



## Persistent Systems Limited - Analyst Conference Call

### Q4 FY12 Results

**Date:** April 23, 2012

**Time:** 05:00pm IST – 06:30pm IST

#### MODERATORS

**Dr. Anand Deshpande**

*Chairman & Managing Director*

**Mr. Rajesh Ghonasgi**

*Chief Financial Officer*

**Mr. Hari Haran**

*President, Persistent Systems, Inc.*

**Mr. Nitin Kulkarni**

*Executive Director & Chief Operating Officer*

**Mr. Hemant Pande**

*Chief Planning Officer*

**Mr. Rohit Kamat**

*Chief Financial Officer Designate*

**Mr. Vivek Sadhale**

*Company Secretary and Head – Legal & Investor Relations*

**Moderator**

Ladies and gentlemen, good evening and welcome to the Persistent Systems Analyst Call. As a reminder for the duration of this 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 today's presentation. Should you need any assistance during the conference call please signal the operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. We have with us on the call today Dr. Anand Deshpande, Chairman & Managing Director, Persistent Systems. We also have with him Mr. Hari Haran, President, Persistent Systems Inc., Mr. Rajesh Ghonasgi, Chief Financial Officer, Mr. Nitin Kulkarni, Chief Operating Officer, Mr. Hemant Pande, Chief Planning Officer, Mr. Rohit Kamat, Chief Financial Officer Designate and Mr. Vivek Sadhale – Company Secretary, Head - Legal and Investor Relations. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

**Anand Deshpande**

Thank you Terrence. Thanks a lot for joining this call. The way we will do this call today is that I will start with some introductory remarks and then I am going to have my colleague Hari Haran provide a little bit of an overview of the business conditions then I am going to have Rajesh talk a bit about finance and other related items. And then I will again come back and share with you a little bit about the business overview and how some of our investments are aligning to the business changes that we see in the market.

Let me start by giving you a quick overview of the business and the highlights of the quarter and the year. We are very delighted that we were able to actually make ₹ 1000 crores and we crossed ₹ 1000 crores as our business revenue for the financial year and this is a big achievement for us in our 22<sup>nd</sup> year. Our earnings per share has grown, we were able to make a profit of ₹ 141 crores as compared to the ₹ 139 crores that we made last year and this is very significant because last year we were part of the STP scheme and we had the benefit of reduced taxes and no taxes for the STP business and overall the tax rate was 8%. This year despite the tax rate being 28% effectively, we were able to make sure that our profits improved as compared to the previous year.

The overall growth that we have this year consists of 28.9% Y-o-Y revenue growth and the EBITDA has grown at 46.8% and we have had an improvement in our margins. The final dividend this year has been recommended to be ₹ 2.50 per share and this will be put up at the AGM for the shareholders to approve before it can be disbursed. Another important point I would like to identify and highlight is the fact that the IP led revenues contributed about 12.1% to our overall quarterly numbers and our overall IP led revenues was about 8.8% of the total revenues. This is an important factor for us and has been a factor in terms of our improvements of margins and we want to continue to see growth in the IP percentage of IP led revenues for Persistent.

Couple of quick highlights from the quarter. We completed one of our largest projects with a big bank towards the end of last quarter and in the early quarter this was completed. In this project we migrated all the accounts for commercial banks for one of the largest bank mergers that happened in the US. This was done absolutely flawlessly and has been a great achievement for the company. We acquired the location business from Openwave, which is our customer. We believe that location is a very important aspect of enterprise mobility and mobility in general and the knowledge of knowing where a cell-phone is, is going to

be very crucial and the IP that we have acquired with the location business, we think, can help us leverage this both for 911 and for emergency and other related areas and also on the enterprise mobility front.

Our top customer's contribution has gone up and we are very confident that this number will go up again next year as well. I would also like to highlight that this year was a good year for us in terms of getting more global. We now have a team of about 75 people in Malaysia who have expertise in the telecom domain that are now on board. We also got on board a team of almost 30 people in France in Grenoble who are specialists in life sciences and during the year we made investments in research and R&D at the Indiana University as part of our investments in research. So with this introduction let me now hand it over to Hari and then Rajesh will talk a bit about financial numbers and then I will come back and give you a little bit of a colour on how the industry is changing and how our business is related to that. He happens to be in Pune today and hence I am handing it to him, Hari.

**Hari Haran**

Thank you very much Anand. Good evening ladies and gentlemen, it is my pleasure to have this opportunity to chat with you about our Q4 and also our fiscal 2012 results. Q4 was a good quarter for us. We saw a good pick up as Anand indicated in momentum for a variety of areas mainly in our IP area – our traditional IP as well as IP in telecom and life sciences. We expect this momentum to continue into the future. Our partnerships with companies such as Salesforce.com continue to yield us several opportunities in the migration of applications to clouds, with a variety of small and large enterprises. We are seeing tractions through our partnerships with CISCO on the Quad collaboration platform and are adding new enterprises into our logo list. For Q4 alone, we added about 53 new clients and as a general trend we see that cloud computing and collaboration is yielding us good new business and we are also seeing the proof point of our ability to penetrate more in the IP area and, differentiate ourselves in the OPD space. We look forward to more such tractions during the next fiscal year.

I would also like to point out that in fiscal year 2012, for us, has been a year of growing our existing business quite well. We now have 37 customers that are greater than 1 million revenue as compared to 31 customers in fiscal year 2011. So our mining and farming, sales, has been going quite well in addition to opening new logos. And in terms of opening new logos during the year we were successful in penetrating some rather large telecom carriers, some large life sciences companies and we expect more of these to happen with some of the IP that we have acquired. Thank you very much for your time and attention. Back to you Anand.

**Anand Deshpande**

Let me now invite Rajesh Ghonasgi, our CFO to give you some details on the financial numbers.

**Rajesh Ghonasgi**

Thanks Anand, good evening friends. This year, of course the entire year put together, we achieved revenues of ₹ 1000 plus crores and that has been a big achievement for us. In addition, the last quarter also had a substantial uptake on the margins and just to explain some of the changes – if you see in slide 10, the employee related expenses have dipped a bit and this is in direct relation to the headcount reduction. We have been extremely focused on productivity and ensuring that we replace people on a pure merit basis and improve utilization. So, yields have gone up and utilization has gone up, although in number terms the matrix may not say so. If you combine the total number of people who were involved in IP work plus linear

billing, you will find that the numbers have come down, although the utilization does not look like it has gone up. The productivity per employee has gone up because of that the number of people have come down.

The second part, there has been a marginal increase in sales and marketing expenses. I am just talking about this because we are trying to get new blood in and Hari will talk about it later. So while the expense intake is marginal there is going to be an addition to field people, the front facing sales people, come in April. In terms of administration and other expenses you will see there is a substantial reduction. I am saying substantial because admin expenses are fixed expenses and are normally difficult to pull down but we had renegotiated a whole number of utility costs directly to do with communication costs. We renegotiated a whole lot of communication utilities cost with our vendors on our wireless, on our data transfers, on the cell phones that we spend on, etc. and the impact is that our overall cost has marginally come down. The other important cost increase is depreciation which you see going up from 159 million to 186 million. This is on account of the acquisition of our location business where part of the acquisition cost is towards goodwill and the other assets and the amortization of that started last quarter, so you will see that it has gone up but that is because this is just the first quarter in which the revenue is shown in our books. As we expand the business, we do additional sales to the customer's plus, of course cross-sell, the ratio will come down although the absolute number will remain the same.

We have had other incomes/loss as compared to the last quarter primarily because the rupee appreciated a bit and this is a notional entry which reflects the valuation of debtors on the 31<sup>st</sup> of March related to 31<sup>st</sup> of December. So, that entry led to a small loss, the upside of course is reflected in the revenue conversion. The other important factor is the tax rate. You will see the effective tax rate has marginally dipped to 25.4% from around 28% and I am not relating it to last year's rate because last year we had Section 10(a) to fall back upon. The reason why this has fallen is we have created an entity in France. That France entity would have a tax loss and that tax loss under accounting rules had to be reflected in this year, in this quarter, that is the reason why it looks slightly lower than the last quarter's tax rate. Our effective tax rate going forward at current SEZ will be around 27% and we hope to increase the SEZ revenues and bring the tax rate down to around 25% but this current 25% is not only on account of SEZ increases but on account of certain tax benefit we have got because of the startup loss we have had in France. That in a picture is the performance as of Q4 and for the year. Back to you Anand.

**Anand Deshpande**

Thanks a lot and I would like to announce that Rajesh has decided to move on from Persistent and this will be his last call at Persistent and I would like to thank Rajesh for his contributions to the company for the last four years. He was part of the team that was instrumental in the IPO and the other activities that we have done in the company in the last few years. Thanks Rajesh. Let me also now welcome Mr. Rohit Kamat who is taking over as CFO. He will be coordinating with investors and others over the next quarter. Rohit, if you may.

**Rohit Kamat**

Thank you Anand. I am excited about this new role. I will be happy to meet the analysts in the due course.

**Anand Deshpande**

Thank you Rohit. Now before I hand this on and open it out for questions I thought it would be useful for me to share a little bit about what is happening in the business and where we are headed. So overall it is quite clear and as we have been mentioning in the last few quarters, overall business climate in the IT industry is definitely changing and we believe that the changes are caused by some of the technology disruptions such as cloud computing, mobility and various other new business and technology paradigms that have come into play. We are observing that by and large, from our business point of view as well, there is a lot more project oriented business rather than long term relationship based business. While this is not necessarily bad it means you have to manage these projects very differently and we are quite well placed for doing these kinds of activities as this has been a key focus of Persistent Systems for the last many years, so we are quite comfortable with the way the business is moving and we feel very good about the fact that the investments that we have made in the technology areas such as cloud computing, analytics, collaboration and mobility pretty much for the last four years are turning out to be the right investments. In fact if you look at Gartner's predictions on the top four areas that they have listed are completely aligned with the four areas that we have selected.

So, our investments in technology bets are starting to payoff. Hari already talked about the partnerships that we have in place whether it is with Cisco or with Salesforce and IBM and overall these are also starting to yield results. So what I would like to point out is that, as a consequence of the way the business is changing, and the fact that we are moving more of our business into IP led businesses, we are starting to change in a very different way, some of the models that people have followed in the past may look kind of a little difficult to fix. We will have to evolve into what the right way of doing business in the future is going to be in terms of how you would track it. Overall I think we are in a very good spot in terms of growth. We are very upbeat about the technologies that we are investing in and we believe that the market changes that you see in the market with respect to other large companies, actually these changes are the ones that we have been waiting for and we think that we are very well poised to take advantage of these changes. With this let me hand this back to Terrence and invite him to take on questions.

**Moderator**

Thank you so much sir. We will now begin with the question and answer session. Anyone who wishes to ask a question may press '\*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue later on you may do so by pressing '\*' and '2'. Participants are requested to use only handsets while asking the question. Anyone who has a question may please press '\*' and '1' at this time. Thank you. We have our first question from the line of Anand Bhaskaran from Spark Capital, please go ahead.

**Anand Bhaskaran**

Hi Anand, just wanted to get your thoughts in terms of how do you look at the customer spend happening, when you last spoke about this in January, but it was not so benign and so how would you see it? Has the mood changed or are you still in the wait-and-watch mode?

**Anand Deshpande**

See what we have observed now is that the customers are definitely far more upbeat and are willing to spend in some sense, but overall what we have observed is that the way they were doing business three years back or two years back, and what they will do in the future is quite different. So we think that, this is pretty much the new normal. People are going to make decisions where projects are going to be very

different. People are going to look at shorter projects. As you look at customers looking for a pay-per-view, pay-per-use kind of SOA based models, customers are starting to do pay-per-use kind of services as well, so project sizes have become potentially smaller. So there is higher volatility but overall there is enough activity to make up for increased growth on a Q-o-Q basis and definitely for the year.

**Anand Bhaskaran** In terms of this quarter we saw a substantial dip in the IP efforts, any specific reason or just more an abrasion and we would continue to invest close to ₹ 6.18 crores?

**Anand Deshpande** Some of it has to do with the way the accounting is being done, so the IP investment effectively reflects the investment that we have made but is not reflecting in revenue terms. So as the IP led revenue actually moved up, some of those people who were in that bucket as investment moved to being actually counted into the IP led part of the business and that is the reason why you see the IP led revenue, investment looking like its lower because it was generating better yields.

**Anand Bhaskaran** Okay, fair enough. One last question here – could you just quantify the contribution of Openwave to this quarter's numbers?

**Anand Deshpande** It is about \$1.14 million.

**Anand Bhaskaran** Okay, sure. I will come back later. Thank you.

**Anand Deshpande** Thanks.

**Moderator:** Thank you. We have the next question from the line of Kunal Dayal from Bank of America, please go ahead.

**Kunal Dayal** Couple of questions on the revenue side Anand, firstly if you could talk a little bit about Persistent's deal win rates over the past couple of quarters and if at all there has been any change in competition that you see either from captives or other third party vendors?

**Anand Deshpande** So, let me have Hari give you a first comment on this one and then we will follow it up.

**Hari Haran** Our win rate has been roughly 40%, so in other words 40% of the deals that we go into we end up winning and I am giving you statistics based on the last 4 to 6 months. Now, in terms of cancellation of our pipeline and qualification, etc. roughly 50% of the deals that we look into get qualified and out of the ones that get qualified and get proposed we have about a 40% win rate. So that was your first question and the second question was?

**Kunal Dayal** Competition, are you seeing anything different?

**Hari Haran** Okay, from a competition perspective particularly to do with partnerships etc., we do not see competitions from typically big players. We see competition only from niche players, who actually partner with companies such as CISCO in these new generation technologies and in our traditional OPD business we see the same set of competition that we saw before, so nothing has changed there.

**Anand Deshpande** I would like to also make one comment, see one of the things that you will notice as we go along, what is happening is that traditional product development long term business as we had seen in the past where we would work on a project that continued for a very long time, that market has shifted around and we have been observing this and working on this for the last few years, and some of the investments that we have made or the bets we took because of this shift happening are actually starting to pay off right now. To explain a little bit about what we mean by that, in the past traditionally if someone were to build a software product they would have looked at a budget of about \$20 million over a period of three years. Today when a start-up gets formed they are looking at budgets of \$3 to \$5 million and they want to ship a product in their first six months or three to six to nine months very quickly and so the product development cycles have shrunk and the product budgets for the product under first phase has come down. That said, there are lot more such activities going on and we have now leveraged our partnership channels to also get us some of these deals. So we are seeing more activities, more traction, lot more action but the deal sizes on the face of it, when you sign the projects are not always necessarily big for some of these kinds of deals.

So that is one part of our business. In addition to that we also have a set of our customers including our top ones where we have lots of different projects going on within the same customer and that is true for across all customers. So there is a lot of small projects happening within large customers and that activity has grown quite a bit and we believe that this is a new normal in the sense that we will have to look at the business is different from the way we were looking at it in the past and we have kind of tuned ourselves from the last 12 months to deal with the new normal.

**Kunal Dayal** Got it, just a question on your top-five accounts. I guess one of your top five accounts has been seeing certain amount of ramp-down so do you think that is largely done or some more is to flow in the coming quarters?

**Anand Deshpande** No, again as I mentioned to you we completed our largest project in some sense where we migrated all the business accounts for one of the largest mergers in the world that has ever happened and this took about three years to complete and for the last two quarters, they have been ramping their teams down to a point where that particular project is getting completed. While that is happening there are other things happening with the same account and that is already in place. So what you have seen in this quarter is pretty much where it will stay for a while unless no other big bank is bought by them.

**Kunal Dayal** Sure, very useful. I had just two questions on the model; firstly Rajesh if you could share with us the FOREX gain or loss number in the quarter, FOREX loss number in fact.

**Rajesh Ghonasgi** Yes, if you check out the other income loss you can see a figure of ₹ (-34.8) million. Other income is around is ₹ 67.9 million and FOREX loss is ₹ 102.7 million, so this FOREX loss is on account of the restatement of debtors on 31<sup>st</sup> of March as against 31<sup>st</sup> of December when the rupee had appreciated by about ₹ 1.9 per dollar.

**Kunal Dayal** Right and would all of the Openwave related revenues be reflected under the IP bucket?

- Anand Deshpande** Yes, and more will come along those lines, because see that is exactly where we are trying to shift our business as well.
- Kunal Dayal** Got it. Lastly, if you could also give the hedge position and your hedge rate?
- Rajesh Ghonasgi** The hedges for the 12 months starting 1<sup>st</sup> of April, 2012 was \$100 million at a weighted average of ₹ 50.34 across those 12 months.
- Kunal Dayal** Thank you.
- Moderator** Thank you. We have the next question from the line of Vihang Naik from MF Global, please go ahead.
- Vihang Naik** Great set of numbers and just a couple of questions on your utilizations front, I see a good dip this quarter and in the last couple of quarters your technical headcount has also gone down and so is this anything apart from the ramp down that you have seen in this BFSI client?
- Nitin Kulkarni** Actually our strategy has been that we have added about 1000 fresher's over the last year and essentially we are also kind of controlling our headcount trying to extract more productivity out of the current headcount and that is the reason why you see the numbers that you are seeing. And this is a trend that will continue as we tend to get more productivity and more billability out of our current resources.
- Vihang Naik** Just a clarification, I mean on the utilization dip that you have reported, this utilization is excluding trainees, right?
- Hemant Pande** What happens is that when the training of these fresh graduate gets over about 3 to 4 months into their employment, they get assigned to the revenue earning units and at that time they start getting calculated into our billable numbers. So in Q4 you would notice that a lot of them have become billable and that is the reason you were seeing a dip.
- Anand Deshpande** They have all been added into the denominators that are there.
- Vihang Naik** Okay, and on your efforts in IP, this time it has been a pretty big jump, I think this would be probably one of your best highest IP driven proportion in the last few quarters. So what would be the sustainable rate here I mean, is this a new band that we have moved in or will it be volatile going ahead?
- Anand Deshpande** Let me explain this a little bit, yes, it is a new band but will it be volatile, yes, it will be volatile and that is sort of the nature of the IP business, but if you look at the number of different IP that we own and we are selling through IP and the ones that we have acquired, we have more things now in our pipeline or in our portfolio than we have ever had in the past.
- Hari Haran** I would like to further reiterate what Anand said, which is our strategy and very stated deliberate strategy is to move up the ladder when it comes to IP and increase the proportion of IP in our overall offering and revenue. So to answer the question, would we see a continued increase in IP percentage? Yes, we hope to



see this in future quarters as well but certainly there will be volatility because that is the nature of the IP business but we see the trend of general IP component increasing hopefully quarter by quarter.

**Vihang Naik**

Okay. And here is the last question to Anand basically, on the outlook for FY13, I know you would not be giving guidance this time but I mean how comfortable are you with the NASSCOM number of 11% to 14% and also you know the margins and the levers going ahead in FY13?

**Anand Deshpande**

We are very confident and we will beat the numbers that NASSCOM has given for sure and the reason is again you know, we are quite optimistic about where we see our business. We have changed our business model and we are changing it gradually but steadily and this is where the market is moving and we are moving with the markets. So we are quite confident about beating both the Infosys and NASSCOM guidance.

**Vihang Naik**

Okay and on the margin's perspective, I mean what would be the levers that you are going with?

**Anand Deshpande**

The IP led businesses are our biggest lever for margin growth. There are certain challenges in terms of how this happens. We have to invest upfront and we have upped our investment debt so we will see some challenges in the IP led business contributing to a little bit of a drag on certain quarters. But overall we know for a fact that if we have made these kinds of investments our margins on those are better. So our overall goal is to maintain the margins that we have done this year and by and large, it should be possible.

**Vihang Naik**

Excellent. Thanks a lot.

**Moderator**

Thank you. We have the next question from the line of Anurag Purohit from Systematix, please go ahead.

**Anurag Purohit**

Thanks for taking my question. Couple of quarter's back we highlighted our new sales strategy, so I just want to know how we are progressing on that front and any positive development that you can share with us on that front?

**Anand Deshpande**

Let me quickly state our sales strategy. Let me explain how we are positioning ourselves and how we sell. So there are four areas in which we are focusing our energy in the technology areas that is cloud, analytics, collaboration and mobility. The four verticals if you want to call it, where we are working on, is the telecom, life sciences, infrastructure and systems and then banking, finance, insurance and all of these things. The four ways of how we are selling, one of them is to do with the product engineering business, the second one is to do with sell-with and partnerships, the third one is the technology and consulting work that we are doing and the fourth one is the IP led business and we have organized our sales execution delivery along this 4x4x4 matrix and this is our strategy which we are following and if you see what we have achieved during this quarter you will see incremental increases in all of these areas.

We have made an investment in life sciences this year by adding people in Grenoble who are very specialized in this area. We have gone ahead and made an investment in personalized medicine with Life Technologies. We have added a very substantial team in Malaysia which we have acquired from a customer which is in the telecom area and very specialized in the telecom area, and again if you look at some of these

other areas, these are all aligning in the right direction. The sales strategy, which again Hari pointed out is relating to the four partnerships that we have which are aligned to these four areas so we have few partners in cloud, we have a few partners in analytics, collaboration and mobility. We are very well poised in analytics and our biggest focus is around what is known as Big Data and we are best poised in this area to be the leading provider of services in Big Data.

**Anurag Purohit**

Okay, and another question that I had was regarding capital expenditure in the quarter. I assume it will be close to ₹ 60 crores in Q4. So, if you could split between the organic capital expenditure and the amount spend on Openwave

**Rajesh Ghonasgi**

Yes see, \$6 million was spent on Openwave and that amount is reflected in the increase in goodwill and other investments. The balance amount was on account of capitalization of our building at Hinjewadi which got inaugurated in March.

**Anurag Purohit**

And often there is a good amount of increase in software intangibles in the quarter, so is it purely because of acquisition or something else is also there?

**Rajesh Ghonasgi**

Largely on account of the acquisition.

**Anurag Purohit**

Okay, thanks and all the best.

**Moderator:**

Thank you. We have our next question from the line of Shashi Bhushan from Prabhudas Lilladher, please go ahead.

**Shashi Bhushan**

Thanks for taking my question and congrats on a good quarter. What was our revenue from sell-with partner in this quarter?

**Anand Deshpande**

We have had very good traction in this quarter as compared to all the previous quarters with sell-with on both Cisco and Salesforce. We think that there are certain announcements, I do not know if you would have noticed but, that have come up from our partners, that will give us better revenues on cloud and analytics. So about \$3 million was what we did between Cisco and Salesforce is what they generated for us.

**Shashi Bhushan**

Sure sir, and we can expect this to grow faster than our overall growth?

**Anand Deshpande**

Absolutely, there is a reason to do it.

**Shashi Bhushan**

And for the IP revenue that we account for, how is our maintenance revenue accounted? Is it put in IP itself or is it in T&M?

**Anand Deshpande**

No, it is all counted into the IP revenue, which is the right way to do it because the way maintenance revenue happens when you are doing maintenance of IP it is the percentage of this sort of a value and it is not related to the number of people on the project. So the way we are looking at IP revenue is that we have to make certain investments in our team that builds the next generation products, supports the old

products and does maintenance supports for existing products. And all of that is cost and that remains pretty much stable and constant by and large, except for new features. And then there are earnings that happen depending on who buys licenses, who buys maintenance and various other things. And overall by the way we have been able to do this, we find that you can do in general on a long term basis much better margins, of course you are taking risks but the overall margins are better. The way we are avoiding or hedging our risk to some extent is the fact that we are partnering with customers early on. So when we are working with somebody like Openwave we know the product is there, we know the customers who already have it, so it is not a completely random new product development that we are building out with no understanding of who the customers are. We are working with customers and IP which is ideally partnered with some existing customers, where we have a pipeline, we have a sales channel and we have a pretty good understanding that this product is going to do well.

- Shashi Bhushan** Sure and in this IP, what percentage of revenue would actually be the maintenance part and what will be the licenses sale, if you can break that into detail?
- Anand Deshpande** It is hard to break it exactly, but maintenance component is reasonably high so it is at 50-50 or even more. These products in some cases, are doing the end of life and product takeovers, so these products are existing customers and there is maintenance component which we like actually.
- Shashi Bhushan** And we added almost around 15 net new clients in this quarter, so can you please tell us about the vertical geography and how many are those who are for IP?
- Hari Haran** We added 53 new clients and actually we do not have a breakdown on the exact number by vertical but I can give you rough numbers. Majority of them who are in our traditional infrastructure and independent software vendor group, about three of them or were major life sciences, about three of them were telecom carriers and that is the breakdown that I can give you. So it is between telecom, life sciences and our traditional infrastructure and ISV group.
- Anand Deshpande** Another comment I would like to make which is important for you as you track us. One of the new deals that we have done with Salesforce is where we are starting to help them with a large number of small and medium businesses, so in that context you will see that the number of customers we have in the future might go up significantly but that is the nature of the business and how it is going to change.
- Shashi Bhushan** And in terms of geography, is it like predominantly US based or few of them are from Europe as well?
- Anand Deshpande** Most of our business is going to be US based at the moment.
- Shashi Bhushan** Okay, thanks. That is all from my side.
- Anand Deshpande** Thank you.
- Moderator:** Thank you. Our next question is from the line of Manik Taneja from Emkay Global, please go ahead.

- Manik Taneja** Hello sir. Number of my questions have already been answered, just wanted to ask, although you are indicating that you would focus more on increasing revenue productivity, just wanted to get a sense on any fresher addition targets that you might have for FY13 and secondly CAPEX outlook for FY13.
- Nitin Kulkarni** Let me take the first one on fresher addition, so we are targeting to add around 350 freshers in FY13. CAPEX addition, Rajesh you want to take that?
- Rajesh Ghonasgi** Yes we are expecting a CAPEX addition of around ₹ 115 crores.
- Manik Taneja** And if you could repeat the number of freshers that we added in FY12 because the 9 month FY12 we had added almost close to 860 fresher's, so something like 140-150 odd fresher's would have come in Q4?
- Anand Deshpande** Totally, we added about 1,000 freshers through the fiscal.
- Manik Taneja** Sure sir. Thank you.
- Moderator:** Thank you. We have our next question from the line of Rahul Jain from Dolat Capital. Before we could take the next question, a gentle reminder to all the participants who are asking questions, please restrict your questions to only two per participant. Thank you. Mr. Jain you can go ahead.
- Rahul Jain** Sir, just wanted to ask the employee count is just up by 268 in FY12 and in the recent target of 350 addition, what is the general view on the employee adds and what is the kind of attrition you are looking for the year?
- Anand Deshpande** Okay, so let me take that question and then we will have Nitin comment further. Very quickly, the employee adds, what you see is the right number. We have been much more aggressive in trying to improve efficiency across the board and also we have been trying to move some of the revenues to higher rates and IP led. So the overall objective of the company is to find a way to do more with less number of people. That's the overall theme.
- Second point on the number of additions that we are planning for next year, 350 is what we are doing from the fresh graduates and you might say why are we doing less and the reason is that we believe that next year we will have more easier access to lateral hires and we can hire freshers or even junior people when we need them as we need them. So we don't have to make them on campus. We can still get them through the year.
- And the third point was regarding attrition. Our aided objective is to get the attrition rates to be below 15% but clearly we are operating in a model and a market where we have the best resources in the country and of course everyone wants our resources.
- Rahul Jain** Okay coming back to your comment for movement in efficiency and overall more nonlinear kind of incremental growth just to understand, with the kind of business you may be witnessing for the coming

year, if there is a 10% of the volume growth which we may be anticipating, what is the kind of incremental work force we would require?

**Anand Deshpande**

I understand that you have the calculations on the top of my head but for linear business it will grow by 10% minus whatever efficiency that we are able to get from utilization improvement and rate improvement. We will take this question offline. You are asking me to work a spreadsheet in my mind and I am not capable of doing it at the moment.

**Rahul Jain**

Okay. Just one more thing, our billed effort has been sort of flat and pricing has been up, utilization down probably because of the billable being higher. So if you can help me connect the dot in terms of what is the actual scene at the moment?

**Hemant Pande**

We explained reduction in utilization because the denominator of the billable people has gone up. When you look at the number of billed people, billed people is what? The people who directly contribute to obtaining revenues for us both, on the purely linear as well as the IP front. So what has happened this time and which will continue is that we have got much higher revenues from the same number of people, above the same number of people. And that's the model that we are using rather than just talking about linear volume revenue.

**Rahul Jain**

So, I was not looking for that calculation but I got the answer. Basically you are trying to say is that the more incremental nonlinear or IP driven revenue is the sense of incremental revenue which you are aspiring to and also getting.

**Anand Deshpande**

Right. What is happening right now is that the volume is shown in terms of linear growth volume so volume growth on linear business. It might seem like it is flat or going down a bit but some of that is getting moved into other parts. That is clearly the focus. We are trying to focus on sell-with amongst other things.

One of the problems I think worth looking at and may be something we will work on our own and try to suggest some alternatives is the matrix that people have used for tracking IT companies and definitely tracking Persistent. Probably as the market is shifting we need to look at better and newer matrix and this may actually be causing some challenges in terms of how the people are looking at our business and businesses in general. What is the best way to give these matrix out is something that we will work on in next quarter perhaps if you think it is useful we will give you the matrix that we think is relevant for tracking us. And then you can choose whether you want to use ours or your own.

**Rahul Jain**

Okay and just as we had seen a sharp jump in IP led because of some milestone or a specific accumulation of revenue points in a particular quarter?

**Anand Deshpande**

No. As I said we had acquired this IP business from Openwave which contributed to some part of our business and we have been acquiring other businesses as well. Also these quarterly fluctuations on the IP led business that we have including a lot of connective business that we do is an on-going activity and this

quarter was good. And we will see more of these because we are acquiring more of these IPs as we go along.

**Rahul Jain**

Okay thanks. I will come back later for more questions.

**Anand Deshpande**

Sure, thank you.

**Moderator**

Thank you. We have our next question from the line of Kunal Sangoi from Edelweiss. Please go ahead.

**Kunal Sangoi**

Thanks for taking my question. Two questions, first one, Anand how do you see the market place at this point in time in terms of product takeover, end of life cycle products? Do you see a market this year probably you could go out and aggressively take over some of the end of life cycle products?

**Anand Deshpande**

Absolutely. We think that the opportunity is excellent. We have had a very good one that we closed this quarter and we have a very good pipeline of more of these product takeovers. And we are also looking at trying to see how to align these products so that we are able to get cross synergies but irrespective of whether or not we get the cross synergies, the way we have these set up. They are definitely more profitable than a T&M business and that should be quite obvious. After all we are taking much more responsibility. The way you run these businesses is very different. We are to compare these with product company margins and in that context we are starting to see a morphing of the company from one part to the other.

**Kunal Sangoi**

Right. So if you could share your strategy on that, how significant or how large are the kind of product takeovers that you could look at this point in time, given that you have succeeded or you have seen the success of the paybacks of the earlier product acquisitions. Secondly, is there an allocated budget that you would look for spending on these terms?

**Anand Deshpande**

I think both are good questions. Very quickly let me mention that we work with as you know more than \$35 billion plus software companies. Every software company that we work with has a ton of these kinds of products. which are actually good products, very relevant, yet for various reasons not being leveraged strategically by our customers. So the pipeline of these kinds of products is actually very large in several billion dollars. The market that you can look at in terms of these kind of products, you can see all kinds of data it is very, very large. The fact is this is something that we had not thought of before. We are starting to do it for the last couple of years and incrementally and slowly we are starting to get better at it and we know how to sell this better and we are able to showcase real use cases for our customers to see how this is being done and we think that this can help us in growing the business in the future. Let Hari add to this.

**Hari Haran**

Thanks Anand. Now your second question about typical deal sizes, etc. Now our sweet spot is to do deals that are between \$1 million and \$10 million because that fits our appetite, that fits our capacity and structure and so on and so forth. But in terms of opportunities at present in the market there are product takeovers for \$100 millions, \$50 million and \$60 million, etc., but we tend to concentrate in the range of \$1 to \$10 million and it works out quite well for us.

- Anand Deshpande**      Actually we have lot of questions that people are asking in the list that we see. So we are going to keep these answers pretty short. We want to complete this within 60 minutes that are planned.
- Kunal Sangoi**      Sure perfect I am done. Thanks.
- Moderator**      Thank you. We have our next question from the line of Hiral Sanghavi from Dalal & Broacha. Please go ahead.
- Hiral Sanghavi**      My questions have been answered.
- Moderator**      Thank you. We have our next question from the line of Ankur Rudra from Ambit Capital. Please go ahead.
- Ankur Rudra**      Thanks. Congratulations on a great quarter. The first question is , you mentioned that the deal size that you are looking at right now in terms of new businesses are likely to be smaller, I am assuming it is a combination of smaller duration may be a shorter engagement also. I was wondering what this will do to your competitor advantage over a smaller competition. Will they be more likely to compete with you and what will be the impact of this on the nature or the extent of offshore leverage that you have historically enjoyed in larger deals?
- Anand Deshpande**      I think both of them are very good questions. Market is definitely changing. What we find is that niche players will have a benefit rather than just scaled players and we believe that we have a good combination of niche that we have established in these four technology areas that we have focused on and yes definitely we are seeing competition, for example, if you look at cloud computing, there is whole bunch of US companies who are competing with us like Ipreo and others and we are going to see some of those. The fact is that we are able to compete with an offshore price is definitely a benefit. So yes I think the market is going to evolve in the next few years and is going to be a challenge but we think we are very well positioned.
- Ankur Rudra**      Related question was will there be any changes to the extent of offshore leverage you historically had in the longer contracts?
- Anand Deshpande**      See, at the moment I don't know the answer to that question. Right now, we think that we will be able to do lot of this work offshore but I do not rule out the possibility of adding more US local teams to look at some of these businesses and we will do what is appropriate.
- Hari Haran**      I do want to point out that should we start adding resources in US to do this type of work, these are drastically different types of work, high end work, so the consulting rates that are charged for these kinds of works is very different from than the traditional onsite rates, in other words they are much higher and higher margin.
- Ankur Rudra**      And my next question is on, wage hike, can you comment on what we should expect for the year?

- Anand Deshpande** Let me give you very quickly what's going on, on wage hike. Our wage hikes actually come in effect from 1<sup>st</sup> of July. We will announce these wages in June. We have a model right now that we think is comparable to the peer group. . We know what we want to do right now but two things we want to wait for what other people are doing and if everyone is doing less, maybe we can think about it. And on the other hand I don't want to spook our employees by saying some number at the moment. But we have factored all that in into our next year's budget plans which are already in place and I must admit that they will be no worse than our peers.
- Ankur Rudra** Fair enough, best of luck for the remaining year.
- Anand Deshpande** Thanks a lot.
- Moderator** Thank you. We have our next question from the line of Swamitra Chaterjee from Espirito Santos. Please go ahead.
- Swamitra Chaterjee** Thanks my questions have been answered.
- Anand Deshpande** Thanks Swamitra.
- Moderator** We have our next question from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.
- Kaushik Pal** Congrats on the good set of numbers. Just want to understand how do I tie-in your pretty good sort of outlook with the kind of hiring that you are saying. I did catch the comment on the more lateral hire this year but do you think that it can become a stretch in case in the second quarter the market suddenly revised that?. Secondly how do I look at the margins for the last two quarters may be because of IP revenues the margins have jumped up. Your commentary was that for the full year they should be similar to the full year last year whereas the first two quarters were very, sort of muted in margins. So if you could give some color on that?
- Nitin Kulkarni** Let me comment on the first part and then the second part. More and more of the business is moving into just-in-time and I understand we might say we are taking a little gamble but we could have gone for a much higher number for fresher graduates but the point is this decision had to be made last August and September and I think 350 is where we are and we are quite comfortable with that. We believe that we have a large number of trainees who are doing projects with us and if you want to get more we know we can get more. We know we can hire more freshers in the market because we have a pretty good feel in the market and we think that while we have an upbeat outlook that we are sharing with you here, our peer group especially the large companies there will be opportunities for us to get people on their feet right now. So I would like to defend the fact that we have hired only 350 which is pretty good and we will get the people we need is my very high level commentary on this.
- Kaushik Pal** Before you move on to the next question I mean it has been seen in the past and of course certain larger peers the issue was highlighted in a more promised manner that in case you disturb the pyramid in one



year finally when the market revises it becomes a problem both from the cost structure and utilization point of view in subsequent years if you like to comment on this?

- Anand Deshpande** Let me comment in two parts on this one. As we change the business mix from looking at where we are looking at IP led and various other avenues, I am not sure what the new pyramid structure is going to look like and if we should use the same set of calculations which we have used for the last 10 years on the pyramid. So that's one part of the problem. The second part is that this is something we have observed and I believe this sincerely that the next quarter is when we will get the fresh graduates, 350 that we know. If we for some reason decide that instead of 350 we need 650 we can get another 300 people who are zero year guys, very quickly. So I don't feel that it will hurt the pyramid at all and I think that flexibility we will have this year.
- Kaushik Pal** Okay.
- Moderator** Thank you. We have our next question from the line of Nitesh Bang from Magnum Equity Broking. Please go ahead.
- Nitesh Bang** Thank you for taking my question. Sir, most of my questions have been answered. One thing I wanted to know at what rate is your rupee hedge in this quarter? At the year end you told me ₹ 50.25 so what is it this quarter which you are hedging?
- Rajesh Ghonasgi** Just to clarify, when you mean this quarter you are saying April, May, and June?
- Nitesh Bang** Right.
- Rajesh Ghonasgi** Okay, that is at ₹ 47.85. The total amount is \$23.75 million at ₹ 47.85 per dollar.
- Nitesh Bang** Okay and sir one more thing, how is your KLISMA Retail Online performance going on, any broader idea about it?
- Anand Deshpande** It is doing very well. We have moved it out as of April 1, it will be a separate company and we have more than 100,000 members and actually the company is doing very well.
- Nitesh Bang** Okay, sir thanks a lot.
- Moderator** Thank you. We have our next question from the line of Hitesh Shah from IDFC Securities. Please go ahead.
- Hitesh Shah** My question has also been answered. Thank you very much.
- Anand Deshpande** Thanks Hitesh.
- Moderator** Thank you. We have our next question from the line of Sangam Iyer from Alfa Accurate Advisors. Please go ahead.

- Sangam Iyer**                      Actually, this is a follow up from what Kunal had asked earlier in the call. You had discussed about the deal size. Could you give us some more clarity in terms of what's the payback that you guys have in mind when you are going for such kind of deals?
- Rajesh Ghonasgi**                Yes, we look at payback between two to three years.
- Sangam Iyer**                      And this is valid even for the product acquisition that we are looking at?
- Rajesh Ghonasgi**                Yes. We apply the same rules as any other acquisition. There is a rule on payback period. There is also a rule on how fast we get the IRR to work for us. So the payback is between two to three years depending upon the complexity of the product.
- Anand Deshpande**                I would still like to point out that in many cases we are able to acquire these assets without any cash outflow in the beginning. In many of these cases we are able to get these deals for no cash outflow at the time of the deal but potentially high share in the revenues share.
- Sangam Iyer**                      When you indicated that you are looking at more laterals, could you give some idea in terms of how do we see the pyramid in maybe two to three years' time, I mean the way the business is evolving for us?
- Anand Deshpande**                Hard question to answer Sangam, because if you say two to three years from now that will reflect the kind of business we will do. We are trying to see more than 20-25% IP led and IP led is easy to say it is IP led but every IP is very different. With certain IPs we are able to do with a much higher percentage with junior people because we have technology to help you out to make that happen and on the other hand certain IPs we need to have a much higher set of people on that because the technology has complexity and overall that might not affect the pyramid the same way but you might get better returns, so we are not really worried about the pyramid as much as trying to look at the profitability of every single deal.
- Sangam Iyer**                      Got it. When we spoke about the margin profile for FY13 you said it would be above the average margin for FY12, right, as against the exit rate that we have seen in the last two quarters if we were to look at it. So where do we see the margin drags coming in, in FY13?
- Anand Deshpande**                The problem is, as you saw the first two quarter margins have been lower. These two quarters it is higher. IP is going to keep bouncing up and down. Different kinds of things are going to happen. The volatility on a Q-on-Q numbers are going to be high. That's going to be the new normal. That is going to have an impact on the profitability every single quarter. It is going to go up down whatever but if we look at it over a 12 month period we think we can maintain these margins. That is all I am saying. Again one of the things is that should you really be measuring all these kinds of parameters on a Q-on-Q basis?
- Sangam Iyer**                      No, on an annual basis if there is any?
- Anand Deshpande**                In general, a lot of these numbers and parameters in the way the market is moving and the flexibility and the volatility that we are starting to see in the importance of agility, a lot of these things are getting hard to

measure on a Q-on-Q basis. Overall over the four quarter period you will see that our objective is to improve margins rather than let them go down.

**Sangam Iyer**

Great sir. Congratulations. Thank you.

**Moderator**

Thank you. We have our next question from the line of Dipesh Mehta from SBI Caps Securities. Please go ahead.

**Dipesh Mehta**

Most of my questions have been answered. Only one question, you commented about change in demand environment. It is becoming more short term in nature. So what challenges we face in terms of hiring plan and employee training and other things? That is the first question and how we are tackling that? And the second question is about can you provide our growth for focused area that is cloud mobility and those areas for FY12?

**Anand Deshpande**

See, what is happening is that everyone is talking pay-per-use. People are doing pay-per-use on the products, pay-per-use on services. Everything is becoming pay-per-use. So lot of these projects have become small because you have started to make decisions saying I need this done, short reiterative cycles, projects are three months at a time but they keep coming back. So it is the same customer we have to keep farming them again and again and more things will happen. It is just that the commitment of the contract which is to be several years, we knew we could stay there for years, is not there anymore. So that's how the business is shifting and we see that shift across the overall scene. It is not just the CIO spending is also the CMO spending and a lot of other people are spending. So how you run the business is very different and it is difficult and tricky. Yes all of those are true but we have anticipated this for the last three years and that's what we have been working on. Have we perfected it, not yet? But I think we will figure it out and that's what we are trying to suggest to you and we will see that these kind of things happening. So yes, it changes our training, it changes how we want to do. It needs to change the attitude of the people and to me very honestly the reason we are not doing something else dramatically so why is it that we are not doing everything more as IP, why aren't we doubling. Part of the reason is it is hard to move the ship. Everyone in the company is completely used to working in a particular way and it takes time for people to change their attitude, mindset and things like that so you can think differently and that's one of the big challenges that companies like us have. Hari Haran will give you the numbers and the percentages.

**Hari Haran**

Yes. On your second question roughly 40% of our revenue comes out of the four initiatives which is collaboration, analytics, cloud, and mobility. Now in terms of how this is performed in FY12 as compared to FY11, we have had an average of about 17% growth from Y-o-Y on these four initiatives which is collaboration, analytics, cloud and mobility and the leading dominant pieces are collaboration and cloud.

**Dipesh Mehta**

Thank you.

**Moderator**

Thank you. We have our next question from the line of Kavita Vemparlli from Nirmal Bang Securities. Please go ahead.

- Kavita Vemparli** Good evening sir, could you just give some details about the ₹ 115 crores CAPEX that you just announced?
- Anand Deshpande** Just a moment. Is there any other question here or else we can take the next question and after that we will answer this.
- Kavita Vemparli** Only this one sir. Thank you so much.
- Anand Deshpande** Just hold for a moment while we get that. May be we will take the next question.
- Kavita Vemparli** Sure.
- Moderator** Thank you. We have our next question from the line of Ravindra Agarwal from Capital Market. Please go ahead.
- Ravindra Agarwal** Sir, on the hedges for FY13 I just needed confirmation on the number you meant. Is it \$100 million?
- Rajesh Ghonasgi** Yes it is \$101 million at ₹ 50.34 per dollar.
- Ravindra Agarwal** Okay \$101 at ₹ 50.2 and another question on the customer spends. Could you slightly elaborate on the different verticals?
- Anand Deshpande** As I said we have this 4x4x4 strategy. We are focusing on four verticals that is telecom, life sciences, infrastructure and systems and whole banking, finance, insurance. And then again what do we sell in these four areas again is cloud, analytics, collaboration, and mobility. So we have created this 4x4x4 grid and everything that we are going to do in the future and what we have done in the last one year has been on this 4x4x4 matrix.
- Ravindra Agarwal** Okay so how are the spends. You had mentioned previously that the spends are looking good on a broader basis. So within the verticals if you were to quantify or may be you specify it in terms of different verticals.
- Anand Deshpande** A lot of these things are really fast moving activities as there is a lot of technology happening. It is pretty much even in the four technology areas and of course telecom is the biggest thing for us as compared to life sciences and banking but the infrastructure and systems is our biggest focus area.
- Ravindra Agarwal** Okay, that's it from my side. Thanks.
- Rajesh Ghonasgi** Let me answer that CAPEX question. We have got an estimate of spending of about ₹ 20 crores on administrative CAPEX which includes air conditioners, civil works, electrical installation so ₹ 20 crores for civil work and other installations. IT assets, which is computer hardware, software and networking equipment, communication equipment and other miscellaneous project related equipment that is the largest chunk. That is about ₹ 60 crores expected to be incurred in the next 12 months plus we have a building and interior plan for one of our locations, Goa, which is at around ₹ 20 crores and we have a capital work-in-progress in relation to one wind turbine which isn't really a direct asset but it helps us replace

electricity cost. That is about ₹ 15 crores. That totals about ₹ 115 crores. There are two more pieces which I haven't included because it is more to do with acquisition of growth, real estate, which is buying the title and not really building anything on that, which I have kept outside because that is purely real estate purchase that we will build in the future.

- Moderator** Thank you. We have our next question from the line of Rishindra Goswami from Locus Invest. Please go ahead.
- Rishindra Goswami** Your capital expenditure for FY12 the recently closed year and if you could just split that into organic versus inorganic?
- Anand Deshpande** Just a moment we will get that. Let's take another question and come back if you don't have any further questions.
- Rishindra Goswami** For the year 2012, what was the total inorganic revenue, if you could just quantify that?
- Anand Deshpande** Yes as I said \$1.1 million that we have from Openwave
- Rishindra Goswami** That's for the entire year? That's all?
- Anand Deshpande** Yes one minute Rajesh will provide more information.
- Rajesh Ghonasgi** Yes I will just give you the FY12 numbers. In FY12 we have spent about ₹ 110 crores, \$110.3 million to be exact and amongst these was included the investment in Persistent Systems, France, which was at ₹ 6.8 crores and Persistent Telecom Systems, the Solution Incorporate, we talked about where I said there was a \$6 million investment, that is ₹ 229.86 crores. So that is embedded within this ₹ 110 crores. Amongst the rest, building and interior was ₹ 59 crores, IT investments was ₹ 31 crores and the wind turbine which I talked about which is in capital work-in-progress is ₹ 19.6 crores.
- Rishindra Goswami** So how much was spent on acquisition out of this entire thing, about ₹ 29 crores I guess?
- Rajesh Ghonasgi** No. 29 plus, 6.8 so it is about ₹ 35 crores.
- Rishindra Goswami** Okay that was for the acquisition.
- Rajesh Ghonasgi** Yes.
- Rishindra Goswami** Thanks and your inorganic revenue you said was about \$1.1million for the year?
- Anand Deshpande** It depends on what is counted as inorganic. The only real purchase was software where we made was the one from Openwave. That will be \$1.14 million this year. That has happened in this quarter and that's what is reflected in that. We did an acquisition of the team in Grenoble, if you look at that revenue, it was roughly about \$2.29 million but we didn't really pay any money for that.

**Rishindra Goswami** Okay thanks. That's all from my side. Thank you.

**Moderator** We have our next question from the line of Shashikant Yeneka from Prime Securities. Please go ahead.

**Shashikant Yeneka** Hello sir. Can you throw some light on operating margins of verticals? What I can see here is that there is a dip in operating margins of infrastructure systems, life sciences whereas there is 8% growth in telecom on wireless.

**Anand Deshpande** I don't really have that data with me. But I can still give you that answer, more details offline, if you don't mind.

**Shashikant Yeneka** Yes sure.

**Moderator** Thank you. We have our next question from the line of Akash Manghani from GIRIK Capital. Please go ahead.

**Akash Manghani** One question sir. Could you just comment on your volume growth that you had in the last couple of quarters and I know you won't give any guidance but any color you can throw on what kind of volumes you see panning out over the next fiscal year.

**Anand Deshpande** Last few quarters volume growth has been pretty flat in general if you count the volume growth the way it is traditionally counted and those numbers you will see what was fairly flat. Moving forward do we see them remaining flat? Not really we hope that they will go up. We are seeing a lot of action and we think they will go up.

**Akash Manghani** Next thing is that what is the amount of free cash generated this fiscal?

**Rajesh Ghonasgi** Yes we have created about ₹ 150 crores.

**Akash Manghani** Free cash flow after CAPEX.

**Rajesh Ghonasgi** No, before CAPEX and the CAPEX included total of ₹ 110 crores the balance is visible in our cash balance, in our investments.

**Akash Manghani** Alright. That's all I have. The rest have been answered. Thanks a lot.

**Moderator** Thank you. We have our next question from the line of Arpit Ranka from Tactica Capital. Please go ahead.

**Arpit Ranka** Just a couple of quick questions. One, over the years you have been generating about 20%-30% of total revenues from our US subsidiary Persistent Systems Inc. whereas little contribution in terms of profitability. So what is the nature of operation or how does this fit in?

**Rajesh Ghonasgi**

See you got to look at the full picture in the sense that Persistent System Limited is a group with the local entity in US or in France or some other locations where we do business. Remember the Persistent Systems entity in the US has the entire marketing assets within it, the whole sales group in India which supports that particular group of people. Now Persistent Systems Inc. if you see separately you also have to factor in that the P&L and balance sheet based on the transfer pricing requirements of law and we don't necessarily allocate all our profits out from Persistent Systems Limited to Persistent Systems Inc. because firstly, much of the risk is borne by Persistent Systems Limited whether you call it debtor risk or the fact that the whole bench is in India, and the fact that new development of technology is built into Persistent Systems Limited, etc. So in effect practically Persistent Systems Inc. is a marketing arm and we allocate a certain part of the profit generated, as required by tax law, to that unit. So if you ask me what value does Persistent Systems Inc. generate? much of the revenue that you see whether it is in Persistent Systems India or Persistent Systems Inc. are generated through the efforts of that group. So having said that the profitability of Persistent Systems Inc. is pretty substantial because it adds a huge amount of margins in India which we don't have to allocate it to the US because the risk is in India and hence the taxable profit in the US is devised by all its transfer pricing rules. So don't go by the numbers that you just see there. It adds a huge amount of value across all our P&L.

**Arpit Ranka**

Okay thanks for that. Just wanted to clarify that if it was a cost centre so I thought I will clarify that with you and secondly what is the rationale for spending money in putting up wind turbines. Though it is not significant I just want to understand the rationale there.

**Anand Deshpande**

Two basic rationales. One is of course it is green and it is the better thing to do. We need to have as a country we are short of power and we need to have more wind generated power. The second part is that the way this works out essentially is quite profitable to do it over a 7 to 8 years' period as there is a payback and it gives you a natural hedge against electricity prices going up. So the wind turbine actually contributes power to the grid in Maharashtra which is where most of our consumption is and for the units that we contribute to the grid we get an offset on our price in terms of the electricity bill.

**Arpit Ranka**

Okay. So over the next year do you intend to spend a lot more than what we are currently spending or this is more like the run rate which you will maintain?

**Anand Deshpande**

I won't say a lot more. It is not going to be very significant but in terms of when we are sitting in cash in some sense, yes, sure you can get some interest on it. This actually works out to be better so we will add a wind mill or two every year or so. It is not something that is significant.

**Arpit Ranka**

And what's the cash equivalent at the end of March 2012?

**Rajesh Ghonasgi**

As of the end of March we were about ₹ 293 crores. Some of it was in fixed deposits. If you see our balance sheet you will see it across three heads because fixed deposits are classified as bank balances. We had about ₹ 90 crores in fixed deposits. We had invested in some of those tax-free bonds that came out NHAI and IRFC, ₹ 11.6 crores in bonds and mutual funds ranging from liquid to longer term but not more than six months about ₹ 191.5 crores. The total was about ₹ 293 crores as of 31<sup>st</sup> of March.

- Arpit Ranka** Okay thanks a lot for this. That's it from my side.
- Moderator** Thank you. We have a follow up question from the line of Anand Bhaskaran from Spark Capital. Please go ahead.
- Anand Bhaskaran** Sir, all my questions have been answered. Thank you.
- Anand Deshpande** Thanks Anand.
- Moderator** Thank you. We have another follow up question from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain** If you can share a bit more how does the amalgamation help?
- Rajesh Ghonasgi** You are talking about the amalgamation of Persistent eBusiness Solutions limited and Persistent System and Solution Limited?
- Rahul Jain** Yes.
- Rajesh Ghonasgi** Persistent eBusiness was created as a separate entity because in the past we wanted that entity to focus on domestic business, India business because there was Section 10A deduction and we thought it would be better to have the export business separated from it. That was the first reason. PSSL is largely is in fact was only supposed to be a SEZ business and the reason why we created a separate entity was it helped us identify SEZ business separately plus there was this anomaly in the income tax laws which stated that if you had multiple businesses as SEZ it could very drastically reduce the benefits that you would get and, I think you will be aware that, this was amended about a year ago. PeBS, historically only focused on India. There was a point of time where we found that on an income tax basis or any other basis we could merge it but Section 10A went away so number one was reducing the cost of running a separate entity was no longer supported by the tax benefit differentiation. In case of PSSL, SEZ that particular clause, that particular anomaly was removed last year. So after that we thought that if the tax anomaly is removed we might as well merge and run this business together. So there was a tax benefit to have it in two different entities, that tax benefit went away and we thought that it would be best to merge and that would be more efficient.
- Moderator** As there are no further questions I would like to hand the floor over to Dr. Anand Deshpande for closing comments. Please go ahead.
- Anand Deshpande** I would like to thank all the participants on the call for their questions and other participation. We are definitely available if you have any further questions. Please send mails to Vivek Sadhale. He will direct them to the right people and he will be happy to answer these questions. Thank you very much and look forward to talking to you next quarter.



**Moderator**

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

*(Note: The transcript has been amended for ease of readability.)*