Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q4 FY16 Results

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MODERATORS

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Chairman & Managing Director

Mr. Mritunjay Singh
Executive Director & President - Services

Mr. Sudhir Kulkarni
President - Digital

Mr. Atul Khadilkar
President – Corporate Operations

Mr. Sunil Sapre
Chief Financial Officer

Mr. Amit Atre
Company Secretary

Mr. Mukesh Agarwal
Chief Planning Officer

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Moderator: Ladies and Gentlemen, good day and welcome to the Persistent Systems' Earnings Conference Call for the Fourth Quarter and Year ended March 31, 2016. As a reminder, all participant lines will be in the 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 '*' then '0' on your Touchtone phone. Please note that this conference is being recorded.

We have with us today on the call Dr. Anand Deshpande – Chairman and Managing Director, Persistent Systems. We also have with him Mr. Sudhir Kulkarni – President, Digital joining us from the US. Mr. Mritunjay Singh – Executive Director and President, Services. Mr. Atul Khadilkar – President, Corporate Operations, Mr. Sunil Sapre – Chief Financial Officer, Mr. Mukesh Agarwal – 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.

Anand Deshpande: We had a call on the 21st March where we shared the news around IBM IoT Alliance that we had set up and this is the second call in that context and the annual and quarterly call.

Before I start I wanted to take a moment to remember our colleague Mike Kerr who passed away kind of coincidentally at the same time that we were having the call last time. So, I just wanted to take a moment to remember him.

In terms of our annual and Q4 performance annual USD Revenue grew by 14% to USD351.65 million. In Rupee terms the revenue grew by 22.3% to INR 23,123 million. The Profit after Tax grew by 2.3% to INR 2,973 million and on a quarterly basis the USD revenue grew by 12% QoQ and 25.5% YoY to USD100.43 million. So this is our first quarter where we had a USD 100 million quarter and incidentally this was our hundredth quarter as well.

So we completed 25 years of operation effectively in this quarter and it was really a nice coincidence to have USD100 million in a quarter in our hundredth quarter. In Indian rupee revenue grew by 14.4% QoQ or 36.1% YoY to INR. 6,771 million. And Profit after Tax grew 4.3% QoQ or 6.3% YoY to INR. 808 million for the quarter. This has been a really busy quarter for us so we announced the IBM IoT business alliance. We also shared a small deal in the context of an MDM product which is the Master Data Management product with IBM.

We completed the acquisition of the Citrix Cloud Platform which was completed on the 28 February, so there was one month of that in this quarter. Now two very small acquihire deals that we did, one was with PRM which is the Sales force team that we picked through an asset acquisition in Australia. This quarter we announced the acquisition of another small team from Gen Y which is in the user experience side in the context of the Enterprise Digital Transformation story that we have.

We had a reorg in the company where we reorganized the business to align to the directions in which we are going. So we have four P&L oriented business units. One of them is the services business, the second one is digital business. The executives who lead that, Munjay or Mritunjay Singh and Sudhir Kulkarni are on this call. In addition to that we have the Accelerite business side you are all very familiar with and the IBM alliance that we have put together. Atul Khadilkar now runs all of the corporate operations and he is supporting these four business units. So that is the reorg that we have done with effect from 1st of April.

Now, I am going to hand it over to Sudhir Kulkarni and then follow that up with Sunil Sapre and then I am going to give you an overview of what our strategy is and how the pieces that we have acquired align with each other and how they are all aligned towards our digital strategy and then after some remarks that might pre-empt some questions, we will open it out to the floor for Q&A. Let me now hand this to my colleague Sudhir Kulkarni to share what he sees from the US side for us.

Sudhir Kulkarni: Thank you very much Anand. A great pleasure to be with all of you and I see the market for Persistent Service Solutions and products based on the traction that I saw from the last quarter as extremely good. Both in the enterprise segment as well as the ISV segment there are some very good conversations around digital transformation and I think our approach of digital transformation not being IT modernization has been very well received. In the quarter that went by we signed some really large multiyear multimillion dollar deals which were also referenced by Anand in his press release and these longer term large contracts have kind of been the major focus during this quarter.

So, even as the enterprise business grew slowly we see that this revenue is going to come in the future quarters for us and these are expected to grow. So, we had I think about a 131 customers roughly half or maybe about 74 of them came through the acquisitions that we did, but the others portray a pretty good strong sort of traction for the services that we have been offering. So overall, I see a very good traction in the market. There has also been some volatility in some of our pre-internet pre-cloud customers.

However, we are doing a bunch of things to overcome this even with the customers that we have and with the new structure of the organization I think there will be some focus in trying to grow and mine some of those accounts for the new age transformational work that they are embarked on. So, that is largely the summary from my side. I am going to hand it back to Anand and I am open to questions as they come**.**

Anand Deshpande: Let me now request Sunil Sapre to give you an overview on the financial details of the quarter.

Sunil Sapre: While Anand has shared business updates, I would like to share some information on the margin movement the CAPEX and liquidity position as on 31 March. So, the revenue for the quarter was INR. 100.43 million, 12% up on QoQ basis and 25.5% on YoY basis. Full year revenue growth in dollar terms was 14%. Services revenue grew 0.7% and IP led revenues grew 57.1% during the quarter with a major share from the IBM IoT alliance. The revenue in INR terms was INR. 6,771 million with a growth of 14.4% QoQ and 36.1% YoY. Revenue for full year was INR. 23,123 million with a growth of 22.3% in INR terms.

The growth of services revenue was driven by 0.4% increase in volume and 0.3% by increase in average blended billing rates. The offshore services revenue grew by 1.9% QoQ driven by growth in billing rate of 1.4% and volume growth of 0.5%. The onsite services revenue showed a dip of 1.3% QoQ which was due to decline in volume growth of 0.3% and dip of 1% in the average onsite billing rate.

Now let me explain the margin movements. The EBITDA margin was 15.9% for the quarter as compared to 18.8% for the preceding quarter. Of this decline of 290 basis points in the EBITDA margin, 220 basis points were on account of IBM IoT alliance and this includes 50 basis points of onetime non-recurring costs. The other 70 basis points decline in EBITDA margin is due to normal operational reasons such as cost of newly recruited trainees, higher onsite costs and consulting fees.

The blended utilization was 75.2%, higher than the last quarter which was 74.5% and EBITDA margin for the full year was 18% as against 20.6% in FY15. The depreciation and amortization was at 3.7% of revenue as compared to 4.1%. The treasury income was INR. 246 million while there was a small exchange loss for the quarter in comparison to gain in the previous quarter mainly due to the MTM loss on the hedges.

The PBT was INR. 1,028 million, recording a marginal growth of 0.3% in QoQ and PBT for the full year was 17.1% as compared to 20.6% in FY15. As regards to ETR for the quarter the ETR came lower at 21.4% due to write up of bad debts which were provided earlier and get adjusted from taxable profit so they do not have any impact on the P&L. Increase in the profit of subsidiaries abroad with a lower effective tax rate and higher proportion of revenue from SEZ units in India. The PAT for the quarter was. INR. 808 million, at 11.9% of revenue and for the full year it was INR. 2,974 million at 12.9% of revenue as against 15.4% in FY15.

Coming to CAPEX, the CAPEX for the quarter was INR. 99 million and the cash and investments amounted to INR. 8,478 million as on 31 March as compared to INR. 8,833 million as on 31 December. The reduction mainly attributable to the second interim dividend that we paid in March and the advance tax payment. The value of forward contracts outstanding at the quarter end was INR. 104 million with an average forward cover rate of 69.74 per dollar. That is all, thank you all, and I l hand it back to Anand.

Anand Deshpande: Thanks Sunil for sharing the financial highlights and the details. Before we get to Q&A I thought it may be useful if I sort of set the context of what we have been doing and how some of the IBM projects and other things that we are working on align with each other very well. So as we have shared with this Group for the last few years, we have seen challenges on our traditional business partly because of changes in technology such as cloud and the fact that you can build software with far fewer people than you used to have. We have seen headwinds on our existing customers on an ongoing basis that has created volatility for the last several quarters. Knowing that well in advance we have sort of charted out a strategy that allows us to focus on transformation and Next Generation Revenues.

And in that context, we have been focusing on what we refer to as continuous transformation by design and we have been focusing on the "how" of digital transformation as part of that. Clearly as part of digital transformation the three things that we think are kind of relevant from the technology point of view our continuous engineering data and integration, machine learning and automation, and we have been making investments in these areas along the way and we are seeing pretty good traction from our customers in terms of our strategy and how we are going to them and many of the enterprise accounts or the other things that we are doing kind of align with that.

The Internet of Things is one other very significant way of how transformation is happening especially in the industry poured out over the next generation of industry, industrial electronics and industrial things related businesses and IBM which has been a long term customer is a customer of Persistent**.** We felt this was an opportunity for us to work together in building out a set of platform around and invest together on building this whole continuous engineering portfolio together with IBM. So that sort of what we did and we combined our resources to put it all together and we have really transformed our business to focus on this in a big way.

The implication of this and this is something that we have been working on the last few years and we have shared this with you all in a while, is the fact that we believe that a traditional outsource offshore revenue per person per hour kind of business is going to continue to be under pressure and we need to find different ways to go to customers. We believe that the alliance that we have with IBM actually presents us a great opportunity to be a global partner for our customers or IBM's customers as well where we are providing this digital transformation story using continuous engineering products and also transforming the business in the whole IoT extended Watson and all of these areas that kind of align very beautifully together.

The products that we have acquired are the future in terms of where they are going. IoT is rated as one of the most important revolutions that is expected to happen for transformation and it is the products that we are working on are key to the next generation of 'software defined things' and businesses that are going to deploy 'software defined things'. So, really we are very excited about the opportunity and the prospect of where we are going. Many of these product companies that we have acquired also fit in very well in this and the organization structure that we defined where we brought all the digital stuff together and the fact that we have all the IBM stuff or the projects that we are doing together really helps us in focusing on specific activities for each of the businesses making it far more efficient and scalable and helping us on the growth trajectory for all of those businesses. So, I am really excited about where we are at this time and quite optimistic about the future in terms of what we should see for the next financial year.

Let me put some light on the numbers that you might see. As we had mentioned in the previous call that we had on March 21st we expect and again we cannot predict this exactly but we expect that the revenue share and other components that we have in this arrangement will provide us about 15% growth as compared to the last year's number. So, roughly USD 352 million that we did, 15% more will happen in the next twelve months because of this particular alliance that we have set up with IBM as for the license revenues and there are opportunities for us to do “sell-with” partnerships that could increase that. In addition to that, of course the rest of the business needs to do what is appropriate for that particular business and keep going on. This revenue will be classified as IP revenue and it will come in with some seasonality which is aligned to IBM’s seasonality of their revenues for these kinds of products. So, you will not see a uniform distribution of revenue across the four quarters on the products that we have picked up and they will follow the seasonality that we have seen with the IBM product.

The costs of course are kind of uniform and will be across all quarters so that is the reason why you will see volatility on the profit margins across the year. We had said that you will see a 2% dip in our profit margin just because of the IoT alliance but we believe that by looking at this quarter I think I am pretty optimistic that we have enough levers to help improve that and not really have the 2% but it is really hard to say this at this stage but I think I feel pretty confident about where we are at this time.

A couple of other related comments on that would be that now we have other levers on the existing business including utilization, possibly reducing certain businesses that we are doing on the services side which are not very profitable by shutting them down or really getting out of that business. Since we have a revenue cushion we have proposed to do some of that clean up during the next few quarters. So you might see some adjustment on that but overall we are fully aware of the importance of increasing the profitability of the company and we think over the next six to eight quarters we should be back to a fairly profitable situation and better margins than we have had in the past.

One important thing that I would like to note and mention is that one of the objectives of what we are doing and we have said this for the last couple of years is to change the revenue mix of where we are going. So, instead of having a situation where we are measured and tracked on the onsite-offshore and the measured on utilization as we go into the next generation of digital transformation projects and many of the things we are doing on the IBM IoT Alliance will not be traditional T&M dollar per hour business but will have very different metrics for measurement and for billing which should give us better leverage in improving our margins. So, I believe that that will help us significantly.

We have the usual suspects in terms of what will come in as far as margin pressures during the year such as pay hikes and visa cost and all of those things but I think we can factor all of those in as we look at our profit margins for the year. So, my recommendation is to not necessarily look at every quarter as an independent quarter but look at the quarters as a collection of different quarters and string them together and you will see certain variability between various components that will get played along as you go along.

So, that is really where I wanted to sort of share this high level overview of where we are and what is going on. So we have about 40 minutes now for Q&A and then if people have further questions that we are not able to address, today I am sure you could write to Anukool Modak and we will be happy to answer them. We are also watching questions on Twitter, so if you find that it is hard to get on the bridge for some reason or we miss your questions, feel free to tweet it and we are tracking that and we will be happy to do that. I think the Hashtag you should use is *#PersistentResults*.

With this let me now hand it back to Margaret who will then start to coordinate the questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi: Anand, I have two questions. The first one is on the comment about 15% incremental contribution from the IBM Watson deal in FY17. I want to get your thoughts on how should we read this comment because 15% arithmetically will translates to say USD53 million and you have commented that this deal was somewhere close to USD50 million last year. That is not a big growth. So could you give us some more clarity into what are the growth prospects, how should we read this comment and what is the medium term outlook for this business?

Anand Deshpande: I did not quite follow the point. What we are saying here is that in the next financial year we think that this one deal will contribute about USD50 million plus in terms of license revenues and revenue share arrangements that can be done in the context of the next twelve months.

Sandeep Muthangi: Right, my question was I believe you also made a comment earlier saying that this business was USD50 million last year anyway, so I am just trying to get the growth number.

Anand Deshpande: No, this was not there for us last year. I do not know where that last year's USD 50 million comes in. The point here is that last financial year we did USD 352 million. We think that if you do 15% of that, that is about USD 53 million. So, during the 12-month period we think we will be in the USD 53 million range for this particular product.

Sandeep Muthangi: Alright, okay nothing else, got lost in translation a bit, I will ask it after the call. On the margin comment you are saying that the margin impact of this deal is 2% incremental for next year. So how should we look at the overall margins for next year is it that 2% dip is the worst case and you have operating levers to offset that a bit, or will you actually have a 2% impact despite all the operating levers for FY17?

Anand Deshpande: So the first one, so we think that the worst case when you look at it over a period of time in the next four quarters, we should be able to ensure that the worst case is now less than 2%. However, we do have levers across that can help us improve that. The challenge though is that, it is hard to say what it will be in Q1, Q2, Q3, Q4 individually because there are many other factors that are going to play in and the revenue numbers are not linear. But when we look at the total expenses that we have for that we know we are going to spend on this in terms of what we have committed and what the revenues that we expect. The gap is roughly 2% of our margins. So, you can calculate what that is.

Moderator: Thank you. Next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Anand, I have two questions for you. One, you talked about how over the next six to eight quarters you will try to go back to a higher profitability than you have right now. Earlier you have been usually saying that you will prioritize revenue growth over margins because this is a fast growing area and there are advantages to be early in the space and some of your digital peers that you compare yourself to like Globant also operate at low margins. So is there a change in that thinking? One and secondly if you could just talk a bit more about what those levers are which could improve your margins?

Anand Deshpande: No, so there is no change in the thinking that we have had in the past. See now okay here is the point, we did this particular agreement and an arrangement when we did this with IBM with an intention that this is a long term arrangement we have a long term plan for revenues and for expenses. So if you look at just this deal in isolation over a longer period of time, like three to five years' time, it has a potential to be more profitable than our current businesses and that is all that I am trying to say here.

But if you look at the way the costs are going to come in and they are front loaded because lot of the work that we need to do and working together to go sell their services to the customers that we expect to have in this is not going to happen for the first two quarters where we are trying to learn about the product and build the teams that are necessary to go and be the partner that we need to be in this market. So that is the reason why you see a curve which goes down on the profit margin for the first two quarters rather sharply catches up with the next two quarters and during the first year we think we will be about 2% minus and as you go along this should get to be positive.

Now pretty much I am sharing a fairly detailed view without really giving numbers. But if you are tracking you know how to put those numbers in there. But in terms of the levers, right so traditionally when we have talked to customers about or talked to you all about levers of improving profitability or profit margins they have been factored on three or four parameters that everyone talks about. One of them is rates that mean dollars per hour that you are charging for people. Second has been onsite-offshore mix and third has been utilization.

We believe that having done what we have done in the last year the way we have changed the business model and the way we are moving forward, we do not believe that these are the only three levers that we should be looking at or you should be looking at us. Do not focus on only these three levers. The biggest opportunity for us is by changing the mix of customers and the offering that we are selling. So we are not selling anymore for the CE business or this IoT business or digital transformation business a dollar per hour offshore India rate.

And if you look at our website, we have gotten rid of this whole onsite-offshore outsourcing and also offshoring and everything else from our website. We are trying to present ourselves like a global company and if you look at our chart this quarter, we have removed onsite offshore from it. We removed offshore onsite because those things do not make any sense anymore and we want to be seen as a global company.

We want to compete with the Globants and the EPAMs or whoever else is in the world market and not just be competing with the India outsource offshore companies. So that is really a change that we are making and to us that is an important change in terms of how we will start measuring ourselves in the future. The odd structures that we have changed are mainly to allow us to do that competition and be very relevant in the context of providing end-to-end solutions to our customers and that is really what it is. So it is not really a change in terms of where I am hoping that is drastically different from what we have done in the past. It is just that there is a point that you get when your threshold changes in a particular way. If you look at our IP revenue, it has gone over 25% now.

The IBM business that has gone over 25%. So there are certain things where we have crossed thresholds in this quarter that makes it sort of where we can go confidently and say that we are now a global partner focused on transformation by design and that is really where the website and everything else is starting to position ourselves. We have decided and we have talked about this in the past that we know there are parts of our business which have challenges. The only way to deal with that and to not have an impact is that if the challenging part of the business is contained to a smaller percentage of the business, then to that effect it adds the least amount of variability to our total business. That is something we have been trying to do for a while and this agreement or this alliance allows us to really get that step in one good nice step function.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financials. Please go ahead.

Abhishek Kumar: Just like to probe a little bit more on the margins. We saw 220 basis points impact of this IBM deal for the fourth quarter. So should we take it as the bottom margin going forward and margin should start to improve or the incremental impact could essentially only be the full quarter integration of the IBM deal?

Anand Deshpande: See it is like this okay. We are operating on certain assumptions at this moment so I am not in a position to say exactly what will happen but few things I can refer to you. This was the first quarter of the calendar year from the IBM sales point of view which is usually not the best quarter. We have seen that from our numbers from TNPM and from the other projects that we work with IBM. We do not have this in writing from them, but now having looked at their trends on what they sell, Q1 typically it tends to be their softest quarter is what we have observed, okay. I do not have evidence but this is an observation.

And we believe that considering what we have seen from past data we think that what we have in this quarter is like that. So if you said that we have constant costs and this is the lowest of the revenues clearly this is the worst case. But you never know, so that is why I do not want to go out and really make any claims here. But I am sharing with you what I know and at this moment what your observation is quite right. That said, there are other things that are going to happen in the rest of the business which also has some seasonality right meaning Q1, Q2 have different kinds of things that will factor into the cost and to some extent how well we do on the revenues will constitute what the total margins are going to be like.

And trust me if we are able to change our product mix and what we sell in the market that is the fastest way for us to improve our margins. These deals that we have done are ways for us to shift from our box of offshore outsource services all of that stuff to being something that is more global and more engaged with customers.

Abhishek Kumar: Anand, you also mentioned in your opening remarks that there are certain part of the business that you are planning to shed, if you could just elaborate a little bit more on what these businesses are, are these in ISVs or they are certain part of the IP business as well?

Anand Deshpande: No, it is not like we are shedding some customers or any of those things. It is not of that kind. See what happens is that when you have a running business and you are sort of on a quarter-on-quarter pressure, you think that we have some business which is potentially onsite where the profit margins are not as good as they should be and we have had limited negotiating power in the past because we wanted to make sure that the revenues do not drop.

Today sitting on some known revenue that we are going to get on our top line, we think we can be aggressive about pricing, we can force the prices to happen and if we find we do not get the price we need to get, we are in a position to walk out because we are willing to risk some businesses that are not profitable to go away. We have this comfort because we have top line cushion to some extent. We propose to use that in the next three quarters.

Abhishek Kumar: I have one last question, Anand. I think while we appreciate the intent to shift the business mix now currently if you look at the business mix more than 50% is constituted by enterprise and IP which are essentially if my understanding is right project driven businesses. So can we expect, in the interim while the business mix shift is happening, increased volatility in the quarterly performance before we actually stabilize?

Anand Deshpande: No, actually two different things. One is that the IP business is certainly not project centric and even the whole of enterprise business is not project centric. It is a long term relationship and there are maintenance revenues. It is just that they have seasonality in the sense that our subscription renewals are not tagged to they are not distributed evenly over 365 days a lot of them happen on quarter boundaries. So, there is a seasonality in these kinds of deals. The fact that we are distributing our revenues across various parts has made it possible for us to potentially reduce the volatility.

The point I am trying to make is okay what is our option, if we had done nothing about doing any of these new things we would have stayed completely focused in a box which we know is eroding because of certain challenges that the customers that we are working with have, okay. They are all good companies but if you look around and look at their revenue numbers from the last few quarters moving forward, there is a transition in that market and what I am trying to tell you is that we had anticipated this and because we anticipated this we have been able to create different kinds of business lines which allow us to change the revenue mix significantly. We have been able to contain the riskier business to small part of our overall business.

So whatever volatility is there, it is contained in a smaller piece rather than affecting us across the things. So four quarters back, six quarters back, I would have come to you in the past in these meetings and said sorry one particular customer did not do well so my numbers went down. So how do I avoid that? I still do not think that this problem is going to go away. Many of the volatilities that we have seen will continue in the market and I think this is going to spread. Many companies that are today doing business in whichever way are going to be under pressure because it just takes less effort to do the same work.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Mutual Fund. Please go ahead.

Shashi Bhushan: When we go for this IP led acqui-hire kind of deal, do we have some IRR or ROIC threshold for this deal or you know we are just looking for technology or clientele is the only limiting criteria, if possible you know if you can quantify some of this?

Anand Deshpande: No, we do have IRR criteria and trying to make sure that we are modelling the risks and what it would take and also trying to factor in what the upsides may be. I do not think that I will be in a position to give you exact numbers on this call. But surely Sunil and Anukool can work with you and give you more details on this particular thing. If some other people want to know it as well we can share that with you. But at this moment, one I am not prepared to answer this question and I do not have that with me at this time.

Shashi Bhushan: And we have acquired multiple IPs over the last three, four years that gave Persistent good access to enterprise client and along with some strong client wins over the last few quarters. So do you think the number of clients or mix of the client that we have stated in our earlier remarks is good enough to drive sustained strong growth in enterprise?

Anand Deshpande: Yeah, the answer is absolutely, yes. But you should remember two things that we have built out over the last few years which are worthwhile and worth pointing out. One is we now have an engine that can acquire small acquisitions are doable. We now understand how to do acqui-hire small deals here and there. So these are all usually you know pretty we have now figured how to do it, how to negotiate them, how to get them integrated and all that which I think is a great it is a great skill to have and that is going to help us in the long term.

The second thing is, do we have the right customer mix? Of course, we have the right customers who have a lot of potential. But, we are trying to focus ourselves on the next generation of transformation spend and we now have an engine that helps us get more customers as well. So, we are not short of choices. Our problem is to make the right choices at this moment, okay there are just too many options and too many things we could be doing. I think being focused and picking those right things to focus on is really the key that we have to focus on. I am going to be short on the next few answers I see the list of questions or people asking questions, is pretty large now. So, I am going to be really brief in answers from here on please.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I just wanted to understand how will the visa cost likely to play out next quarter, is it likely to be higher than same time last year and any color on wage increases as well?

Anand Deshpande: So again, the visa cost would be in line with what we had last year. Again what we have done in this year is that we have been some of the way these some of the arrangements we have had essentially allowed us to get a large number of people in different geographies and our geography spread has spread differently. So I think we are sort of moving away from being completely dependent on sending people from India. So that is one change that you will see and the visa cost will be in line with what we had last year. In terms of wage hikes, I am going to say nothing at all today because everybody is listening to this call including our employees. So I do not want to make any comment on that wage hike question at this moment. We are going to watch and we will do what is right. We want to pay our employees well and there is nothing more I want to say on this at this moment.

Nitin Padmanabhan: Just one more if I may. If I look at the past couple of years historically we have had the year-on-year improvements in realizations both onsite and offshore possibly because we have propelled our revenues from the new areas have been quite high. But of late I think in the past two years it sort of decelerated, we have really not seen realization increases both onsite and offshore. Any color there what is happening and why that is the case?

Anand Deshpande: Right, so okay there is one okay let me sort of share with you what the reason on that onsite realization challenge that we have. There are two sets of things. One is around acquisition that we had done with RGen which was partly done to ensure that our positioning in the Microsoft eco-system was at the right place. They have a lot of business today which is at low margins and that affects some of the margins in terms of where we are. Once we get past the threshold so that we can get the right level of I guess service contracts or partnership contracts, then we may be able to bring that down. And some of that onsite stuff which I mentioned to you where we have a few customers where for various reasons including some expectations that they would give us long term business we have few customers where we have decent size deals with low rates and we know we can shut that down any time if we want to. But that is really the reason for that. I am going to keep moving on and please if you do not mind.

Moderator: Thank you. The next question is from the line of Rohan Adwant from Multi-Act Equity. Please go ahead.

Rohan Adwant: I wanted to understand what are the historical growth rates of the two IBM IoT products that we have taken? So if we are considering USD53 million revenue in FY17, what would be equivalent revenue in the last year and what are the kinds of growth rates that we could see in this space?

Anand Deshpande: I cannot share that information. It is like I have information but I cannot share it.

Rohan Adwant: Okay and on the EDT front this quarter we grew at I think 4% INR terms so have we signed the significant contract at the later part of the quarter which was alluded to in the opening comments and this is just a quarterly sort of a blip?

Anand Deshpande: No, again these things will keep happening I do not have a specific comment on that. By and large I think things are tracking well. There is a lot of work happening in the digital area and I think next year next quarter onwards, now that we have them organized in a slightly different way it will be much easier for us to track and share apples to apples numbers.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Sir, I just wanted to understand you mentioned that the current business that we have been traditionally doing is continuously fast eroding and because of the transition that is happening in the market. So do you intend to mean that, I mean of course as we are looking to change our business mix, but does that mean going forward over the next four to six quarters the traditional ISV business that we do is going to probably face muted growth or maybe might even start declining at some point of time, or is it just the transformation part that we are seeing in that?

Anand Deshpande: So again, we have mentioned this to you all in the past that we classify our ISVs into three parts. The born digital companies, the internet companies and pre internet companies. Clearly the pre internet companies are under a lot of pressure and there is turbulence in it. So they have been kind of reducing their headcount across these companies and you can look up there on the websites and you will see that. And as a consequence of that, there is a blip that we have on our business.

There were two things that happened when this happens. One is that in the long term sometimes offshoring and outsourcing in India and all starts to become a reason why a way for them to get out of their problem. So you can see growth on our side and we have seen that in several of our accounts and in some other cases they have products that they will offer to us to acquire or to do what we have done with IBM and other projects as well. So that is another way for growth to happen. And the third thing is that we are actually selling much more aggressively in the newer, born digital companies as well and we are seeing good traction that side and in the internet companies. So, if you look at on a portfolio basis we believe in the long term the ISV business is going to grow. It is just that we have to shift our business which is traditionally been in the pre internet companies to the other parts of the ISV business as well.

Vibhor Singhal: But just my last question on the margins front, sir. I understand that probably in this quarter 220 basis point of impact was on the back of this new IBM deal. But if you even remove this part I mean if you see from Q4 FY14 till FY16 over the last eight quarters, our margins have declined from 27% to 16% in this quarter, a dip of around 1100 basis points in just eight quarters. I know we are basically chasing growth and trying to transform our business.

But are we comfortable with this kind of a margin erosion which is coming just to sustain the kind of growth that we are delivering or do you see that as maybe a temporary blip and maybe as the growth comes in and as we are on our way to maturity in that new business the margins should probably go back to those if not those higher levels then at least definitely somewhere in between the two?

Anand Deshpande: So obviously we believe that we can improve the margins and the proof is going to be in what we demonstrate to you. My saying anything does not make a whole lot of sense at the moment. So we believe that we can improve our margins and I have shared with you how we are going to do it. And you just have to watch and see.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir, my first question is regarding this IP business that you are getting from IBM IoT. What is the contribution to the bottom line?

Anand Deshpande: Yes, I have been talking just exactly that for the last few minutes right meaning we have shared with you pretty much the P&L without really giving you the numbers.

Mayur Parkeria: But we know that this 8% growth coming from IBM IoT so on the bottom line side what will be the contribution?

Anand Deshpande: Let us take this offline I guess.

Mayur Parkeria: Okay my second question is if you can give some clarity on this long term loans and advances and payables that have grown on the balance sheet?

Anand Deshpande: Okay let me have Sunil answer that in a moment. Let me suggest the following. I do see a still a long list of questions and we are in the last twelve minutes so what I am going to do is I am going to bunch a few questions together and then answer them. So I will get Sunil to think about the answer and he will give it to you in a minute. Let me take the next three questions and then we will come back and answer all of them. Thanks Mayur.

Moderator: Thank you. The next question is from the line of Deepan Kapadia from Edelweiss. Please go ahead.

Deepan Kapadia: Sir, a couple of questions. First is sir on this quarter front will it be possible to give the organic growth during the quarter and the inorganic growth and secondly so going ahead do we see the ISV business growing for FY17 specifically?

Anand Deshpande: Okay so the organic growth was around one-third of the 12%. And in terms of revenues for ISVs for next year I do not want to give a number at the moment but we are working very hard and I think it will be positive growth. We will take the next question, I am really sorry I am rushing you but.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: What are the ticket size of these license sales that you do and in the context of license sales do you do any selling at all or is it on the back of IBM sales force? The second question is, is there any particular vertical concentration in the license sales you do?

Anand Deshpande: Again I cannot give you all the details on this thing but if you go to the IBM website and look for continuous engineering, you should be able to see what they do.

Girish Pai: Then just one question. You mentioned about seasonality and you mentioned that certain quarters will be weak and certain quarters will be like strong. Can you mention which quarters will be strong and weak?

Anand Deshpande: Okay normally first quarter is usually the weakest quarter and Q4 is usually the strongest quarter and when I am referring to Q1, Q2, Q3 for Q4 I am referring to calendar Q1 to Q4.

Moderator: Thank you. The next question is from the line of Nishit Rathi from CWC Advisors. Please go ahead.

Nishit Rathi: Could you just explain little bit about the slack in the enterprise business that occurred for this quarter? Because it was on a very good momentum and given the current of the restructuring when can we expect the trajectory to get back?

Anand Deshpande: Overall, it did go up a bit as you will see the overall organic growth was only 4%. So some of that has come from the enterprise sector for sure. And IP grew very significantly. So the percentage wise it looks a little bad. But I do not think it is really any trend there. Just wait for a quarter or two and you should see the change in the business that we are doing.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Just a couple of quick ones from my side. Anand, firstly since you alluded the choice that you now have in terms of doing away with the businesses which may not be generating enough profit. Just if you could throw some light on whether these would be concentrated in any particular sub-segment of your business like the pre-Internet era companies or on the enterprise side which would be onsite heavy or would this be spread across? And the second one from my end would be that even on an organic basis this quarter IP led business had a quite a robust growth. So just wanted to understand would that should we consider this as 4Q seasonality or there could be a good element of continuum based to that well?

Anand Deshpande: No, so we think that the IP growth actually will be very good because as I said to you the place where lot of the big deals we have been talking about is all going to go in to IP and Q1 is a weak quarter and so we will see growth on net over as you go along. And in terms of the question regarding what we are trying to prioritize; clearly there are two things that we are looking at. If we think let me say. One is those places where we have completely onsite driven non-strategic tactical resource augmentation type projects, where we have some of those not a whole lot, but those where the margins are low we are trying to go back to the customer and ask for better margins or be prepared to walk. The second set of things are, we have a set of customers where we have very small, even though customers are large, we have some small projects going on with them for a long time which are not growing necessarily or the rates are not great and those are again things we are trying to go back to the customer and say either you pay us more money or we are ready to move.

Ashish Chopra: So my only question was I think this would be skewed towards the enterprise or the ISV? If you could just clarify?

Anand Deshpande: Some of both and it will not be abrupt. It will happen over the next few quarters. So you will see that as you go along and I think it is good for getting the margins up and I think every so often it is good to proving a bit here and there.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: There is a dip in the number of clients in both the 3 million plus and 1 million to 3 million. Is this just a quarterly aberration or this is just some work folded out for the pre-Internet and pre dotcom era company?

Anand Deshpande: There is a very marginal dip. I would not read too much in to it.

Moderator: Thank you. The next question is from the line of Rohan Shah from Kroma LLP. Please go ahead.

Rohan Shah: Hi Anand, I want to ask you how much of the IBM IoT revenue was booked in this quarter? I mean did you book it for the full three months of the IBM financial year?

Anand Deshpande: Yes.

Rohan Shah: But the deal was signed somewhere around 8th Mar?

Anand Deshpande: Correct but we had almost whole quarter in it. We had both expenses and earnings for almost the whole quarter.

Moderator: Thank you.

Anand Deshpande: Okay, let me have Sunil finish off on the last question that was pending and this probably pretty much ends the day for us. I know we have missed a few questions but this has been one of those busy quarters, busy sessions and please send mail if you have more questions. Let me have Sunil complete this and we will close this.

Sunil Sapre: Yeah, there was a question on this increase in loans and advances. So, the increase is largely on account of payment made towards the IBM product acquisitions that we did last month.

Anand Deshpande: Okay so that is pretty much it and then let me close this discussion here. And if you have any further questions, please feel free to write us.

Moderator: So we will take one last question from the line of Vivek Gedda from HSBC. Please go ahead.

Vivek Gedda: Just wanted to find out actually I had this same question about the quantum of Watson revenues. I was expecting that this would be at least the run rate this would have been a two months kind of a contribution from IBM Watson and I was building in that would have been probably almost a USD60 million of revenues based on that. So could you please put some light on why is it that three months kind of revenues from this deal?

Anand Deshpande: I do not know why but that is what it is, yes. We have shared with you what the total for the year is going to be. We will give you all the details, yes. It is just structured that way, what can I say. Yeah, I have given you all the details. We will give you what this quarter versus all things, what is the year like the first quarter. At this time we are at 5:59, I do not want to really spend too much on this one.

Thanks Vivek. Sorry for being little cut on this one but thank you all for being on this call. I really appreciate you had taken the time to join our quarterly and yearly call and I look forward to talking to you again at the end of the next quarter. I am sure if you have any further questions during the quarter, please feel free to reach Anukool. Thank you very much.

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 and you may now disconnect your lines.