbers, because that varies depending on how much fraction we would see and how quickly we will see intake of those forces, but today we have already about four people in for technology consulting projects, which as Anand alluded brings higher billing rates, so overall our investment in sales and marketing has increased quite a bit in these three areas, but these are all, not something which has happened overnight, it has been happening over last three to four months and that is why we see some of those numbers in Q4 result, but this has been timed well looking at the demand that we are seeing in the market and also traction that person is initiated and the buying activity as a customer as well as technology consulting. Anand if you want to add anything more.

Anand Deshpande: I think, you covered it. Kunal, if you have any further question of course you can ask?

Kunal Sangoi: Going forward, so certainly this investment is done and maybe you may want to strengthen that further, but what would be the other areas of investment that you would look forward from maybe IP development perspective?

Anand Deshpande: We continue to invest as I mentioned in the context of IP, we have been talking to our existing customers and some of the larger ones especially and identifying from them what kind of areas they are keen to partner with us for investment. We are also trying to align these investments to four such areas that we have identified, that are just Cloud, Analytics, Collaboration and Mobility. We are also seeing opportunities for good investments in the life sciences area and some of these will start to happen and as they happen we will communicate them.

Kunal Sangoi: Current revenue is that you get from the four focused areas are roughly 40%, is that?

Anand Deshpande: It is more than 40% and about 40%-43% at this time.

Kunal Sangoi: You earlier alluded to the fact that they may increase to about 43% odd, so by and large the growth from these new focus areas is slightly ahead of the core



business, so I was just wondering that probably, at least at this point in time, you would see much faster growth in these areas?

Anand Deshpande: That is possible and if we get that we will take it. The problem that happens is you are adding it up and trying to give guidance and talking about the future you are adding pieces which are all projections when you add up all these projections there is a statistical overlap on finding of these numbers, so I do not know what to tell you really, but we are expecting good growth I think we will get that, it is a lot better but I have to start somewhere.

Kunal Sangoi: Thanks very much.

Moderator: Thank you. The next question is from Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu: Rajesh, I may have missed one or two points you made earlier. I think you were explaining the QoQ jump in expenses and I think you split wage or employee cost increase by wage hikes for people acquired and I think the other point you made was about, if you had not made the provision for debts they would have been certain impact on EBITDA and those two numbers if you could repeat that again?

Rajesh Ghonasgi: I will take out the pay hike equation. In the last quarter's call we have talked us around 6.00-6.5 Crores being the total cost on account of the hike, fairly that builds total up to around 6.8 Crores that is for the full quarter. If you see the total cost differential it is about higher than 6 odd, it is around 15 Crores and the balance is on account of the acquisition of around 900 additional people so the number #1 point is we have acquired people, we have also acquired people through the Infospectrum and Arion acquisitions and that cost is also embedded in this. So if you see I have talked around 3% point dip in margins we are actually slightly lower than that, it is around 2.4%-2.5%, so while the margin per se has been answered the absolute cost increase is higher than what we had talked about. So that is the first part, which impacted our margin. The second part, I said that we have given the doubtful debt provision; we have taken a charge on account of doubtful debts. This is a



prudential provisioning that we took at the end of March and that would of course have hit us to some extent, it is around 5 Crores and if we take the figure the appropriate tax credit that we will get in the future was around a little over 1.5 Crores. Now this 1.5 Crores credit is what I explained was on account of an accounting standard on deferred taxes which says that if we are able to get reduction of tax in the future and it is virtually certain then you have to account for the credit in the year in which you take the expense. It is matching of tax with the timing, etc. that led to a credit. Now if we had not taken this charge and I am talking of just as an example because this charges is the one-time charge and of course, if we had not availed the tax credit our bottom line would have been higher by about 3.5 Crores.

Abhiram Eleswarapu: Understand, so before the 331 Million net profits after tax would have been something like 360 Million?

Rajesh Ghonasgi: It would have been 36 Crores.

Abhiram Eleswarapu: So is it 3.7 or 3.8 Crores, so basically you are saying that had you not taken this whole thing your profit would have been something like 368 or something like that 365? Okay I understand. Thank you very much for the explanation.

Moderator: Thank you. The next question is from Anurag Purohit from Alchemy. Please go ahead.

Anurag Purohit: I just had a question regarding revenues in the quarter; are there any elements of one time in this quarter?

Anand Deshpande: On the revenue side?

Anurag Purohit: Yes.

Anand Deshpande: Well the IP led revenue usually has a little bit of one-time thing but what we do expect that to be on ongoing basis to give you similar results. There is a little bit of variability in it on a QoQ basis, but it is nothing unusual. There is a half million dollar order , which is from Infospectrum which was for the first time this year, because that acquisition happened with effect from March so



that is a first time one off, but I would not say it is one-time because hereon we will roll that in part of venture.

Anurag Purohit: Because in this quarter as well as in quarter three, there has been a little bit of volatility in both additional and relation in plant in case of prices particularly in less than 3 million and less than \$1 million accounts, any particular reason for that?

Anand Deshpande: Let me check what you are saying.

Anurag Purohit: Since 29 has gone down to 26 in less than 3 million whereas 169 has gone up suddenly to 194?

Anand Deshpande: Anurag, these are in IP led businesses whereas in case of certain solution sales that we do they would be counted as customers and you can treat that as one time but then again we have this strategy as Hari mentioned, that once you make the saving to those account we can mind those accounts and make then steady customers.

Anurag Purohit: Sure that is understood and lastly will the merging of two subsidiaries have tax implications for you?

Rajesh Ghonasgi: See I will just give you a brief on Persistent e-Business Solutions Limited, the company formed to focus on India business and we find that with the passing away of the tax holiday it makes sense to just merge all the businesses in one, administratively it is more economical. There is no tax impact beyond that. On the other hand, the other business, Persistent Systems and Solutions Limited was made specifically to drive SEZ business. Now over the last two years we have seen the direct tax code, which proposed MAT on SEZ incomes also and then in this particular budget we found that SEZ was brought in MAT tax net. Now purely on a mathematical basis having separate entity versus combining it would be MAT inefficient. So in effect by merging the two companies in the current MAT situation it will be more efficient. We will be reducing the amount of total tax that we pay and that is the real mathematical reason why we put this. We were looking to merge the two companies; it is just that at



this point of time it makes sense with the fact that MAT has now been brought in.

Anurag Purohit: Okay, but when you say some positive impact on tax it would be out of tax rather than effective tax rate?

Anand Deshpande: It is a long-term benefit. This will really help in the next year or so. It is a MAT credit issue and it will have an impact in few years or months.

Anurag Purohit: Finally if you could also provide what kind of capital expenditure you are expecting in FY'12?

Anand Deshpande: Nothing unusual but it is very similar to what we have had. This year there were couple of building construction activities that have been going on that will continue and be completed this year. Give us a minute, we will try to find out the exact numbers on the capital expenses we have but it was not included in this place. We will take the next question and we will answer that question.

Anurag Purohit: Thanks and all the best.

Moderator: Thank you. The next question is from Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Two things. Firstly what is the contribution from Infospectrum we are expecting in FY'12?

Anand Deshpande: For FY'12 we are expecting about \$8 million of contribution from existing Infospectrum account.

Rahul Jain: What kind of upside we are looking in terms of the profitability for this portion of revenue?

Anand Deshpande: I think the profits from this portion are very similar to our current profits. We do not see any difference in either the increase or decrease of profits for Infospectrum revenues.



Rahul Jain: If you can share the growth of the next generation technology in this particular quarter, may be Cloud and Analytics?

Anand Deshpande: Again some of that has been reported but overall there has been a steady demand in terms of new business activities that we will see in Cloud, Analytic and Mobility. The Cloud, Analytics piece for example grew about 11.3% , collaboration grew by 9.8%-10%. On a QoQ basis if you look at it, these are all kind of hard to daily look at it that way, but overall there is growth on all these four areas.

Rahul Jain: Okay perfect. That is it from my side, thanks.

Moderator: Thank you. The next question is from Jay Kumar Doshi from Equirus Securities. Please go ahead.

Jay Kumar Doshi: Good evening and congratulations on a good quarter. Anand, I believe your top client has grown about 85%-90% in FY'11, just wanted to understand what is the nature of work that we do for them and of the incremental revenue what percentage would be IP driven and what would be Cloud computing, are we seeing price hikes in that account and how our relationship has matured so if you could throw some light on it?

Anand Deshpande: You are asking very elaborate detailed question, but let me give you a little bit of color on this one. Of course we are seeing growth in our existing account. This account is a big company so definitely it is pretty much bigger software company so definitely we grew because of that and it is not so much rate increase as such, it is a lot to do with some IP revenue, also to do with some professional services and other growth in revenues and one other important aspect to note is that this particular customer of us is very active in the market and has been buying other company including some of our other existing customers, so when we add them up some of the revenues which are in two or three smaller buckets got compounded in this big account because they acquired that customer as well.



Jay Kumar Doshi: Thank you and if could give us the breakup of 42% revenue that we derived from four new initiatives?

Anand Deshpande: In terms of how much are we intending to spend in the next quarter, next year or month, we expect this spending between on construction between 100 to 130 Crores and other assets which is largely computers and specialized software that we acquire that will be around is 70-80 Crores. The total outflow will be around 200 Crores.

Anand Deshpande: Hemant can you answer that other question about the distribution?

Hemant Pande: Approximately our BI and Analytic business and Cloud business would amount to about 10%, then collaboration business about 15% and the mobility business would be about 7%, so add that to around 40%.

Jay Kumar Doshi: Thank you and the last question. If I heard it correctly, we are hiring 2300 to the net addition for FY'12 right?

Anand Deshpande: That is gross addition.

Jay Kumar Doshi: Okay and distribution across laterals and fresher you mentioned to 1000 will be fresher gross addition or that is net?

Anand Deshpande: 1000 fresher's.

Jay Kumar Doshi: That is also gross number?

Anand Deshpande: In this context, both net and gross, we do not know how many of them will leave at the end of the year, but we are making 1000 fresher's we expect that to join in July, August and September.

Jay Kumar Doshi: What was the ratio of fresher's versus laterals on a similar line in the FY'08, FY'09, and FY'10 just wanted to understand the change in hiring pattern?

Anand Deshpande: Again it is complex to answer that question at the moment, but just see what happens in the past we have had hired fresher's beyond campus as well, so it is very difficult to give you a very precise answer on that, but I must say that



next year we are hiring a higher percentage of fresher's on campus rather than waiting to hire them through the year. So that is for sure for next year.

Jay Kumar Doshi: Thank you so much and all the best for FY'12.

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

Dipesh Mehta: Just wanted to understand your Q4 performance what would be the margin different, different variables has had impact, because we acquired Infospectrum and Arion and we have seen increase in IP-led revenues also. If you can give some of the variables, which had impacted margin decline of close to 400-basis points? Second, I just wanted to understand about provision what we have made for bad debt, whether we have recorded that amount and what would be the comment on that? Third is our outstanding acquisition?

Rajesh Ghonasgi: In terms of the margin, the reason why the margin did not increase as much as they should have been with the revenue increase was a) we had a pay hike increase which was around 7 Crores, the exact number is 6.8 Crores. I am rounding it up to 7 Crores. In addition our head count went up substantially. We acquired people from Infospectrum that was going to be put in March, but this quarter we have also had other acquisitions, which are reflected in our total head count increase. The costs on them are also embedded in our financial. We were also able to reduce the attrition substantially, which led to higher than expected closing head account, which is good because we are confident in using them in the future. In addition, there were some other expenses. For example, in admin., and other expenses we have charged off cost for legal cost research done in Europe and research done in the US, as we are looking to acquire new companies, we also take counsel and that is an expensive cost. It is non - recurring but it has been charged off. There is a small portion of that, which is embedded in the total G&A cost. Coming to the doubtful debt provisioning if you look at the YTD figures, they are just short of 5 Crores in the doubtful debt provision. We have provided this on an abundant-caution basis, but as the accounting standards go since there is a tax



from the next year we had to account for potential tax credit and tax reduction we will get on the reduction being allowed after write down. So that led to reduced tax rate and if both of these were stripped out and affected the tax and making the net profit would be higher by about some 33, today it would have been around 36Crs. Now the tax rate per se comes to around 4.9% on an effective tax rate basis. It would have been around 8%, if we did not have this credit, and of course the consequent charge and going forward this was history from April 1 onwards we are still looking at tax rate somewhere between 30% and 31%.

Dipesh Mehta: My question unanswered remains the outstanding hedge and because we acquired, apart from Infospectrum you said couple of entities so can you share what would be the revenue and number of employees added because of those acquisitions?

Rajesh Ghonasgi: I will just complete the hedge answer. We are about \$83.91 million as of end of March at an average of around Rs.47.4 million per dollar.

Dipesh Mehta: You said apart from Infospectrum we acquired some of the smaller entity, one you named is Arion so what would be the revenue run rate and number of people added through other acquisitions?

Rajesh Ghonasgi: Revenue added is very small it is about \$45,000 for this month and number of people was about 40 people. There are some good skills set, beyond that we did not have a lot of revenue.

Dipesh Mehta: Only other entity we acquired was Arion apart from Infospectrum?

Anand Deshpande: Infospectrum of course there was significant revenue which we have shared with you already, it simply bulk hire especially this company had good people that we knew we can leverage in the rest of the business and it was an opportunity to acquire all of them in one shot so we took them all.

Dipesh Mehta: Okay thank you very much.



Moderator: Thank you. The next question is from Karan Taurani from Khandwala Securities. Please go ahead.

Karan Taurani: Sir, in the light on telecom vertical, which declined to 20% from 23% from last quarter, so what is the reason for that?

Anand Deshpande: The reason is that last quarter we had just one time deal on IP, which we did not have this quarter and that is the reason why the decline is short.

Karan Taurani: Okay and just overall telecom spending do you see an uptake right now in the current scenario?

Anand Deshpande: Yes actually there is a lot of action in the telecom area definitely and when you look at percentages it is more complex, overall business is growing sometimes some other businesses grow faster than this one, so the percentages make a difference, but overall there is good growth in telecom business.

Karan Taurani: Sir, for your deal pipeline for FY'12, if you see which verticals would you pick on, the high growth we have been in healthcare from telecom or other verticals?

Anand Deshpande: So most of our action that we see in terms of new business is around Cloud Analytics Collaboration and Mobility, those are the four areas and we are focusing quite a bit in and pipeline in these areas is actually very healthy. We do see our existing customers growing in all across all businesses, so we would see growth in telecom and life sciences, mostly from our existing customers.

Karan Taurani: Sir, in terms of your guidance, what have you factored in, is it a back-ended growth kind of a thing or it could be spread over four quarters?

Anand Deshpande: No, it is spread over, it is reasonably spread, I would not say equally spread, but it must be spread across the four quarters.

Karan Taurani: That is it from my side. Thank you so much.



Moderator: Thank you. The next question is from Sandeep Agarwal from Antique Stock Broking. Please go ahead.

Sandeep Agarwal: I have four small questions. One is what will be average tax rate next year? What you are expecting effective average tax rate? Second is on utilization, where do we see utilization going forward for next year? Third is PAT margin? My fourth question is obviously how do you see the attrition thing coming down?

Anand Deshpande: I will just give you the answer on the tax rate. The tax rate is going to be between 30%-31% depending upon the amount of profit we generated from SEZ, my feeling is 30.5% is a conservative rate that we will stick by, anything more than that, that means we have gotten much higher SEZ percentage.

Sandeep Agarwal: The utilization rate?

Anand Deshpande: Utilization we expect to do trend between 74% and 76% in the next year and on the attrition last quarter it came down to 15% on a quarterly basis and going forward we see stability on the attrition side, so we should be able to do well the attrition.

Sandeep Agarwal: On the PAT margin?

Rajesh Ghonasgi: We have talked about the PBT margin being maintained at current, so the PAT margins would be in the range of around only 14%-15%.

Sandeep Agarwal: 14%-15%?

Rajesh Ghonasgi: If you see our current EBIT margins for the current quarter.

Anand Deshpande: The margins that we are saying pretax are about 20% and effective tax rate of about 30%, so about 14% plus minus.

Sandeep Agarwal: Okay that means your EPS will be almost flat this year like we will be able to do only ₹ 30-₹ 33 EPS next year right?



Anand Deshpande: Yes, so our endeavor is to make sure that we have a positive EPS, you are right what you have pointed out is exactly right, but there is a whole year to go and we are all working and making sure the number is higher than previous year.

Sandeep Agarwal: Thanks a lot.

Rajesh Ghonasgi: Before we go to the next question, there is an addition I want to make, on forex there was a question from the Dipesh, and the figure I gave was the current hedges that we have. If I go back to March 31 we had \$87.25 million at again Rs 47.4 per dollar, we have just used up the balance between 87 and 83 in this month.

Moderator: Thank you Sir. That was the last question. I would now like to hand over the conference back to Dr. Anand Deshpande for closing comments.

Anand Deshpande: I would like to thank you all for being here in this call. Appreciate all the questions and in the future if you have any further questions, please do not hesitate to write to Vivek and we will get you the answers as we go along. We are quite excited about where we are today and also the fact that we are looking at a fairly exciting year in the next few years to come. So thanks a lot for joining the call and thank you for your support.

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

(Note: This transcript has been edited to improve readability.)