



Persistent Systems Limited - Analyst Conference Call

Q4 FY13 Results

Date: April 22, 2013

Time: 05:00pm IST – 06:30pm IST

MODERATORS

Dr. Anand Deshpande

Chairman & Managing Director

Mr. Hari Haran

President, Persistent Systems, Inc.

Mr. Nitin Kulkarni

Executive Director & Chief Operating Officer

Mr. Vilas Kate

Chief Planning Officer

Mr. Rohit Kamat

Chief Financial Officer

Mr. Vivek Sadhale

Company Secretary and Head – Legal & Investor Relations

Moderator

Ladies and gentlemen good evening and welcome to the Persistent Systems Analyst Conference Call. As a reminder for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. We have with us today on the call today Dr. Anand Deshpande – Chairman & Managing Director, Persistent Systems. We also have with them Mr. Hari Haran – President, Persistent Systems Inc.; Mr. Rohit Kamat – Chief Finance Officer; Mr. Nitin Kulkarni – Chief Operating Officer; Mr. Vilas Kate – Chief Planning Officer and Mr. Vivek Sadhale – Company Secretary, Head – Legal and Investor Relations. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

Anand Deshpande

Thank you Inba. Thanks a lot for introducing us and thank you all for being on this call. We are sharing our annual results and I am delighted to share that our annual revenue grew by 29.4% and PAT grew by 32.3% and we announced a dividend of Rs. 9 per share for the year, Rs.3 being subject to approval of shareholders at the AGM. Let me get into the details as such. The revenue was Rs. 12945.12 million as against Rs 10,003.11 million for the previous year which constitutes a growth of 29.4%. The revenue was USD 237.82 million as against USD 207.39 million for the previous year, growth of 14.7%. This year we had a significant growth in IP which grew by 123.6% to constitute 17.2% of our revenue that ended on March 31st 2013. The EBITDA was Rs 3351.91million, a growth of 44.2%. Profit before tax for the year was Rs 2629.88 million, a growth of 33.6%. Profit after tax was Rs 1876.18 million, a growth of 32.3%. The EPS grew from Rs. 35.45 per share to Rs. 46.90 per share.

I would like to briefly share the quarterly numbers. The revenue was USD 62.11 million and revenue was Rs. 3339.59 million. There was a Y-o-Y growth of 23.4%. Profit after tax was Rs. 518.85 million representing a Y-o-Y growth of 25.9% and a Q-o-Q growth of 4.8%. The Board of Directors have recommended a final dividend of Rs. 3 per share for FY2012-13. The payment of final dividend is subject to approval of the shareholders at the Annual General Meeting to be held in July. The company had paid an interim dividend of Rs. 6 per share during FY12-13. The total dividend for the year would be Rs. 9 per share and the payout ratio at Rs. 9 per share comes to 22.3% and of course this is upon approval of the shareholders for final dividend.

Now, I am going to hand this over to Hari who is here with us. He also has in presence Ranga Puranik who heads our strategy and is based in the US. Both Hari and Ranga are here in Pune today and are joining this call in person. Then, will have Rohit giving a little bit about financial numbers and then I will come back with some closing statements on some of the deals that we have done along with some disclosures that we have given more clarity on. I would like to explain them and would also like to preempt some questions by giving you some data that you might want to ask anyway. So with that, we will close it and then take questions at the end. So let me now hand it to my colleague Hari who is our President and Head of Sales.

Hari Haran

Thank you very much Anand. Good evening ladies and gentlemen. As always it is a pleasure to have this opportunity to speak with you about our quarterly results along with update on key front end activities and

the market trends. During Q4, we saw a growth of 3% on our product engineering and platform side. As we have always indicated the IP revenue component tends to be lumpy and for this quarter we saw a drop, but please take note that for the full year, our IP business has doubled through our business acquisition of NovaQuest, HP client automation, Doyenz, and location. I am happy to say that there is line of sight to grow the IP revenue component during fiscal year 2014. During the quarter, we opened about 50 plus new accounts. Out of which, three are multibillion dollar enterprises. Many of these new accounts came through our platform sell-with business. Our investment into the platform solutions business is beginning to give us dividends through good growth. We have seen a growth in our pipeline compared to last quarter. I would also like to give you some more color on how our acquisition based IP business is progressing. We acquired about 40 plus new enterprise customers through the NovaQuest transaction from last quarter. Out of which 10 are large accounts. NovaQuest is a reseller and integrator of the Innovia product from Dassault Systems in France. This product is widely deployed for product lifecycle management by several global enterprises around the world. Through this, we also signed a partnership agreement with Dassault Systems. We are actively planning the mining of some of these large accounts. As I indicated, 10 out of those accounts are large multi billion dollar enterprises. As Anand said, we acquired the client automation business from HP last quarter. Let me explain a little bit about the client automation product. The client automation product is used in managing PCs, virtual endpoints and other devices inside enterprises. As part of this acquisition, we are inheriting hundreds of customers globally, some very large. We are now in a position to offer various endpoint and device management capabilities to enterprises. As we all know, every enterprise is experiencing a large inflow of devices also popularly known as bring your own device, BYOD. This presence hastremendous opportunity to put together solutions for managing these devices as well as security applications etc. Our initial conversations with these customers are positive and we see our opportunities to do customization and other product development services with these enterprises. The team is actively involved in planning the growth strategy on some of these enterprise accounts. As part of this acquisition, we also established a Development center in Bangalore and you may have seen this announcement that we put out a few days ago. Our Doyenz integration is making good progress. We are in the late stages of signing a couple of significant reseller agreements that should increase our reach and penetration of the disaster recovery cloud services offering. The location business is completely integrated and has given us a good seating with some leading network operators. We are building a set of opportunities with this aspect. Cloud computing and big data analytics continued to be the two areas where we are seeing a lot of traction with respect to opportunity. As an overall strategy, we are seeing that more focus mining and investment into developing the existing enterprise accounts is the key to accelerate the growth. Thus appropriately we are allocating more resources towards this initiative. We are also investing in sales and marketing through placement of more people in new geographies. We continue to see a market where there are lots of opportunities being presented. Also, we are seeing good set of activities in the core product engineering area. The IP and platform solutions, that is, sell-with strategy is showing results and future promise. We remain quite optimistic as we enter the new fiscal year; we look forward to talking about more exciting stuff as we go through the year. Thank you all very much, back to Anand.

Anand Deshpande

Let me hand it to Rohit for giving a little bit of color on the financial numbers that we have announced.

Rohit Kamat

Thank you Anand and good evening everyone. I would like to give you some more details on growth of revenue in terms of volumes and billing rates. For this purpose, it would be necessary to categorize revenue into three buckets mainly offshore revenue, onsite revenue and IP led revenue. Our onsite revenue for the quarter increased by 12.7% which comprise volume growth of 2.7% and increase in billing rates of 9.7%. The offshore revenue for the quarter grew by 0.5% as a result of rise of 2.8% in the billing rate and drop of 2.1% in volumes. As regards IP led revenue as Hari explained, we look at it on annual basis rather than quarterly basis. On Y-on-Yr basis, it has recorded 124% growth, although there was a marginal drop of 1.2% during this quarter. IP-led revenue as a proportion of total revenue stood at 17.2% in comparison to 8.8% last year.

Now let me explain to you movement of margins during the quarter. Gross margin for the quarter was at 42.7% in comparison to 43.5% in the previous quarter. This drop in margin was attributable to 1.9% appreciation and average exchange rate of rupee to dollar in the quarter. It was also due to royalty payable on PLM business which we acquired during this quarter and this royalty has been accounted as cost of revenue. The employee cost for the quarter remains flat despite addition of 251 in the headcount mainly due to provision for lower variable pay in this quarter. The EBITDA margin increased to 25% from 24.7% in the last quarter. Lower provision for doubtful debt resulting from stronger collection helped to improve EBITDA margin despite increase in G&A expenses. New office in USA as a result of NovaQuest acquisition and expenses incurred during knowledge transfer phase of the HP Deal led to an increase in G&A expenses from 9.6% in Q3 to 10.3% in Q4. As regards to non operating income, investment income was Rs 61 million during the quarter and the exchange gain was Rs 42 million. The profit before tax for the quarter increased to Rs 722 million as compared to Rs 710 million in the previous quarter. The PBT margin went up to 21.7% from 21.3% in the last quarter. A favorable tax ruling from the Honorable Mumbai high court in a pending income tax matter resulted in a lower incidence of income tax during this quarter. Our effective tax rate for the quarter went down to 28.1% from 30.3% in the previous quarter. As a result, the profit after tax increased to Rs 519 million from Rs 495 million in the previous quarter. The profit margin increased to 15.6% versus 14.8% in the previous quarter. The profit after tax recorded a growth of 4.8% on Q-on-Q basis and 25.9% on a Y-on-Y basis. If we take a look at year as a whole, the PAT increased to Rs 1, 876 million as compared to Rs 1,418 million last year showing a growth of 32.3%. The profit margins for the year increased to 14.8% from 14.3% last year. The diluted EPS for the year amounted to Rs 46.9 as compared to Rs 35.45 growing in line with the growth of PAT. Our cash and investments stood at Rs 4,374 million as on 31st March. The addition to fixed assets that is during the year upon amounted to Rs 1,066 million comprising additions to tangible assets of Rs 711 million and intangible assets acquired through acquisitions amounted to Rs 355 million. As per our FOREX risk management policy we follow a consistent process of hedging 40% - 60% of our net projected foreign currency earnings on a 12 months rolling basis. This is done through plain vanilla forward contract. As on 31st March, we had a total forward cover of USD 84 million at an average rate of Rs 57.47/USD. With these updates I hand it back to Anand.

Anand Deshpande

Thank you Rohit, Let me just share with you a couple of key highlights. I would like to share one or two announcements and then I am going to explain possible anticipated questions that I am expecting. So one, I am very pleased to announce that the board has recommended and we are setting up a division called

Persistent ventures. This will focus on innovations and new technologies and invest in early stage ventures building intellectual properties relating to platform solutions, we think this could be an additional growth engine for new innovative stuff that we need to focus on. We are hosting an inclusive innovation conference on December 10th and 11th in Pune and this is being done in association with Maharashtra University of health sciences Nasik. University of Pune, University of Mumbai and the Baba Saheb Ambedkar Marathwada University in Aurangabad. We have expanded our presence in Goa by acquiring a new building there. We have expanded our presence in Bangalore as was mentioned by Hari. We have continued our support for supporting graduate students at Indiana University in Bloomington in the US and we are considering setting up a near shore development centre in conjunction with the two centres that we now have one in Charlotte and Seattle. I would also like to announce that having done a phenomenal job for the last many years, Vivek has decided and we have encouraged him to start his own law firm and we will continue to work with him as an independent firm and Amit Atre will take over as company secretary and compliance officer with effect from 1st June from Vivek and Rohit will be the Head of Investor Relation Function effective from July 1, 2013. We will continue to work very closely with Vivek and his firm considering that he gets a chance to run his own firm. We wish him all the best and thank him for all the hard work that he has done for the company.

Now let me very quickly run you through some changes that we have done in terms of the way we have reported on the corporate fact sheet. We think we have made this a lot easier for everyone to look at and I just want to share with you what we have changed. So we realized that in our business we have a significant component around IP led revenues and we have decided to clearly identify the revenue, the number of clients and the number of people involved in the IP led business so that one can separate that out and look at that business and model it completely independently of the services and linear business that we have in our portfolio. So the way we have given the numbers, now you will be able to completely separate out the revenue numbers, the number of clients and rates and everything else from the IP business quite independently as compared to the rest of the business. So that is one change that we have made. So if you look at our chart that we have given, we have Product Engineering Services which is given separately for both clients for revenues and also for the number of people. So that is the main change that we have made and I think this will make it a lot easier to everyone to really look at this numbers and model them as per your model and we will continue to give this level of detail and numbers as you go along. From the person month standpoint we have given total capacity which is the number of people we have which are billable that includes all the people who can be billed across the company. Then we have during the quarter 10,303 man months of billed resources that were built on projects around product engineering and platform solutions and then 2267 man months allocated to IP led resources. So that is sort of a major change that we have made.

Couple of other numbers that I am sure people might ask – So we have an attrition this year of 14.4%. That is lower than the 18.3% that we had last year. The headcount during the year was 6,970 at the end of the year as compared to 6,628 from the previous year. Utilization is pretty easy to calculate in this chart. The way we are calculating utilization is by dividing the number of people billed which is 10,303 and dividing it by 16,479-(minus) 2267. So the employees deployed on IP are completely out of the utilization number. In

IP business typically the utilization is going to be 100% and the number of people may not change much while there will be variability on the top line. With these introductory comments I think I am going to stop here and open it out for questions.

I would like to request you to restrain yourself to two questions in the beginning and then we can get through more questions. For the first few questions we will give you more detailed answers. As we go along, we will shorten the answers that we give you.

Moderator

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Kunal Tayal of Bank of America. Please go ahead.

Kunal Tayal

Firstly on the IP side, I do understand that you look at it on a Y-o-Y basis, but historically Q4 has been a very seasonally strong quarter for you, I guess because of one of your largest product in the IP side. So would like to understand if this is just again volatility or any specific development on the IP portfolio?

Anand Deshpande

No again, there is nothing very specific here. We do have, as you know, large customers who generate higher volumes of revenues in Q4, but during this year as you are aware we have added 3 or 4 other IP in it. So when we are sharing the mix, we are giving you the total mix and we had a very good upside on the particular IP in the previous quarter and that particular one did not continue. Again these are one off deals. So there was no such big deal that happened in location during this quarter. So hopefully next quarter we might see something. So there will be some up and down on this one and it is 1.2% dip, I would not read too much into the trend there.

Kunal Tayal

And on the realization in the quarter, both onsite and off shore saw a healthy improvement. So is that all because of mix or was there also billing in that?

Anand Deshpande

No it is all of those. Certainly we don't see a billing pressure as it is clear here. We are seeing better rates on growth, on the new business that we are acquiring on the product engineering side. It is always hard to change rates on an existing project. In addition to that as you would notice, we have started to do significant amount of work in the platform solutions business where we are getting both better rates onsite and offshore and then the Nova Quest team which we acquired during the quarter is at a better rate as compared to other businesses. So there is an increase because of that and that is where it is at and just one last thing worth mentioning is that and this might come up as a question later on, the Nova Quest business contributed to USD 1.8 million during this quarter.

Kunal Tayal

On the revenue outlook for the year, I guess in January your expectation had been of good momentum continuing into FY14, so would you say that things may have changed since then in either direction and also as one looks into FY14 should product take overs constitute bulk of the growth again?

Anand Deshpande

We continue to be as upbeat or even more in some sense during this year, as I said the HPCA was a big deal for us, there has been zero contribution on the revenue line at this moment, because it was acquired on 15th of February. We expect that to contribute. As you go along the way the deal is set up as customers'

transfer they come up for renewal, they start to come to us, till then they don't. So the revenue will have a tail effect, it will take a year for people to transition and as that happens you will see more and more revenue which is quite sticky starting to come in second half of the year. So overall, for the year we are quite optimistic about revenue contribution of HPCA and we are definitely seeing an uptick in terms of activity level for both cloud computing and Analytics.. Let me give you one small overall macro level view of what we see here. Look, the way market has moved and way the technology has moved, in general it takes lot less to build a new product today. This is a sort of challenge in the business, but we realized this a few years back and have been working on this by trying to create these additional lines of business. Even without losing customers or really doing anything dramatic on the product engineering business, in general there is less to do on product engineering business but we know and are very confident of making up that reduction through these other lines of business that we have been deliberately incubating for the last three years.

Moderator

Thank you very much. Our next question is from Priya Rohira of Axis Capital. Please go ahead.

Priya Rohira

If I look more from FY14 perspective in the traditional OPD segment what have been the client interactions feedback in terms of IP spend? Secondly in terms of the HP deal, has the transition cost been absorbed in the current quarter? You anticipate it to flow into Q1 and which would also lead to a follow on question on your margin outlook given that you have full year of all the three acquisitions in place?

Anand Deshpande

Overall we see a lot of increase in the traction in terms of activities in the product in OPD business. So I don't see that being a problem but that aside as I have mentioned earlier, in general there is new technology available so it costs a lot less to build a product as compared to what it would have been 5 years back. And that is because of the technology changes and we all have to accept that. There is no way to avoid this particular problem. So having said that the cost of building a product going down, the deal sizes will go down but because of that also and otherwise we are seeing a lot of other people in the business starting to do deals for product development. So overall we are seeing a large number of deals and a lot of activity but deal sizes will be smaller than what they were a couple of years back. So that's the macro trend that we have observed that I wanted to share with you but we have anticipated this for the last few years. We have taken actions such as diversifying into working with the platform business that we have created, IP business which has a very different mix and allows us to both increase margins eventually and also give us better revenues. Now, going back to the margin question. There has been an additional cost that has been factored in this quarter because of the HPCA acquisition. The teams have been working on knowledge transfer and integration. We have been investing in building the next version of the product. That product engineering will continue for some more time in the next two to three quarters and that is going to be the nature of the business. As you might imagine in the product business you will have to invest upfront, build the product ahead of the revenue stream that comes in and you will have a flat team but that team and the revenues will not be easy to correlate which is why we are starting to give you this very clear understanding of how many customers we have, what is the revenue and how many people we have allocated to IP related business. So that's the overall theme on it. Margins are always going to be a challenge to maintain but we believe that we will be able to combine growth in top-line through these product acquisitions along with the investments that we need to make. That will give us eventual stability or at the moment stability

on the margins. In the long-term theoretically, yes, there should be an increase in the margins if we were to get to more and more IP business but there is also risk involved in that. So I don't want to speculate too far out in the future.

Priya Rohira

And just another follow-up, we had a target of 20% for IP business that we reached in some of the quarters in this year. But if we were to take in FY14 or say two or three year time horizon where would you want the IP business to be?

Anand Deshpande

We are very optimistic with what we have seen. We are now starting to work on a model which will take us to about 25% on the IP related business over the next two years or so. And again it is very hard to say how much exactly it will be because we want the other businesses to grow as well and we are seeing growth on that. So we are not going to hold one back for the other.

Priya Rohira

What about the the tax rate for FY14 if Rohit could help us out?

Rohit Kamat

Because the surcharge has gone up in this year, so the tax rate for FY14 would move to around 29.5% to 30%. It will be between 29% to 30%.

Moderator

Our next question is from Shrivatsan Ramachandran of Spark Capital. Please go ahead.

Shrivatsan Ramachandran

Just wanted to understand a little bit on the IP Business some more. In terms of the pipeline you see how would you qualify for the product pick? Should it be similar to where we started off at the beginning of the FY13?

Anand Deshpande

We are seeing increase in the pipeline. See what happens is, if you would notice, some of the acquisitions we have done has come from customers who are our existing customers. We are making these announcements that we have picked this, and other deals as well so overall people know now in the market that we are open to doing these kinds of acquisitions. So we will see a lot more deal. How many of them we should pick and all, those are all very difficult questions and we will be selective to ensure that there is some long-term value, profitability and all these criteria's are there and we don't want to just pick a deal just because it is there. So that's a fact but having declared our intention and being a player in this market allows us to see a lot more deals than we have ever seen in the past. I will hand it to Hari who may add some more to this thing.

Hari Haran

Thanks Anand. As Anand indicated our pipeline is very good because many of our customers and you must have seen a lot of announcements about some other people going private and some consolidation and usually these market dynamics directly result in surplus products out there and thus our pipeline goes up. But as Anand mentioned although the pipeline is copious we are selective about the kinds and deals that we want to take because we are looking at the overall strategy of how this fits in with our core focus areas, how it sits in with our geographic spread, sales and marketing and so many things. We expect to do many more such deals and our pipeline is great but we are being selective it's got to integrate well into our framework of how we are doing this business.

- Shrivatsan Ramachandran** And any thoughts on wage hikes or recruitment pattern for FY14?
- Anand Deshpande** We are going to watch the wage hikes but we will be between 7% and 10% overall for the wage hikes. I anticipate between 8.5% and 9% is where overall wage hikes are likely to be for the next year. In terms of attrition, the attrition this year was 14.4% which we think is good, lower than the 18.3 we have seen. It is hard to speculate what next year will be. We have made offers to 500 fresh graduates already and they are expected to join in Q2-Q3 timeframe. And we think that we will end the year with between 600 and 800 people for overall net addition Y-on-Y.
- Moderator** Thank you very much. Our next question is from Dipesh Mehta of SBI Caps Securities. Please go ahead.
- Dipesh Mehta** Only two clarifications. One is NovaQuest is part of IP revenue this quarter or it is part of another business?
- Anand Deshpande** NovaQuest, let me explain how that is set up. The way NovaQuest business works is we do re-selling of Dassault's Innovia products to the customers where resale part of that NovaQuest business is classified as an IP revenue and the rest of the service businesses that happens comes out as platform business which is what it is. So if you look at the USD 1.8 million that we did, about 1.09 roughly was in the IP revenue business and the rest of it is all into services business which goes in the platform and product engineering business.
- Dipesh Mehta** And typically that would be the revenue mix for Nova Quest on an ongoing basis, right?
- Anand Deshpande** We have seen only one quarter of it right now. That's what it seems like but I think we actually believe that we can significantly increase the services part of the business. See they have not been in the services business. They have been doing only Innovia related services. Our intention is that these 40 customers that we have acquired as part of the Innovia and NovaQuest acquisitions. We think we can significantly increase services and other services including analytics, cloud and all these other things to these customers. So actually we hope that we can change that mix quite dramatically as we look along.
- Dipesh Mehta** What would be the additional expenses which we have booked this quarter for which revenue has yet not come in, like HPC investment, is there any other investment where revenue has not yet started?
- Anand Deshpande** See this is going to be an ongoing phenomenon but right now HPCA is the one big one that we know that we have now done the deal. There is an announcement that has been made. People are already working on the product for the last 90 days and it will start to give revenues as you go along through the year. On the platform side whether it is cloud, analytics or the big data we are investing to create additional capacity because we are starting to see significant traction. So there are people on projects who are being trained.
- Dipesh Mehta** Could you please share up-date about sale with partnerships, our model, how much traction have you seen?
- Anand Deshpande** As I said we have had 3% growth on products and platforms combined but the platform business has grown quite significantly this quarter. And for next year as well we have I think well situated to, I don't want to put

a number there but we are looking at high two digits, nearly three digits on the growth that we want to see there.

Moderator

Thank you. Our next question is from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain

If you could tell more about the Goa CAPEX? How much has been spent there?

Rohit Kamat

We have spent about Rs 10 crores in this year and will be spending about Rs 12 crores additional next year to create capacity for about 400 people.

Rahul Jain

About Persistent Venture, will it be investing in ideas outside the company as well or will it be largely on the incubation side?

Anand Deshpande

No it is outside the company. The incubation one is not included as part of that. We think that there is an ecosystem of new innovation that is coming up in the App ecosystem, the mobile ecosystem and we have been talking to a lot of our customers as well and we find that there is an opportunity to co-invest with them and we will be investing outside of Persistent. We have also announced within the company that we will encourage employees who want to create their own start-ups and we will go invest with them as well.

Rahul Jain

So, the money which will be allocated would be termed as company's investment, it is not a separate entity?

Anand Deshpande

No we studied that and we found that it is probably most efficient for us to do this as part of Persistent System itself. So Persistent Ventures will be a different business unit or a specific entity within the company and not a separate legal entity and whatever investments get made you will see the investments in the balance sheet and P&L in as you go along.

Rahul Jain

So any corpus which we have thought of or any ROIs which we have in our mind?

Anand Deshpande

Yes Board has given us certain limits. I don't want to give you speculative numbers right now but Rs 35 to Rs 50 crores range is what we have been looking at in terms of what we can do but again this will happen gradually. It won't all happen at the same time. It will be a fairly modest percentage of what we have in terms of total investments that we have.

Moderator

Thank you very much. Our next question is from Anurag Purohit of Systematix. Please go ahead.

Anurag Purohit

In opening remarks Anand mentioned that Persistent is pursuing of some large deals on Doyenz front. If you could provide little bit color on what would be the size and nature of the deals? Also I believe previously we were pursuing some of the opportunities on TNPM side, it would be helpful if you could provide some of the details on that as well.

Anand Deshpande

No actually we didn't mention that we are doing large deals on Doyenz. We are seeing large number of deals in Doyenz and also in TNPM and others as well. Doyenz by nature is a small deal business. We are

selling to small businesses, disaster recovery services so the deal sizes are really small meaning USD 100 to USD 500 in that range. So the deal sizes are really small on Doyenz. On TNPM we have a plan for releasing the next version of the product which has been announced to the next quarter and some specific things we are doing in that and we have also created a road map for the next version of TNPM, which I think will get announced by the end of this quarter.

Anurag Purohit

And the second question, the decline in telecom revenues, is it purely attributed to the IP revenues?

Anand Deshpande

Actually, it has gone up. In a sense if we look at the Y-o-Y telecom numbers that is 25.3% as compared to 21.4% that we had last year.

Moderator

Thank you. Our next question is from Ravi Menon of Equirus Securities. Please go ahead.

Ravi Menon

Dr. Deshpande, we had attended the Peoplesoft webinar recently where they talked about now starting to ship the product that's about 100% done compared to earlier where they ship something which is 80% and 20% was left for the customer to do. So, does this imply greater investment and product development going up? So are you seeing something of that sort or is that a one-off?

Hari Haran

You are right. The general market trend these days people don't plan a two year release and 100% of the full product and then release it. But they do agile strength and get 80% of the product done in four months and release it and have the customer give feedback and then do the 20%. So that's the general trend but what that does, is that the number of such opportunities increases quite a bit because product development business is no more restricted to the big guy. Any small company can say I want to put out a product there and quickly put it out. So number of such product development opportunities increases quite a bit but as Anand indicated the flip side of it is the asset or the size of any given opportunity goes down because you are not doing 100% of the whole thing, doing full two year release. You get the job done in four months, very quickly. So deal size tends to go down but number of deals will go up.

Ravi Menon

Have you seen these sort of horizontal platform like salseforce.com have you seen any other people get on to that platform and put out something more vertical specific piggy backing on that?

Anand Deshpande

Yes absolutely. That's happening across the Board there. So we work with Salesforce quite a bit and we are seeing customers who are putting verticals or add-ons in the product as part of app framework that people are releasing and this whole app based sort of business where people are creating add-ons and apps and selling through a market place is a big opportunity and one of the big focus areas for us in Persistent Ventures is going to be to focus on apps on ecosystem and we are already working on.

Moderator

Thank you. Our next question is from Pranav Tendulkar of Canara Robeco. Please go ahead.

Pranav Tendulkar

Any idea on the key employee lock-in in any acquisitions recently that you have done or how is it handled? Because these companies are very small and scaling up or future depends on some few key employees. So how is it?

- Anand Deshpande** I am not sure I follow that question. Some of these details are also a little confidential so if there is something specific you are looking for if you reach out to Vivek we will give you the answer.
- Moderator** Thank you very much. Our next question is from Grishma Shah of Envision Capital. Please go ahead.
- Grishma Shah** Sir, if you could tell us the CAPEX for FY14?
- Rohit Kamat** Grishma, if you look at current year we have spent close to Rs 106 crores. Next year could be slightly higher than that. For the acquisitions actually the numbers cannot be precisely estimated but you can take a ballpark figure in the region of Rs 125 crores.
- Grishma Shah** That would also include the nearshore center that you are planning to put up in the US, etc., everything put together.
- Anand Deshpande** Yes because wherever we do a center in the US we will be renting a place so there will not be a whole lot of CAPEX on that.
- Grishma Shah** Second thing was that this quarter we did see a sequential uptick in the pricing. You did elaborate and explained that this was because of NovaQuest. Is this kind of a sustainable thing? Was there some consulting bit which was added in the pricing because last time when we had seen this uptick it was more because there was some consulting assignment embedded?
- Anand Deshpande** Some of that consulting shows up which has come from NovaQuest on the onsite side but if you look at the offshore revenues Q-on-Q and over the year you will see that they have all gone up. So overall we are able to get better price. Customers are willing to pay more money for the work that we are doing. Deal sizes are smaller. Products can be done faster and quicker with less total money but per person rates have gone up which is good news.
- Grishma Shah** In the revised format of your Factsheet, you have given us two data points in the number of clients billed. Now one is 406, one is 510 for FY13. Now, what is the total number of clients that you have billed because there would be overlap is what you have mentioned.
- Anand Deshpande** That is correct.
- Grishma Shah** So if one had to see your client base, will it be like 510 clients which would be unique to us? How do I look at it?
- Anand Deshpande** Again I will give you roughly. We have got 70 customers that are common between the two right now but I don't want to get into that kind of speculation because we want to give you a very clear understanding that on IP-led business we have a large number of customers. Businesses that we do with respect to say like the HP one that we have done we are going to pick hundreds of customers. We are going to see 400 - 500 customers coming in from Doyenz and that number could be 1,000 for all you know. We are seeing a large number of customers that are coming in and we wanted to separate the two so that you have clarity on

what are the Product Engineering customers and what are the IP customers. So when you build your models my suggestion to you would be to keep all the IP numbers out, people, customers, rates everything out. Run that model separately, run the rest of the model and then aggregate the total. And we now have provided you enough information to do that very easily without having to speculate on any of the numbers. That was the main intention of this new format that we have presented.

Grishma Shah

Any clue as to whether you would beat the NASSCOM guidance for FY14 as well?

Anand Deshpande

Yes. Clearly we have done 14.7% to 14.8% this year and we want to do more next year. So yes we would want to beat the NASSCOM guidance. See the market is a kind of challenging in many ways but we have actually put a lot of things at work. There are many different things we have incorporated which make it very difficult for us to predict but I am sounding very optimistic and quite upbeat about where we are today.

Moderator

Thank you. Our next question is from Shashi Bhushan of Prabhudas Liladher. Please go ahead.

Shashi Bhushan

You have highlighted the key focus areas in which we are acquiring IP from clients that is Cloud, Mobility, Collaboration, and Analytics. What due diligence clients like HP and IBM do before handing over the products to Persistent?

Anand Deshpande

Very good question. Clearly very important. The products we are taking from them, they want to make sure that we can take care of their customers. That's the main thing they want to know. So they are very interested in ensuring that we will be able to sustain that product. We have the ability to maintain that product and we can keep the customers happy.

Moderator

Thank you. As there are no further questions I would now like to hand the floor over to Dr. Anand Deshpande for closing comments.

Anand Deshpande

Thank you very much for spending the time here. We will be happy to answer any further questions that you might need on e-mail and thank you all for being on this call. I am happy we could complete this within an hour and let me thank all of you and wish you all a very good evening.

Moderator

Thank you very much Sir. Ladies and gentlemen on behalf of Persistent Systems that concludes this conference call. Thank you for joining us and you may now disconnect your lines.