Persistent Systems

Analyst Call

Persistent Systems Limited - Analyst Conference Call

Q4 FY14 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Ranganath Puranik
President, Persistent Systems Inc.

Mr. Rohit Kamat
Chief Financial Officer

Mr. Mritunjay Singh
Chief Operating Officer

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Chief Planning Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and Gentlemen. Good Evening and welcome to Persistent Systems Analyst Conference Call. As a reminder, for the duration of this conference all participant lines are in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. We have with us on the call today Dr. Anand Deshpande – Chairman and Managing Director, Persistent Systems; we also have with him Mr. Ranganath Puranik – President, Persistent Systems, Inc. joining from U.S.; Mr. Mritunjay Singh – Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Vilas Kate – Chief Planning Officer; and Mr. Amit Atre – Company Secretary. I now hand the conference over to Dr. Anand Deshpande. Thank you and over to you Dr. Deshpande.

Dr. Anand Deshpande: Thank you. Greetings and welcome to the Persistent Quarterly call. It is my pleasure to welcome you here. Let me start by sharing with you a little bit about the 'Financial Highlights' for the quarter. After I am done with my initial opening remarks, I am going to hand it to Ranga who is going to share with you what is happening on the US side and from the market. We will follow that up with what Rohit will share with you the financial details and some of the nuances on the numbers being reported. After that, I will spend a little bit of time trying to share with you a little bit about the strategy of how we want to approach FY15, and then we shall open it up for questions.

As it's been shared with you already, this quarter we did USD 72.64 million; this is a 3.9% quarter-on-quarter growth and 17% year-on-year growth. In terms of the annual numbers, we finished the year FY14 with USD 274.06 million, which is a growth of 15.2%. In rupee terms, the revenue is INR 16,691.53 million which is a growth of 28.9%. Overall, the EBITDA grew by 28.4%, the PBT grew by 30.3%, and the profit after tax was INR 2,492.77 million which grew by 32.9%. In terms of the diluted earnings per share, the earnings per share were INR62.32 which again grew by 32.9%. In terms of the quarterly numbers, the revenue for the quarter was INR 4,467 million or INR 446 crores, which was a sequential growth of 3.2% in rupee terms. The profit after tax was INR 671.99 million which is a 4.7% quarter-on-quarter growth.

In terms of the dividend, I am pleased to share that the Board of Directors have recommended a final dividend of INR 4 per share for FY14. The payment of final dividend is subject to approval of the shareholders at the Annual General Meeting to be held in July. With this the total dividend for the year would be INR 12 per share and the pay-out ratio is 22.53% as the company had paid an interim dividend of INR 8 per share during FY14. This compares to the INR 9 per share that was paid in the last financial year.

I am also pleased to welcome Mritunjay Singh who is the Chief Operating Officer of the company as an Executive Director of the company after completing legal formalities.

The CSR contribution that the board approved was INR 48 million or 4.8 crores; this is in line with a 2% recommended CSR as per the new Companies Law. I will have some more towards the end, but we are pleased to announce a Silicon Valley-based business unit called Accelerite which will take the portfolio of Persistent products and related solutions to the market.

During the quarter we acquired CloudSquads a company that is specialized in social community platform offerings. Persistent venture fund invested in a hand hygiene technology start-up company based out of California called Hyginex. This year as well as was in the previous year, we were the analytics partner for Satyameva Jayate , the most impactful show on Indian Television.

With this short introduction, let me now invite Ranga Puranik who is up very early in the morning in California to share with us what is happening from the customer side. And then, we will hand it to Rohit.

Ranganath Puranik: Thanks a lot, Anand. Good Evening Ladies and Gentlemen. It is very nice to be back with you all. As some of you know, I took over this role in November 2013, so the Q4 that we just finished was the first full quarter for me. As Anand mentioned, we finished Q4 at USD72.64 which was a 3.9% quarter-over-quarter growth in dollar terms and the overall year at USD274.06 for a 15.2% growth. We added 86 new customers in Q4 including products. Both products and services numbers were better than Q3. There are some new big logos that we are pursuing as strategic account this year from the list of accounts that we got in Q4.

So this year, we made one strategic acquisition in February as Anand mentioned CloudSquads based locally here in the US to build up on our SMAC and digital transformation portfolio. We also launched Accelerite, which is our product business based in Silicon Valley, to provide focus both internally and externally, so we continue to build on delivering growth in our Products business.

One additional thing is, we also filled our Chief Marketing Officer role with Sunder Sarangan who joined us from Infosys, where he was Associate Vice President and Global Head of Field Marketing and Regional Head of American marketing, and he is based in Bay area as well.

Now a little bit on how we are seeing the market, our strategy and approach. As Anand has been outlining, our vision is to be a global leader in Software Product Development and Technology Services for both ISV and Enterprise market. We believe enterprises are increasingly becoming technology companies, starting with digital transformation. So Cloud-based services model and internal technology development within enterprises around platforms, are providing very different options for enterprises as they evolve to compete in the market. How you create new products and services while collaborating actively with your customers, consumers, partners, employees is becoming very critical in enterprises. Fortunately, for Persistent we have two important aspects of this transformation covered; one is access to these enterprise customers and second is expertise in SMAC and Software Product Development in addition to our credibility as a strong computer science software company and not just in programming skills. So one quick example is, we are developing a product for an ISV helping deliver video streaming over internet. Apart from the domain of video space when you look at the key technologies behind the development, they are Cloud, Mobility, Analytics. So these are really coming together in practically all next-generation architectures. As another example, working with one of our key platform partnerships has led us to work for several financial services companies in a short period of time; more in terms of our horizontal technology capabilities. We expect a technology-led investment, for example happening in that sector different from the large IT Services like implementation of the past. So now, we have an opportunity to serve these new customers with a broader set of technology offerings beyond partner-related platform work that we would be doing. So, as a beginning of this year we have also formally defined the three go-to-market models from a sales stand point – Account-led, Platform-led and Product-led businesses. So, in the Account-led model, we have classified accounts into named growth emerging and pursuit to focus on serving our customers with the entire Persistent portfolio. An example of our Account-led focus is, recently in one of our named accounts, where we had begun by helping to develop a social platform. Now the relationship has extended to include mobile apps, security, working on enterprise search analytics as well as collaboration products. So this is an example of serving customers with our expanded SMAC portfolio. So one key strategy for us on the Enterprise accounts this year is to convert some of them we have won through our platform business into named or growth accounts. So we also have put in place a sales performance and incentive system to convert market opportunities in accelerated and collaborative ways. That should help us create growth in our accounts as well as regions outside of the US in our core technology areas. We had an excellent global sales kick off first week of April this year, conveying the urgency and essence behind our growth strategy and plans, so we could get off to an early start in the new year. Our pipeline is healthy both because of improvement in our processes as well as go-to-market strategies and positions as well going into this year.

So, that would be a brief summary from me. Anand, thank you very much all, and look forward to our discussions and the strong growth here for us in FY15.

Dr. Anand Deshpande: Thanks, Ranga. I am going to request Rohit to give you some more data on the financial numbers.

Rohit Kamat: Thank you Anand and good evening to all my friends in the analyst community. It has always been a pleasure talking to you. Anand and Ranga have provided detailed updates on the business side. I would like to share with you an analysis of growth in terms of volumes and rates, and explain the reasons for the margin movement. The growth in this quarter was largely driven by the IP-led business, which grew by

14.4% quarter-on-quarter due to increased momentum in the Radia business. On the services front, the onsite revenue showed excellent growth of 8.4% quarter-on-quarter driven by 9.5% jump in volumes. The offshore billing rates also recorded a healthy rise of 1.5% quarter-on-quarter; however due to 2.1% dip in offshore volumes, the overall growth of services revenue in the quarter was at 1.6%. On the margin front, the good news is that both PBT and PAT margins displayed a healthy rise despite drop in gross and EBITDA margins. The gross margin for the quarter was 42.8% as against 43.9% in the previous quarter, while increase in the IP revenue helped improve margins, the adverse currency movement, increase in project related travel cost and lower utilization pulled down the margin by overall 110 basis points. The S&M expenses were lower at 7.6% as compared to 8.1% in the previous quarter, mainly due to lower provision for bonus which gets finalized at the end of the year. The G&A expenses increased marginally by 20 basis points due to administrative expenses in some of the new branches and overseas offices. The overall impact of these changes was that EBITDA margins stood at 27% as against 27.8% in the previous quarter. The exchange loss for the quarter was at 87 million as against 147 million last quarter. This helped PBT margin to improve to 20.7% as against 20.1% last quarter. The PAT increased to 672 million demonstrating quarter-on-quarter growth of 4.7% and year-on-year growth of 29.5%. The PAT margin expanded to 15.1% from 14.9% last quarter. The effective tax rate for the quarter was 27.2% as compared to 25.8% in the previous quarter; this was due to higher profit reported in some of the overseas subsidiaries which is taxed at a higher rate. The EPS for the quarter amounted to INR16.80 recording 4.7% rise quarter-on-quarter and 29.5% growth year-on-year. CAPEX amounted to INR144 million during the quarter and INR562 million for the year. Net addition to the headcount during the quarter was 255. On cash and investments, our cash and investments in total stood at INR 6,311 million as on March 31st as compared to INR 5,949 million as on December 31st 2013. The forward cover as on March 31st amounted to INR 91 million at an average rate of INR64.68.

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

Dr. Anand Deshpande: Thank you Rohit for giving details on the financial side. I would like to share that we are on a transformational journey and we continue to be on this for the next few years. We see FY15 to be a very important year for the company, and overall we see this being driven by some of the newer technology areas such as SMAC that we have been focused on for the last several years. Overall, we see our traditional Product Engineering business being driven by infrastructure companies trying to continue to focus on building next-generation product releases for their SMAC platform. We have also set up some very key strategic partnerships in these four areas, and they are helping us access newer customers, especially the new Enterprise customers who we would not have accessed otherwise. We have observed that SMAC is no more four different things, but SMAC is working together, and we have a situation where Social, Mobile, Analytics and Cloud are working together, and the fact that we work with all these four areas in helping us in providing innovative solutions to enterprises on an ongoing basis. What we observed when we meet some of the enterprise customers is that there are two vectors that are driving SMAC deployment; one is driven by cost optimization, and the other one is driven by the need for improving digital experience. We observed that this Digital Transformation business is very closely aligned to Product Development business where enterprises are focused on building to a road map rather than to precise requirement, and this fits in very well with what Persistent has done for the last many years.

As Ranga pointed out, the fact that we have expertise and experience in these four areas along with access to customers in the enterprise areas because of the partnerships is allowing us to build on some next-generation innovating applications which will help us with revenue growth for the next few years.

I want to move to the IP strategy. Most recently we launched a business unit called Accelerite which is based out of Silicon Valley. The official launch for Accelerite will happen on May 7th in the Bay Area where we are having a launch event at the Computer History Museum on the 7th evening. Essentially, the objective of Accelerite was to ensure that when some of our customers are trying to buy our product, they get clear view and vision that Accelerite is a product company or is completely focused on products, while Persistent continues to stay focused on Product Development services and building next-generation products for ISUs. So this separation, we believe, will help us in creating good momentum both for product companies and product situations such as what Accelerite can bring us and also for Persistent.

In the context of the IP strategy, I would like to point out that we have four kinds of things that we are looking at in the context of IP strategy; one is relating to the acquisition of non-strategic products; the second is the white spaces that we are filling in for some of our customers; third is the new products that we are incubating from within the company, these are new ideas and these are all early stage ideas, and some of them will take time for converting to real revenues; and finally Persistent Venture is allowing us to look at even more early-stage start-up companies who are looking at innovative ideas and we are investing in early-stage start-ups even before Series-A.

In terms of the M&A strategy, we have most recently announced the acquisition of CloudSquads which allows us to build strength in the US market and more specifically, in the context of the work that we are doing in the social area. We continue to be on the lookout for other similar small or specialized firms that will help us in our offering both in the markets that we are operating, and also in the context of some of the technology themes that we are focusing on.

Just to pre-empt some questions, I would like to comment on the volume decline that you see in the business, and more specifically that if you notice that Services revenue has gone up by 1.6%, and there is a volume decline of 1.1%, and the main reason why that has been the case is because we had a particular customer for whom we were doing some work from India, and they have decided to shrink their business with us, and move that business back to the US region to their own internal development because of change in strategy in their business plan. Now, this particular customer has been classified as telecom and rest of the world. So you will see a dip in the telecom revenue and in the rest of the world revenue being attributed to this single customer change that has happened and that also has had a consequence in terms of the number of man months dip that you see and also on various other parameters. I would like to reassure you that all the team that got released has been redeployed to other projects and this problem is behind us, but when you have these kinds of situations, it takes a while for the transition to happen and that cost glitch on the numbers for this quarter.

There were a couple of questions that we got on Twitter, and I want to take them first before we get to the other one, and these are questions that came from Ankit Pande and we did not quite entirely follow all the questions there, but in a sense what we are suggesting here is that the linear business or services business this year grew by overall for the year by 14%, and that has been lower than the overall company's growth. So the question is regarding the growth numbers. So what we are seeing is that our Platform Services business will continue to grow at a steady but a stable pace, and we expect that the IP-led business and other acquisitions that we do will help us accelerate our growth in the short-term, but in the long term once we get a better momentum on some of these enterprise accounts, we think that that number will also keep going significantly, and that will be our fuel for better than double-digit growth that we want to see across the business. And in the IP business again I would like to point out that we grew about 20%, and by the very essence of how the IP business is set up, some parts of the IP business will shrink because we are acquiring businesses towards the end of their lifecycle in certain cases, but overall I feel that the portfolio that we have this year with some of the products that we have acquired which are not on the end of life stage, we should have a better growth on the IP revenue next year for the same portfolio, but we also have several discussions ongoing, where we could acquire more IP revenue from some of our existing customers. So, with this let me now send it back to **Shyama** who can open it out for questions.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nitin Jain from Ambit Capital. Please go ahead.

Nitin Jain: My first question is on your Platform Engineering business. So how is the business progressing? And what was the Y-o-Y growth rate during the quarter? And how large is the business now?

Dr. Anand Deshpande: Let me give you a disclaimer and then I will explain to you what we are doing here. What is happening right now is that the Platform business, the OPD business, the SMAC business, they are all getting intertwined and merged very nicely into each other which is really the intention of what we wanted to do. If you looked at strictly the "sell-with partnership" business that grew by about 81% year-on-year and about

12% this quarter. And what we have also achieved in the last quarter is that when we acquired CloudSquads we got two new partnerships along with them, and we have also signed up a few more new partnerships in the last two quarters. So overall the partnership driven sell-with model that we had started out is actually very robust, and we expect that to contribute to a very significant growth for us in direct and indirect revenues.

Nitin Jain: So how large is sell-with partnership business?

Dr. Anand Deshpande: It is about USD60 million, about 22%.

Nitin Jain: So 22% of your business grew by 75% Y-o-Y is it, am I reading it right or?

Dr. Anand Deshpande: You are reading it right… again this is why I want to really share that preamble with you that what is happening in some sense is that many of our existing customers are now platform players and we are doing many other things with them. So the combination of those two things is how you should look at them rather than try to look at it very separately because a lot of these things are getting blended into each other. So sometimes like we have few cases where we started out as a Platform project now we are building products for that company. So, some of these lines are not any more as rigid as one would imagine.

Nitin Jain: Sir, my second question was on margins. So your sales and marketing spends declined on absolute basis for consecutive two quarters, so there were overall 8.4% of revenues in FY14 versus historical average of around 7.5%. So how do you see them trending in FY15?

Dr. Anand Deshpande: There are several levers that we have for improving the margins specifically around utilization and several other comments like that. The overall philosophy though is that we are in an early stage of a growth cycle, and at this moment I would much rather invest in new technology creating bench, creating capacity and also adding to the sales and marketing set up. We have done some good, smart investments where our IP revenues can also help us with margins, but overall I am still referring to constant currency, our strategy is to maintain margins between where we have a profit before tax between 18% and 20%, and we think we can easily do that.

Theoretically, we could increase our margins even further, but I think it would not be prudent for us to do that because then we would be doing short-term planning rather than long-term investments in various activities.

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

Priya Rohira: My first question relates to Anand, you articulated IP strategy quite elaborately. Out of these four initiatives which do you think are more long-term in nature, more so with respect to third and the fourth which is one on incubating new products and setting up of Persistent Venture. When do you think these two will start yielding results because the first two are already up and running and being profitable?

Dr. Anand Deshpande: That is correct. So let me comment on the Persistent Venture part. Clearly, it is a very early stage Venture strategy we do not know what might happen in terms of the real returns, it is a very small percentage of what we are investing in terms of the total context of our business, and we believe that some of these will return long-term benefits in different ways, not just necessarily in cash. So we do believe that in another 2-3 years we should see some returns. Our strategy on Persistent Venture's investment is not necessarily to wait for the company to exit but to also look at collecting some money back from Series-B, Series-C kind of funding rounds that might happen. So we do expect money to start flowing back within the next 2-3 years. So that is the first part regarding the IP stuff. Regarding some of the new projects that we are investing in, things like eMee and others, we have started to see that they are starting to deliver us results both in terms of demonstrating to customers that we are an innovative company and we have had about two specific customers that have come to us which are in the million plus range for next year that have come because of our entry into them through the IP that is products that we have built around eMee and share insights.

Priya Rohira: As your sales headcount has gone up by 50% from '13 to '14, do you think now you are adequately staffed or do you think because of the focus which you have on IP, additional investment is required over there?

Dr. Anand Deshpande: The sales investment will continue to grow. Actually, when we look at the product-related business and Accelerite stuff, you will find that we may have to invest more on the sales side. So the overall S&M budget, of course we are managing it within certain ranges, but we are not trying to bring it down, it will go up by a bit.

Priya Rohira: And just one house-keeping question for Rohit. The sales bonuses, are they likely to be paid out in Q1 or H1 this year? What could be the effective tax rate for FY15 which one should look at?

Rohit Kamat: Bonus is actually to a certain extent are paid on quarterly basis, but towards the year end actual numbers there could be some pluses and minuses resulting in the last quarter of the year. So that is on the bonus side. Effective tax rate this quarter is 27.2% is slightly higher than last quarter, actually it will vary quarter-on-quarter depending on the composition of the profit coming from different geographies. So this quarter we had higher income from our US-based subsidiary where the tax rate is higher than the prevailing tax rate in India. So, there could be slight variation but we expect it to be in the region of 27-28% on an annualized basis.

Priya Rohira: Last question for Anand. Have we seen in the top ten accounts some major Enterprise account additions this quarter because all the buckets have done quite well, I think it will be more led by enterprise clients, if you could just throw some light over there?

Dr. Anand Deshpande: No, I think the Enterprise clients are going to show more numbers in the next year. What I would say is that a lot of the Enterprise customers which are new have come to us from the platform sales. Let me also rephrase this in another way… that we have had a few what you might call 'Traditionally Enterprise Customers' in our top ten for the last several years, those continue to be there, but I am referring to the new accounts that we think are going to help us with the growth, they have not contributed to significant numbers this year yet. There are two accounts that have come in from platform sales, but they tend to be ISV-oriented rather than enterprise-oriented at the moment.

Moderator: Thank you. The next question is from the line of Aishwarya from Spark Capital. Please go ahead.

Srivatsan: Srivatsan here. Anand, just wanted your comments. Given that we are a Services business is going at change, Platform, Engineering, all of it is getting mixed and it is becoming far more onsite heavy. Just wanted to know, if most of the incremental revenues are going to come from onsite or slightly more onsite heavy business. Just wanted to understand the impact on the profitability of the Services business. I do know that we do not break out profitability, but it does have an impact on profitability?

Dr. Anand Deshpande: I think your observation that onsite business is growing and the fact that that has a challenge on the profitability are both correct. I would like to however, point out two things that irrespective of the fact that onsite is growing, there is a comparable or even larger offshore business that will grow. So it is not all driven on the onsite. And the ratios will go up by a bit but they will not dramatically change at least in the next year or so. And the second point I would like to make is that, some of the rates that we get on onsite, especially for the Platform business, are actually quite healthy, meaning we can get up to USD152+ for some of the projects that we are working on, and it is not necessary that they have to be margin diluting necessarily. The overall what you say is absolutely correct.

Srivatsan: My next question pertains to in terms of the nature of this onsite work or the new areas of service expansion, how would you characterize the deal flows – is it typically more you need to both hunt (kill a need) every quarter or do we need a slightly more longer term deals you get, just wanted to understand what is the typical sales engagement cycle would be?

Dr. Anand Deshpande: What we see is that in the Platform deals, actually again, this is early for us. We have been in this business for the last two years as sell-with partners. When we work with a sell-with project for a particular customer, typically, we start out is between USD 100,000 to USD 400,000 type projects that typically have to finish within 3 to 6 months. So it is usually a project engagement. And some of these project engagements we are able to convert them into long-term sustainable accounts that in our opinion can generate between USD 250,000 to USD 500,000 a quarter, roughly between USD 1 million to USD 2 million range we can see in some of these accounts. So, that is how it is going to happen; it is going to be a 2-3 step process, no customer is going to sign up for a huge amounts of big contracts in this kind of a market, a lot of the people are trying to explore and experiment with newer technologies. Suffice to say that we are seeing a lot of activity and our pipeline in terms of conversations that we are having are extremely good, and that is the reason for our optimism.

Ranganath Puranik: I think Anand, just to add to that, first on the onsite, what is happening is the newer technologies like Agile and as Anand mentioned the exploring of technology alternatives for how enterprises and even companies are trying to manage the roadmap, so it becomes more a solution architecture and consulting kind of engagement which we have tried to strengthen both in US and in India. I think that is an important point to note.

Moderator: Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Sudhakar This is Sudhakar here. So, going into the next year what kind of growth can we expect in FY15 – would it be better than the industry rate of 13-15%?

Dr. Anand Deshpande: So, let me say the following: We did 15.2% year-on-year growth this year, and we expect to beat that for sure. So, that is what I would say. Industry growth rate as per NASSCOM guidance is supposed to be 13-15%. And since we already did 15.2% obviously, we will beat that as well. We have ambitious plans, but I do not want to give you any number because it is not very useful for us to do it.

Sudhakar Anand, just on this Persistent Venture thing, what is the amount of money you have allocated or have plans to do it?

Dr. Anand Deshpande: So every deal that we are doing on Persistent Venture is typically between USD 100,000 and USD 250,000. So as per our guidelines we have a max cut off of USD 2 million over multiple investments. So we are not going to invest more than USD 250,000 in any one company. Second thing we are doing is that, we have a small team of people who are like exploring some of these kinds of opportunities. So I would expect between one and three investments a quarter in general, so about between 8 to 10 investments in a year sort of the range in which we are operating and that is pretty much how this will happen. We have two vectors that we are looking for alignment, whenever we work with a company that we are working with; one is that we should have an alignment in terms of their technology area of expertise and what we want to work on. So if somewhere we have to do something completely unrelated we would not be interested in partnering with them, and the second part is that should have an alignment where the customers that they are servicing and the customers we are servicing are aligned, and we believe that would be important as a strategic partner because then we can take them to our customers. So that is the overall philosophy on Persistent Venture. We are investing this directly from our P&L and not in any other instrument, so it is directly coming out of our P&L. And as I have already told you the bounds in terms of the number and the size of the amount we are investing and the number of investments you can guess that at most this would be like USD 2-2.5 million a year at best.

Moderator: Thank you. We have the next question from the line of Vinay Rao from ICICI Lombard, please go ahead.

Vinay Rao: Can you tell me something about your Agile technology that you keep telling in your presentation?

Dr. Anand Deshpande: I will give you a very quick and a short overview of Agile. What happens is that, traditionally most software companies and especially IT Services projects have been driven by a development model that is referred to as a 'Waterfall Business' model. What that means is that you first define your requirements and then you define your strategy for design and then you do the coding and then you do testing, so there is a step-by-step process where every process has to be done in a particular way and then you keep doing this one after the other. So that is how traditionally people have built products and this methodology works well if you know exactly what you are building and you have a very fairly long range plan. So six to eight months at a time is typically what a waterfall cycle can last. What we have seen in the market and especially with product companies is that people are interested in shipping products very quickly. Second, they are not always aware of what they really want to build upfront. So they are trying to evolve that as they build a product. And in these kind of conditions there is a new methodology that has come up which is being referred to as the 'Agile Development Methodology.' So if you were to just search for 'Agile Software Development Methodology,' you will see large number of examples of this happening. We have been working in this model for several years now as a partner of product companies who are all building products using the 'Agile Development Methodology.' What we have observed is that, when we work with enterprises today, many of these are following a very similar pattern and the strategy that we have explained in the past is like this. So, when you do an IT project, typically you have well-defined requirements and then you do trade-offs between time and money. When you do a product, the first thing people decide is when they want to ship the product then they decide how much money they want to spend and you build the best possible product within their time and money, and this gives an iterative cycle. This is really what this Agile Development Methodology is all about. I do not want to spend all my time trying to explain this to you beyond this, but if you look up for 'Agile Development' across any of the search sites, you should be able to find enough information – this is actually a well-defined and well accepted methodology for building products and to build products very quickly.

Vinay Rao: Is it fair to assume that 100% of your business is developed through Agile Development model?

Dr. Anand Deshpande: No, I would not say 100% but it is trending to that, say more than 70-75% of our projects are Agile, and the rest are moving rapidly towards it.

Moderator: Thank you. We have the next question from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: My question is, over the past week most of the larger peers who have reported they have talked about increasing investments in these digital transformation and digital technologies. So are you seeing early signs of competition intensifying in these areas?

Dr. Anand Deshpande: Actually we are very delighted to see that the large companies are talking about this stuff. It would be an honour and privilege to see that the large companies name Persistent as one of their competitors; we would be delighted to hear that. We have been in this business for more than five to seven years, we have been working with all the major players in this market, all of them are our partners, we know this area really well and we are very happy to compete with all the large boys in this market, and we are delighted that we are in a market that is so good that everyone wants to be in it. So I do not worry about the fact that we will get swept away, the market is very large, and I think this is really the opportunity that we have been waiting for the last 23 years.

Abhishek Kumar: And my next question is to Rohit. Utilization this quarter fell almost 370 basis points, now as Anand mentioned these people have been redeployed. So can we expect utilization levels to bounce back to say 3Q levels from 1Q onwards?

Rohit: I will request our COO, Munjay to respond to this question.

Mritunjay Singh: Like Anand mentioned earlier, this is like a one-time phenomenon, we had one specific client where there is change in strategy. So, most of the people who have come out of this have actually been re-deployed. This was like a onetime thing; I do not see this continuing in coming quarters. So, I do not expect any impact on this.

Dr. Anand Deshpande: The other thing to note maybe is 69% utilization that you would observe from the calculations that you can make, and at this moment I would not worry too much about the utilization numbers, because a lot of these people are being trained on some of these newer technologies, as you would imagine the market is pretty large and the more number of people we can train in these technologies that would be really useful.

Abhishek Kumar: And just a follow up if I may, the hiring this quarter was quite robust. So what kind of headcount addition we are looking for in FY15?

Mritunjay Singh FY15 gross level we will probably add a roughly around 2,000 people.

Abhishek Kumar: But I think net addition is what is more useful.

Mritunjay Singh: Our attrition expected is in the range of 13% to 14%.

Dr. Anand Deshpande: So it is about 700 to 800 people net attrition is sort of what you should count on and a lot of these numbers are a little hazy at this time. The other thing we believe is that we can hire through the market. So we have made some fresher recruitment and we expect the freshers to be between 600 and 800.

Moderator: Thank you. We have the next question from the line of Soumitra Chatterjee from Espirito. Please go ahead.

Nitin: Yes, hi this is Nitin from Espirito. I just wanted to check. .You did mention that there are some products which are end of life and there are some wherein we have new ideas and white spaces with clients. So I just wanted to understand what proportion of the IT business would be end of life as of now and what do you think would be the optimal ratio there.

Dr. Anand Deshpande: Okay. There are, I would say, roughly about USD 7 million to USD 8 million so far, IP led revenues would be on products which are in the declining revenue stage unless of course something different happens. Let me give you an example of what I mean by that. See the location market is a stable product market where new location sales are not very easy to make. And unless there is regulation change in a certain country, people don't go and deploy these kinds of things. So like for example, if in India E911 equivalent mandate comes in then all of a sudden we will see sales, otherwise we will have to keep waiting on it, but the good news is that we can adjust our costs accordingly. So these are not growing markets, but they are not loss making businesses. Okay. So this is really what some of these products are and that's the way they will be, but we do have enough products especially the ones that we have acquired more recently which have a longer life. We have been upgrading these products more frequently and newer products generate better revenues than the ones that have not been refreshed. So, as an advice, If you were to look at product refreshes that we have, those products that are getting refreshed are growing; those which are not getting refreshed are actually not growing at all. So we are just cost optimizing them.

Nitin: Sure. And at any point in time when you look at these acquisitions from the IP side what would be the minimum end of life that you would look at? Would it be three years, five years or because I'm sure one year would not make sense.

Dr. Anand Deshpande: No. See actually let me explain to you how we decided what we should do when we do an IP acquisition. So that will give you a sense. So one of the main objectives that we get when we work on IP acquisition strategies with our customers is that we get a seat on the table, which is actually very important for us, otherwise what happens is that you are just a vendor. When you start to say I want some of the products, we are sharing revenues, we get a very different seat on the table. Second, we make sure that the IP or technology that we are operating is something that we know how to deal with, because we already work with those areas and we can take it forward. Third thing we want to make sure is that the money we make on these projects is no worse than we would have made, if we were to do T&M or just basic projects like that. So it's not so much to do how long that product will survive, it's also to do with the economics of the product, what do we have to pay the customer for doing it, what customers are we acquiring, what kind of technology we get? So those are all factored in when we are making some of these product acquisitions. Now, the second thing that we have is, we have the ability to cost optimize some of these products by saying we think this is not going to grow, so we are going to shrink the development R&D costs and put them on sort of auto pilot, in certain other cases, we can take a call saying that hey, this product is really a growth opportunity and we should invest and build the next two versions of the product and then take it to the market. So that decision on whether we should invest or we should not invest is something that we have to watch closely. Sometimes we could take a call that we think that the product is good, so we invest on it, but it doesn't sell as much. So that's the risk that we carry when we take on these kinds of projects.

Nitin: Sure and that's very helpful. Just one last one if I may. If you look at the OPD business excluding the sell-with and the rest of the business if it's the OPD business, I do understand that the development life cycles have come down. How do you view that business over the next two-three years. Do you see that growth coming back because in some form some of that growth is possibly spilled over to IPs and things like that? So do you see growth coming back to that segment in some form and how do you view that business over a period?

Dr. Anand Deshpande: Yes, so it's I think very good question and it's something that we have pointed out in the past too. What happens is when you build to the next generation of technology, it requires less effort and less time to build it. So overall some of the shrinkage that we see across all the businesses around this and the need to fill the shrinkages with other things being so intense is because even if everything is going well you haven't lost anything to a competitor, the product is doing fine, it's selling better, your product cycles are moving fast, it just still requires a lot less people to do the projects. So that's just the fact of how the business is going to be, we completely realize this and we are working along those lines. So I do expect a product development business as such to be fairly robust. It will keep growing as everyone is going to need to build products and we have to work very hard to make sure that we get enough new things happening in the projects from the same customer or from new customers and there is a significant added incentive this year to ensure that we can keep growing the product development business. That's really the fundamental for our business and without the product development business our other business does not have the strength that we have, the fact that we have been building a product that we are deploying gives us some extra advantage over many of our competitors who are just deploying the product.

Nitin: Sure, on the same lines does it change the way we structure contracts with clients in any way to bring in more sort of visibility into that business, is that something that we are doing?

Dr. Anand Deshpande: See again lot of these things is not about contracts, it's about relationships. So I would just want to leave it at that.

Moderator: Thank you. We have the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Just to understand margin, you suggested you will intent to maintain PBT margin of around 18 to 20, so just because this year if I look in FY14 we incurred FOREX losses which if currency remains stable around 60 we likely to gain which would give around 200 basis point kind of swing going to next year, this year we are at around 20.5. So just want to understand what factors we have considered when we suggest or guide about margin and how we should look that number?

Dr. Anand Deshpande: It's like this. It's very clear from looking at the numbers that we have some margin levers that we could get to improve the margin. But the market is crazy, there are lot of changes happening and we think that we should keep investing, so we believe that we can definitely make between 18% and 20% margin. I'm not trying to say that we will not try to make better margins, but that's the way I want to leave it. Yes, I mean surely you could argue why can't you increase your margin, Yes, and I don't deny that we cannot but the point is, is it really worth it, that's the question.

Dipesh Mehta: Okay. Because the reason for asking is not about other income or something, because if I see operationally, because we guide for PBT, we don't guide for EBIT so I just want to understand the relation between how it should operationally we should look at?

Dr. Anand Deshpande: Correct. So overall our thought process is that we have certain levers in terms of defining how much money we are going to have, so we know upfront that we are going to have some extra money coming in from dollar rupee translations, because it has 64.6 rupee per dollar at USD 91 million sitting there. So, there at least 4 rupees trying to come in the other income and other stuff as of the same exchange rate. So the question is should we spend that or should we hold it back. Now that's the lever that we are operating at. So internally we are saying that it should just help us in making business better, it's just a deferring of the return in some sense.

Dipesh Mehta: Got it very clear and the last question is about if you can help us in last two-three years we have made few transactions, if you can help us how they have shaped, whether it would be perform in line or any plus-minus if you want to highlight?

Dr. Anand Deshpande: Actually it's a very detailed question you are asking at this time. I don't want to get in to that detail but we will have a Nayana or Rohit send you a detail on exactly what's happening with each of the things to the extent that we can, but it is suffice to say that we have learnt a lot. We know how to do this better and by and large I think we are quite happy with the situation that we are in today both in terms of M&A the acquisitions we have made and the ones in the pipeline.

Moderator: So I will take the last question from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

Ashish Aggarwal: So I have just one question where IP lead revenues now your IP lead revenues actually increased by almost 21% in this year, but if I don't look at your HPCA which you acquired somewhere around February of last year then year-on-year it is almost looking flat. So just want to understand going forward how should we model in this IP lead revenues, this excluding HPCA where we will get some incremental revenues.

Dr. Anand Deshpande: I think your observation is correct and as I mentioned earlier we have some of the older ones that we have acquired specifically around location and PaxPro are on the end of life situation. So you will see some flattening on some of these IPs which is by design. Now, we are starting to invest in some more in a couple of the IPs which we think we can take to growth. We think Accelerite is going to make that happen. So even with the existing IP portfolio we expect growth next year and we hope to add some more as we go along.

Moderator: Thank you. I now hand the floor back to Dr. Anand Deshpande for closing comments. Thank you and over to you Dr. Deshpande.

Dr. Anand Deshpande: Thanks a lot. I do say that I'm sorry we have had to miss a few questions that came up. I would request those to either send them to us by email or tweet them and we will get you the answers as fast as we can. No intention to cut down any questions, but at the end of the day it's about 6 o'clock and I'm sure other people have other events that are coming up. So, sorry to cut this. I really like to thank all of you for taking the time to be on this call. We appreciate your support and your inquisitive questions that you have been asking and hope to see you all again in a similar call one quarter away. Thank you very much and have a nice day.

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