



Persistent Systems Limited - Analyst Conference Call

Q4 FY15 Results

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MODERATORS

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Mr. Mukesh Agarwal

Chief Planning Officer

Moderator

Ladies and Gentlemen, Good morning and welcome to Persistent Systems' Analyst Call. As a reminder, all participant lines are in listen-only mode. There will be an opportunity for you to ask questions at the end of this presentation. Should you need assistance during the conference call, please indicate the operator by entering '*' 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. Ranga Puranik – President, Persistent Systems Inc.; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer, Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre – Company Secretary. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Dr. Deshpande.

Anand Deshpande:

Thank you very much and I would like to welcome all of you to this call. This is the first time we are doing this call at 10:30 in the morning and really thank you for joining this call.

In terms of the highlights for the quarter – I am pleased to announce that our consolidated revenue for the year was 308.54 million which was a year-on-year growth of 12.6%. In rupee terms the revenue was Rs.18,912.52 million, growth of 13.3%. The profit after tax was for the whole year was 2,906.31 million which was a growth of 16.6% year-on-year and the diluted EPS is 36.33, which is again a 16.6% year-on-year growth.

For the quarter, the highlights of revenue were US\$80.03 million, a growth rate of 0.6%. The revenue in rupee terms was Rs.4,974.53 million, a growth rate of 0.6% and the PAT was Rs.760.50 million, a growth of 2.1%. I am also pleased to share that the Board of Directors had a meeting concluded on April 21st, recommended final dividend of Rs.2.50 per share for FY14-15 and a special silver jubilee dividend of Rs.2.50 per share on the expanded capital base post the 1:1 bonus issue that we had in 2015.

In terms of comparing from the previous year to this year, the total dividend paid on the pre-bonus share capital. Last year we paid Rs.12, this year it is Rs.15+5. In terms of the interim dividend that was paid earlier, we had paid Rs.10 per share on the pre-bonus share capital.

With this let me suggest what I want to do today is that I am going to hand this over to Ranga who will give us a good overview of what is happening in the market side and the customers. He is travelling into India and he is here present in person. Then we will have Rohit Kamat give some of the explanations under financials and then I will close out with a summary of what is

happening in terms of the overall business and various other activities around those areas and then we will take it on for questions.

I would also like to point out that we are tracking persistent results as a tag on twitter and if you have some questions that you would like to raise there please post them on Twitter and we will try to either respond them directly on Twitter or take them in this call.

Let me now invite Ranga to share with us the situation and what we saw on the market side during the quarter. Ranga?

Ranganath Puranik:

Thanks a lot Anand. Good morning ladies and gentlemen. It is great to be here in Pune in our office this time and share with you updates regarding our Q4 and market outlook for the upcoming quarter and financial year.

As Anand mentioned we finished the quarter at 80.03 million with a sequential growth of 0.6% quarter-on-quarter. We added total of about 51 customers, 27 in our services and Platforms business and 24 in the IP led business.

Our Enterprise Digital vision that you have been following up for some time backed up by our sales strategy around account-led, Platform-led, and IP-led has helped expand our addressable market firmly to the Enterprise segment this year. So now that we have won some major new Enterprise logos we are focusing on making our new Enterprise wins into long-term partnerships for Persistent.

Our Platform partner ecosystem has continued to grow well in the last quarter backed by Enterprise customers wanting to develop differentiated solutions especially as it relates to how they relate to their customers. For example, patient relationship management in hospitals is a new integrated approach to manage them from the time they get referred to a hospital. So there are several internal processes that Enterprise customers are implementing on the new Platforms very different from the past giving them the flexibility and agility to deal with changes.

So we have begun this year on the theme of fewer, bigger, bolder which is an approach to drive focused growth. The idea is to move more investment into areas where we have been seeing strong growth and of course reduce our investment in slower growth areas. These include building scale in our accounts and Platform partnerships and selling and serving our Enterprise customers.

We have added customer success role to manage the process of winning and serving Enterprise customers right from the beginning. We have also begun a cross sell initiative to present our broader portfolio to these new customers that we have been winning over the past year.

Our startup ecosystem of customer continues to grow well that provides us an early lead into how new technologies like search, Cloud security, using Agile development, etc., are being developed. Our enhanced roadmap on the Radia segment has helped us retain and win customers in line with our plans. We are seeing some new and interesting Digital initiatives in the APAC region as well and are expected to contribute to our growth this year. In Europe we are extending our Platform partnerships to build on the business model that has worked for us in North America.

In summary, as you have heard from Anand and our interactions we are strongly positioning Persistent as a technology led company and focused on working with customers as they transform the way they do their business. With a strong set of accounts both existing and new and partnerships and a lineup of IP led initiatives we are beginning the new financial year on a strong growth Platform.

We will obviously take some questions as we go into the next session of this call. In the meanwhile thanks a lot for your time and attention and let me pass it back to Anand.

Anand Deshpande:

Rohit, can you.

Rohit Kamat:

Yes, thank you Anand and good morning to all of you. It has always been pleasure talking to you. While Anand and Ranga have shared business updates for the quarter and future outlook, I would like to give you customary analysis of Q-on-Q movements in revenue and margins and share details of CAPEX, liquidity position and hedges as on 31st March 2015.

In Q4 our revenue in USD terms grew sequentially by 1.2% in constant currency terms and by 0.6% after considering cross currency impact. Revenues growth for the full year FY15 in USD terms was 13% in constant currency terms while it was 12.6% net of cross currency impact. In rupee terms, the full year revenue showed 13.3% growth.

Now let me give you some color on services revenue and IP revenue for Q4. Services revenue grew by 1.7% Q-on-Q due to 1% rise in the billing rate and 0.7% increase in volumes. Within services the onsite part grew 5% quarter-on-quarter driven by 3% growth in volumes and 2% price in billing rate. Offshore revenue grew by 0.4% mainly due to volume increase while the

billing rates were relatively stable during the quarter. IP revenue declined by 4% sequentially due to drop in our royalty income.

Now let me come to margin movement. We could ensure stability in margins despite continued investment in sales and marketing and R&D. Gross margin remains stable during the quarter at 40.2% while EBITDA margins improved by 10 basis points to 20.2%.

During the quarter our treasury income rose by 13% to Rs.130 million as compared to Rs.115 million in the previous quarter. The exchange gain was lower at 51 million as compared to Rs.130 million in the previous quarter mainly due to impact of restatement of foreign currency assets at lower closing rates as compared to the previous quarter. As a result the PBT margin was at 19.3% and as compared to 20.1% in the previous quarter.

As regards taxes, our decision to file consolidated tax returns for our US subsidiaries could give us some tax set off on loss made by one of our US subsidiaries which reduced the overall effective tax rate for the quarter. The PAT for the quarter was 760 million showing an increase of 2.1% Q-on-Q and 13.2% year-on-year. CAPEX for FY15 as a whole was Rs.641 million which was mainly towards purchase of hardware and software and expansion of our Goa facility. We expect normal operating CAPEX in FY16 in the region of Rs.1,000 million. Our cash and investments stood at Rs.8,165 million as on 31st March, 2015.

We hedge around 50% to 60% of our net foreign exchange earnings on 12 months rolling basis through forward contracts, the value of open forward contracts as on 31st March amounted to Rs.113 million at an average rate of Rs.65.61.

With these updates I would like to hand over the conference back to Anand for further discussion.

Anand Deshpande:

Yes, thanks Rohit and also thanks Ranga for what the commentary and overview of what is happening. Let me give you a little bit further color in terms of what we see in the market. So clearly our story around Enterprise Digital Transformation is starting to look very good. Everyone is talking about Digital and Digital Transformation. What is different in our context has been the fact that we are focusing a lot more on “how” of Enterprise Digital Transformation because “why” is obvious. We have taken a position that IT Modernization and Enterprise Digital Transformation are two different things, they need to be run concurrently, coherently, and together but they need to be run separately. And when you decide you want to do Enterprise Digital Transformation the process of how you should go about Digital Transformation is something that we have worked on. Over the last year or so we have built

Platform and whole set of IT around Digital Transformation that allows us to get into the customer discussions very quickly and also deliver on a very short development cycle. We have had good success on the Platforms in the last year or so and many of our partners are taking us into engagements which look like Enterprise Digital Transformation engagements and will last for a long time. In terms of during the quarter we also had a new CTO who joined us in Austin Texas, his name is Siddharth Chatterjee and he has been working on newer technologies beyond the SMAC areas that we have focused on. We see a lot of investment from us and both the Internet of Things and Machine Learning and other technology automation areas that should go in for the next quarter or so.

In terms of the flatness of the quarter – one of the big reasons has been the fact that many of the, and we have mentioned this in the past several times that in general because of the way the new technology has moved in many of the projects today are smaller than what they used to be a few years back. So even though the work necessarily has expanded the number of people required for that job actually has come down. And if you were to classify our customers into three buckets, specifically around those which are born in the Cloud, the internet companies and the pre-internet companies we find that many of the pre-internet companies and customers who are from the pre-93 timeframe are all going through different kinds of challenges as they are being put under pressure to improve the efficiency of their businesses and that really causes some grief on us because we have several of our customers who are from that category. And these short immediate kind of situations where customers are defining and redefining their priorities creates lots of opportunities but also creates short glitches on the projects end abruptly and people have to be moved around. So that has been the real reason why we have seen a flat quarter this quarter, overall market and the business situation looks pretty good.

Let me give you a little bit of a sense on the IP revenue:

The IP revenue grew this year by about 19% year-on-year and though overall if you look at the percentage of IT revenues it has stayed flat to down by 1%. Some of it has to do with one particular IP which is with one of our larger customers where some closures should have happened last quarter, did not go through in the quarter, that should hopefully clear out in the next quarter or so. But also we have not acquired any new IP during the year and hopefully that should change in the next year. We will look at some more, the pipeline for end of life and non-strategic projects is actually fairly good at this moment.

With this let me take a stop here and open it out for questions. We will answer other questions and other comments as you get long during the Q&A session.

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 Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: My first on the IP front, you said that some closures not happen but will likely happen. So just so that I understand this properly, you are talking about connectors that are sold along with products of one of your large customers. And I assume these are pretty small products in the sense they are not large engagements which require a very large deal cycle. So just wanted to get clarity on that.

Anand Deshpande: No, actually I was referring to services renewal contract that is about 20% of our monthly on one of the accounts that we work with. So there is a renewal on the services that renewal has not happened yet.

Sagar Rastogi: So the renewal of Persistent Systems with that customer has not happened yet?

Anand Deshpande: Yes, meaning it is a services maintenance agreement that is ongoing so that maintenance agreement for this quarter has not closed yet.

Sagar Rastogi: Okay. And also I think this quarter you should have benefitted from TNPM and also Radia, the next version of that, has that come through as per your earlier expectations?

Anand Deshpande: The Radia numbers have gone up and some of them have been retained because of the newer technologies. Regarding TNPM, I don't want to say too much at this point of time, there are certain challenges in the context of the customer in the way they are operating it at the moment and hopefully that should clean out in the next quarter or so.

Sagar Rastogi: Okay. So going forward IP should be built in the same range of about \$14 million to \$15 million going ahead, would that be...?

Anand Deshpande: Yes, that is a fair assumption at the moment. We have several other new IP's that we could acquire in the pipeline but as soon as we acquire something we will announce it as specifically being acquired. So at this moment you can just keep as the way it is.

Sagar Rastogi: Okay. And one small clarification if I could squeeze in, thanks for sharing the split of revenue between ISV and Enterprise, it does clarify things a lot better. But just to understand the definition a bit, so if you are doing two projects with an ISV, one of which relates to working on it's product and the other relates with maybe implementing Salesforce for them and

building apps on them to help them sell better to their customers. Would you classify revenue from both the projects under ISV or would you split it between ISV and Enterprise?

Anand Deshpande: So if we are able to identify that activity is related to the Enterprise and not the ISV then they are being counted as Enterprise. So to answer your question, if we do a Salesforce implementation in an ISV account then we treat that particular thing as an Enterprise in a way. Though sometimes it is not that clean, so if it is an ongoing long-term relationship and somebody from within the project actually goes ahead and does some of that then we have no clarity in terms of being able to separate that out. So there is a little bit of fuzziness that will happen in that category and as we learn more we will try to get that to happen further along.

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

Priya Rohira: My first question relates to the Enterprise Digital offerings that we have, what out of the \$1 billion clients which we have with how many of we would have started with the EDT assignments? That is my first question. The second question relates, Anand you mentioned that IP revenues the pipeline on the end of lifecycle remains quite good. Is it possible to give some color in terms of how was it at the start of the year was it better by say 5x, 6x? And if I can squeeze in one more question, do we envisage more selling and marketing investments more in the form of business development team?

Anand Deshpande: Okay. So let me answer the business development and marketing question first. Yes, we will increase the marketing spend, we have done that this year and if you look at the numbers right now our S&M today is nearly 10%. I do not expect that to go down during the year so it will stay around that number plus minus here and there. Hopefully once the revenue numbers pickup that number will look better, so that's where it is in terms of sales and marketing expenses. And we are seeing a lot of traction so we will continue to invest further and further in that market.

The second question which was regarding...sorry?

Priya Rohira: The IP revenues that you mentioned.

Anand Deshpande: Yes. So the IP revenue pipeline as such, it is hard for me to give you a quantified number. I must say that the pipeline is at least twice as what it was last year, however the closure rates on these are very random actually so there are lots of discussions that happen but they just have to cook at the right time to make the deal close. It is very difficult to predict or at least we are not in a position right now to predict how many, what percentage of the pipeline will

actually close. So that is a challenge in this kind of a business but as soon as we get something we will keep you posted on that one.

Priya Rohira: Sure that is helpful. And on the EDT, like what percent out of the \$1 billion clients?

Anand Deshpande: No, so most of the EDT accounts that we have which we closed during the last quarter they are all still sub million dollars. So I don't think any of them have made it to the \$1 million range on the year that you see there in the numbers. So as you see 48 customers which are doing more than a \$1 million and then some more who are in the 3 million plus there would not be an EDT customers in this year, hopefully next year we will see some of them.

Priya Rohira: Okay. And just as a follow-up, we have still got 40 accounts which are greater than 1 billion in revenues, are we doing some amount of EDT work with them in some form, forget a \$1 million revenue cycle.

Anand Deshpande: Yes, the answer is yes, absolutely yes. See again, what is happening is let me explain a little bit about this while EDT story. So we have been working with many customers in the Enterprises through the Platforms that we work with. So we have been working with people like Salesforce, Appian, and Apigee and all of these where we are entering into Enterprise accounts in a partnership model. So far what we had done in the past was that we would go with Salesforce as just a implementation partner for Salesforce and that would be a project, we would complete that project and then till there is a next Salesforce project we do not have a lot of activity in that account. What we have been trying to change and that sort of where the last six month we have spent is that we are trying to convince these customers that the reason you are doing a Salesforce implementation is because you are looking at a long-term transformation of your business and the Salesforce is not an isolated deployment but it is a part of a Digital Transformational journey where you would like to bring in data Analytics and various other things, mobility as part of your engagement and as you move forward this is something that needs to be thought of as a long-term engagement rather than just a Salesforce implementation. Now we are starting to see some traction in those kinds of discussions that we have had in the last few months and as those happen and they roll on we will be able to retain these customers for a long-term period. So that is really the main focus of how it is coming in, many of them will come through Platforms or through partnerships as we have done in the past so those will continue like we have been doing in the past.

Moderator: Thank you. Our next question is from the line of Omkar Hadkar from Edelweiss. Please go ahead.

Sandeep: Hi, Sandeep here from Edelweiss. Anand I have couple of questions. First, you see our revenues for quite some time now are not in line with what probably we were expecting, I understand this is the volatile nature of business and IP component is there and random signings are there but my only question which is there is that the size of the deals generally in the space we have are generally small and probably that is a problem of one kind, but at the same time I assume the closure timelines are a little shorter comparatively. So when do you think that this will help us to build momentum because or you think the small size of the deals are going to continue to have problem for some more time for us? In a sense I am trying to understand that the number of deals which are getting signed to the traction are said to be much higher given the importance of the Digital things in normal non-consumer facing business also going up. So what is your sense on that?

Anand Deshpande: Okay. Let me give you short answer and then I will have Ranga give you a more detailed answer. See, actually if you look at the new business and the new stuff that is coming in I think that is tracking quite well actually, there is no real issues there. The bigger problem has been the existing business that we have has been going down in some case or the other because of changing priorities from our customers. And unfortunately I don't see that changing a whole lot in the next few quarters, I think that the pressure on some of the older companies which constitute a large percentage of our business is pretty high and that is really where the challenge is.

Let me let Ranga comment on the new stuff that's coming in and what the nature of these deals are and what is happening there.

Ranganath Puranik: Hi Sandeep, this is Ranga. So I just wanted to comment on the size of the deals. See what is happening is we cannot share the names of the customers and all that but at least about I would say five or six enterprise customers that have become more than a couple of million dollars each in terms of their revenue base for us in the last I would say one to two quarters and these were beginning small as Anand was mentioning that's how the entry point was. But now with a much broader set of offerings that we are taking to them both in the Digital space as well as connected offerings it is becoming much more of a very solid sealable conversation in terms of making this relationship much longer than the reason for which we had gone in the first place. I think I have shared this with the broader community last time but it is really becoming a more deliberate approach from us to really build a long-term large partnership with several of these new customers that we have been signing up.

Anand Deshpande: Actually another thing that maybe worth looking and we will try to see how do we get that data and see how to effectively share that, but if you look at the quality of customers in terms

of saying that how many our customers today are from the Enterprises which are large Enterprises or billion dollar companies or all of those kind of things. Those numbers are actually going up quite a bit and that's an important way of how things are, our market share with them still continues to be very small but we are inching into large accounts where there are traditionally other partners and we would have never had any say in that customer in the past. All of a sudden because of some of the Platforms and newer technologies we actually have an entry point into those accounts. So that is the situation as it is at the moment Sandeep.

Sandeep: Thanks Anand, thanks for that clarification. Hope this small size of deals and quick closures help us to ramp up growth, that is thing

Anand Deshpande: No, absolutely. Thank you very much. I think let me take a few questions from Twitter very quickly and then get back to you.

As a percentage how many of your clients are pre-internet and how many of them are the internet era?

Clearly almost I would say off the ISV customers we have more than 70% of the customers would be from the pre-internet era and these are all very large companies and we have large accounts with those things. So that is really what that is.

Regarding the CAPEX plan for FY16?

Let me have Rohit given an estimate on what that is.

Rohit Kamat: Yes. So normal operating CAPEX will be in the region of Rs.1,000 million that is 100 crores.

Anand Deshpande: And then let me have Mritunjay talk about the headcount addition for the year.

Mritunjay Singh: Thanks Anand, this is Mritunjay. The net headcount addition for this year we are planning is around 1000 people and out of which around 600 would be freshers.

Anand Deshpande: Alright. So those were the three questions we see on Twitter and we will interrupt in between and take Twitter questions so that you know since we said we will do that.

Moderator: Thank you sir. We have the next question from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

- Deepesh Mehta:** Sir just to understand this decline or drop in royalty income from one of our major client do we expect it to come back in Q1 of this year or we expect that weakness to persist for some time?
- Anand Deshpande:** Yes. Mritunjay you want to...?
- Mritunjay Singh:** Yes, as Anand was explaining this is a primarily an AMC kind of contract so we expect that to come back in next two quarters.
- Deepesh Mehta:** And second thing is Anand partly addressed it about pre-internet era 1993 kind of thing, 70% of customer, can you quantify in terms of revenue what they contribute to our revenue as a percentage of thing?
- Anand Deshpande:** I didn't mean customers but I meant 70% - 75% of our revenues from our Product Engineering side come from that area. I will try to find the exact numbers, if we are meeting tomorrow I will give that to you tomorrow but otherwise, I will get you the data.
- Deepesh Mehta:** Sure. In terms of how margin outlook considering the investment what we intent to make in sales and marketing as well as in technologies, do we expect to maintain our margin at FY15 level in coming years?
- Anand Deshpande:** Yes, absolutely. And I think a lot of this year also we had made these investment so the investments have gone up during the year and they have consistently been there. I think they are at a point where they will remain steady at that point. And basic numbers are tracking quite well, if you look at utilization at 74.7%. We see that rates have gone up, billing rates are all fine, there is definitely no immediate billing pressure in some sense because market is such that it is hard to hire in the US and especially in the Bay Area. So I do not expect billing pressures to be there beyond the normal as everyone wants to have a good deal beyond that, I don't expect a real pressure there.
- Deepesh Mehta:** And last question is about growth outlook kind of thing. Considering first few weeks what we observe in April, so what we see whether FY16 we can beat NASSCOM kind of numbers and Q1 would be the quarter of recovery of growth, so how one should read it?
- Anand Deshpande:** No, so actually the pipeline that DWA or what we call Deal Win Announcements and all the other things, they are all tracking very well actually. The challenge has been and this is really the problem we had last quarter as well that we are not able to anticipate very well when some of our large customers come back and say that they have decided to reprioritize their business and they would like to cut down certain team from whatever it is to half their team

or whatever else like that. So even though there are contractual things around 30 days and whatever else, trying to manage the dips that come in without adequate notice has really been the challenge in terms of how we have been able to run this. And what happens is that when you get this kind of a short window to say okay now in 30 days this particular project needs to slow down or we cannot pay any more and most of these customers usually what they do is they have a percentage of their earnings or percentage of their top-line which is pegged to engineering resources. And when the customer does not do very well then all of a sudden you get these kinds of reactions from them and we as such have very little control over in terms of how to manage that. And then when we have to reallocate these people to some other projects that's sort of when it becomes very hard to keep the thing going. So that has been the biggest challenge.

In terms of the new growth and all of that stuff that has been pretty good. Now what we are trying to do this year is that since the market is moving and moving well we want to see that can we increase the activity level on terms of new business to the point that these kind of shocks actually do not affect us too much, meaning we should be able to handle these, can we take a bigger hit than we have taken in the past, so that is really where the focus is and why we have added more sales people in the equation at the moment. But it would be hard for me to say like how much can we turn this around in this first quarter and what would it look like in the second quarter? But the intention is that there is enough happening in the market, let's move where we are moving and Ranga pointed that out as well as to say that we are trying to prioritize our teams on the sales side, you stay focused on what grows faster, that is the whole idea.

Moderator: Thank you. Our next question is from the line of Tanuja Garge from Wealth Managers. Please go ahead.

Mayur: Good morning sir, this is her colleague, Mayur, here. I had one broader question on the entire SMAC business. Will it be possible for you to stack up as to how the revenue contribution would be between the S,M,A & C and how the margins would be stacked up within that?

Anand Deshpande: Oh, that is very hard to do. And actually what is happening different is that when we started out we started out as SMAC as four different things, with this whole stuff around Enterprise Digital the whole intention of what we find is really happening is that all these four are coming together and it is kind of impossible to separate them out. So somebody who is trying to do Cloud, Cloud is now infrastructure so you move into the Cloud as infrastructure, everyone has everything in Cloud now and there is nothing that is not on Cloud anymore. So

trying to classify what is SMAC and is it Cloud it is not Cloud, it is not becoming very relevant. We have also built an interesting Platform around Big Data and Analytics called Share Insights and overall we are pushing Share Insights into pretty much every single Enterprise Digital Transformation deal because all of EDT is all about data and Analytics and various other things like that. So and again Mobility, everything is on mobile devices right now. So it is very difficult now and I think kind of futile to separate those out into four different parts suffice to say they are all coming in together and that is really where this whole Enterprise Digital is all about.

Mayur: So as a whole their contribution to the EBITDA will it be significantly higher than the traditional or will it be in line with the margins?

Anand Deshpande: So right now what we see is that whenever we are able to bill or effectively when people are on projects the rates or the utilization profits are lot better. The problem is at the moment is that we have gaps between in terms of how these things are getting consumed, right. So just to give you an understanding of this, when we are doing work with Salesforce projects or when we are doing project-based activity, while people are on projects the profitability and the revenue rates are extremely good, so there is no issue in terms of the margins at that time. However, between projects that cost is on us, so if that cost gets reduced than you will see better margin improvement. So that is really where it is at the moment, but we are staffing extra because we are seeing growth so the utilization on those projects is slightly lower than what it is on a traditional stable Product Engineering business.

Mayur: But is it not supposed to be sir kind of a necessity to move into this direction and how is it that, means is it that the customers are too big for us to us that we are not in a position to bargain that, the reason for they are able to come to us and say that we won't do reduce the utilization or cut the project cost, is it happening more on the traditional side or is it also on this side where the normal understanding is now that Digital Transformation is a kind of a must and a necessity. So I am just not able to understand that, if you could add on that.

Anand Deshpande: No, I think what is important and we can have this as an offline conversation further along is that a lot of the cuts that we are seeing in some sense are on the Product Engineering side and not on the Digital Transformation side, that's one point. Second thing is that when we look at Digital Transformation, right now there are projects and not long-term relationships and that is sort of where we are trying to convert these projects into saying that you do not have to end with one specific project but there is a stream of things like this that you would like to go on and that is sort of where the effort is at the moment. But when you are thinking of a project at a time then at the completion of the project then you have to sort of look at

what next and then there is a gap between projects. So that is really where the problem is. Anyways, let me move off this question and take next question and if you have further questions on this we can talk about this later.

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

Ravi Menon: Anand you had mentioned that you would be redirecting some of the sales efforts towards the growth area, so should we take this to mean that this will be an Enterprise Digital Transformation, that's the first question.

Anand Deshpande: Yes. So the growth area is for us are Platforms and Digital Transformation areas. Platforms is where our entry is into these kinds of growth areas and again we are seeing good traction around Salesforce and Appian are two main ones and then there are others as well and we are seeing some good growth in terms of what we are going after. An idea in the past could have been that we would have done a project for these Platform projects, right now we are trying to see how do we convert those Platform projects into a Platform relationship around Enterprise Digital Transformation. And if you are able to do that then our deal size actually per customer should go up and long-term we could stay in those accounts for a longer period so that will improve the annuity and how we see the effectiveness of sales. So that is really what the effort is and both of those are tracking really well in terms of how we should go make this change happen and that is really what we are excited about.

Ravi Menon: And follow-up to that, you said it is tracking really well I mean are you having, could you give some color on where you are seeing the most success, I mean which specific verticals or something like that?

Anand Deshpande: No. So again I do not want to be that picky on this one, we are seeing a good traction on some of the hospital and other solutions that we have built for Salesforce around patient and healthcare related areas. We are seeing some activity in the retail and also in the Banking and Finance area. But it is very early for me to say that that is really the hottest area. Right now most of our solutions are very general and they can go into any particular area, we are looking at customer traction, and we are looking at employee engagement kinds of solutions. So they are fairly generic and can go across all areas. Ranga has something, he wants to add on that.

Ranganath Puranik: Yes, just one point to add I think to this and maybe a couple of other questions in the past. The three specific growth areas from a sales standpoint for all of you to know is, one is

Enterprise Selling, I think Anand covered it quite well. Second is Platform Scale Building, what we have decided is we have picked up a few of the customers that we had signed over the last couple of years for Scale Building. And then third one is the Named Accounts. So what we have done is we have picked up some accounts that are prime for significant growth beyond where we are right now. So the idea of really focusing on these three initiatives to really help build significant scale in the future is one of the ideas.

Ravi Menon: Great. I hope you do not mind me asking me one more follow-up to this, for the Named Accounts that you said and where you have some success could I assume that this is not just for the ISVs but yes, majority of it is outside ISVs?

Anand Deshpande: No, not majority, some of them are Enterprise. So let me leave it at that.

Moderator: Thank you. Our next question is from the line of Viju George from JP Morgan.

Viju George: Just a couple of things Anand, you mentioned that existing business has turned a little bit more volatile and some of your larger legacy clients are changing their technology programs, why do you think the volatility has increased and is there anything in the environment that should cause it to be more volatile than before?

Anand Deshpande: See again, this is something we have mentioned in the past. See what happens right now is that if you look at the world into three parts – born in the Cloud companies, those beyond after 2007, then the ones between which are the internet companies between say 1993 and 2007 and then there are which are pre-internet companies those born before 1993. If you look at it there is an order of magnitude improvement in performance of teams as such, if you look at “Born in the Cloud” companies the number of people that are required for doing the same project are significantly lower than internet companies which are significantly lower than pre-internet companies. So overall there is an order of magnitude efficiency when you move towards newer and newer companies, they tend to use fewer people and get done things much faster. So the larger companies are under pressure because both sides they have large amounts of people in their businesses and their productivity levels as compared to the really fast moving companies is lower. And the second thing is that, because of newer technology such as Cloud and Analytics and all, you just really do not need as many people to do the same work. So essentially all of the large companies are under pressure and I do not want to name specifically but you track all the same companies that you know we work with and if you look at all the large ISVs that you look in the US market and look at their financial numbers and the challenges that they have, that should give you a clear indication of what is happening in the market.

- Viju George:** And you think this volatility is likely to continue through some part of FY16 as well?
- Anand Deshpande:** Yes, absolutely. And see again I don't want to see that as an necessarily negative thing because what happens is some of these companies are very large, they are not going to go away and go out of the business, they already have new things that are coming in and they will remove or reprioritize their product portfolio that causes some of their older products to become available for some of these end-of-life deals that we have with them. So we have an opportunity there. There are some other projects where they will have different ways of how they might look at end-of-life products. So the opportunity level even in these customers is pretty high, it is just that the volatility across the customers is equally high.
- Viju George:** Sure. And I had one more question if I may on your EDT practice, what is the sweet spot of the deal size here, is it typically \$0.5 million?
- Anand Deshpande:** Yes.
- Viju George:** Yes, okay.
- Anand Deshpande:** Yes. So it starts at about \$0.25 million and increases to about \$0.50 million. But looking at the kind of investments happening in this area, it can become \$0.25 million in a quarter and easily a \$1 million deal on an ongoing basis. Again, there needs to be, it is a little bit first time around people start with saying, Okay, show me one particular case that can deliver me results and then you keep building on that.
- Viju George:** Sure. And when you track this percentage of revenues from EDT, is a larger percentage sourced with the partners or is a larger percentage now thanks to your direct selling efforts?
- Anand Deshpande:** No, no most of it is through partners.
- Moderator:** Our next question is from the line of Shashi Bhushan from Prabhudas Lilladhar. Please go ahead.
- Shashi Bhushan:** Sir on Cloud side there are many Platform providers and Product and Application providers as well. Given our size, our partnership and competency as a preferred vendor of service provider would we have selected few, do you think there is a risk of obsolesce or chances of getting on a wrong or a losing partner? And if yes, how are we planning to mitigate that risk?
- Anand Deshpande:** So I think it is a good question, but here is how we are looking at it. So being a fringe partner in a large relationship is not terribly exciting in some sense because you get lost in the din

and there is a lot of activity. But overall Cloud and some of the technologies that we have been betting, we have a good sense on what might work out in the future and which at least technology areas are going to happen. So despite that there is a possibility that we could bet on the wrong horse, we could pick up Product company to partner with that does not really become as successful as somebody else. So that risk we always run. But, I feel pretty good about our ability to make technology centric calls lot better than we could make on say partner centric call. So I think irrespective of the partner not doing well, the technology will do well and if we have to move people around should not be that difficult. But it is always a tough one to pick who is going to be the successful winner in this market and there is a small risk that we run in that. But we are trying to make sure that we operate at an executive level and we do get good access to the deal so that we are a preferred partner in those customers rather than just being a fringe player in those. Ranga you want to add to it?

Ranganath Puranik: Yes. So just one thing I wanted to add was, while Anand said the Enterprise Digital deals are sourced from vendors, just wanted to clarify that that's the beginning part of it. But there have been a lot of independent conversations with these customers on a going forward basis, so the multiple deals that I talked about are Persistent's conversation. So the entry point is sourced but the conversations beyond that are our own in several cases.

Viju George: So just one follow-up sir, how fungible is our resources on this multiple Platform and it may not quantify it exactly but how much additional cost that we need to incur in order to train our stops from one Platform to another Platform?

Anand Deshpande: It is hard to quantify that, sure. Mritunjay you want to add something to it?

Mritunjay Singh: Yes, quantification is difficult but as you can visualize right, there are a lot of things changing so we are continuously investing around 6% to 8% our capacity in retraining of the people and we have built an infrastructure to retrain people, so it is all mobile-enabled infrastructure where people can get trained anywhere. So there is a different number in terms of cost that we have not calculated but around 6% to 8% capacity is always invested in retraining of the staff.

Anand Deshpande: And there is one question on Twitter that we will take here from Chirag. So that says that how do you plan to convert one of EDT deals to more long-term deals, can you elaborate on that?

No, so absolutely the question, see here is what is happening. Enterprise Digital is not just a project anymore, it has become mainstream. We see this everywhere. I don't know if you

track but on Wall Street Journal for example every week there is some company trying to declare themselves as being Digital company, most recently there was an article by the CEO of Domino's Pizza who said that he is not a pizza company but a technology company, and we see this trend very regularly. So what we find is that many of our customers are thinking like that and we have been able to demonstrate to them how Enterprise Digital Transformation is an ongoing process and how that can help companies completely transform their business. And we have enough showcase examples to demonstrate that and we have built enough IT to get into our customer and demonstrate this in a very short cycle. So that is really what is happening, you will see the results should be there, I am pretty confident this quarter than I have ever been in the past, I think I see the pipeline every day and it is looking actually very good.

Moderator: Thank you sir. Our next question is from the line of Nandesh Dalal from IIFL. Please go ahead.

Nandesh Dalal: My question actually is around your top client. It has seen a very muted growth FY15 and that is pretty much because of the PES and IP business which you elaborated. What is the outlook going into FY16, do you see the softness continuing, or has it bottomed out in your top client?

Anand Deshpande: I don't know the answer to that question per se but the results do not look terribly good at the moment. So we will see how that comes out. There have been major changes and there is a new plan in place at the customer and I don't want to speculate about them, let me leave it at that but you can track them.

Nandesh Dalal: Okay. And just one more question actually, if you see the attrition has been in reasonable levels but gradually inching up and if you hear from the other peers in this industry, Digital is a hot sector where attrition is happening. Do you see attrition picking up and what are the steps you would take as Digital is quite a theme currently?

Mritunjay Singh: Attrition is going up definitely but if you look at our attrition we are not losing a lot of experienced people, a lot of our attrition is actually people who are trying to go for higher studies or people changing jobs at a lower level. So attrition is in control and considering the kind of hi-tech work we are doing our attrition at the level that we are at is actually pretty good because we are a good target in terms of talent in the industry. So we are very confident about managing the attrition right now.

Anand Deshpande: And also we are getting good laterals also because we do have a fairly nice story in terms of what we are trying to do, our training course also we have upgraded it very significantly around what we call Full Stack Programming and there is a pretty elaborate understanding of what is happening in the technology area. So some of the stuff that we are doing at the moment is quite cool and it is a fairly attractive place to be at the moment.

Moderator: Thank you. We have the last question from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: I had a question on the strategy that was mentioned in the opening remarks about “Fewer, Bigger, Bolder” by Ranga. So if you could just elaborate a little bit more on reducing the investment in these lower growth areas. So today would you have identified which are the areas which are probably where you would want to back off in terms of investments and how would they be for Persistent as of now?

Anand Deshpande: Yes, let Ranga comment first and then I will add in if there is something.... Go ahead Ranga.

Ranganath Puranik: So Ashish I think the idea is exactly what you said which is basically reduce our investment in areas which are slow growth and I don't know whether we can share all the decisions we have made with respect to how we want to reprioritize, but basically the idea is increase our focus on the accounts that are going to be much bigger for us and then build significant numbers in our Platforms Scale Building part of the business. And then Enterprise Digital which means Enterprise Selling, we are going to really convert that into a major initiative in the company. So that's where this idea comes up because we have been doing several things over the last few years, so the idea this time is just pick the ones that will give us a much better Return on Investment both on the sales and the technical side.

Anand Deshpande: On that one I would like to add couple of points on this one. So there is actually a very beautiful book by Mohanbir Sawhney with this title called “Fewer, Bigger, and Bolder” and he had come to us and we've been working with him as well. And his point of view was that sometimes companies can get distracted because they are chasing too many things at the same time. And the whole point is that fix a few things that are big bets and focus on them and do more on those fewer things rather than trying to do many of the things. So what we have been trying to look at on the sales side is that taking all the sales people that we have and trying to make sure that they are spending more and more time and more and more of the executives are spending time on projects and companies where the growth is happening and aligning them to that rather than necessarily those which are flat or maybe declining. So some declining revenues we may give them less attention than we would have done in the

past because the way things happen. So this is really what we are trying out and that should see some effect hopefully.

Ashish Chopra:

Okay. So if my understanding is correct then this is more on the basis of account specific rather than any specific area of work which you think may not be scalable in the due course of time?

Anand Deshpande:

No, in terms of area of course we have growth going on the Platform side, that's clearly the number one area where we are going to focus on and the second area is of course around the Digital Transformation story. So those are the two areas where most of the focus is in terms of where we think growth is going to happen in the next year. And important thing on the Enterprise Digital Transformation story is that traditionally we have had zero reasons to be in an Enterprise, we have been in the last six months we have owned several accounts where we have won against some of the larger companies who were traditionally Enterprise players. Because all of a sudden companies see that we have something interesting to offer to them, and the whole Platform has helped us into getting into an entry into Enterprise. So moving forward we think Product Development is no more required and done by only product companies, but Enterprises are also doing Product Development. And as Enterprises look at Product Development which they are going to do for Digital Transformational Projects, we are the vendor of choice and partner of choice and we have created enough marketing and other literature to ensure that when we get into a meeting like that we have enough to say and we have demonstrations of technology, IP and solutions that we can walk into customers with real solutions in this area. So that is really where things have been moving and we are seeing good traction on that side, again finally the proof is in the revenue numbers and the growth numbers that we deliver and we are fully aware of that. But this is where it is and I thought we would share with you at least what is going on and hope that we do not have as much dip this quarter and then we will have a good quarter next year.

Just let me pause here, I think we are at the end of the questions and almost at the bottom of the hour as well. So we will stop here. Let me thank all of you for being on this call and of course if you have any further questions you can send them on Twitter, we will monitor our results on Twitter this week and see if there is anything more that we need to respond to, we will and you can of course send us email. So thank you for being on this call.

Moderator:

Thank you very much members of the management. Ladies and Gentlemen, on behalf of Persistent Systems that concludes this conference call. Thank you for joining us. You may now disconnect your lines.