



Persistent Systems Limited - Analyst Conference Call

Q2 FY15 Results

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MODERATORS

Dr. Anand Deshpande

Chairman & Managing Director

Mr. Ranganath Puranik

President, Persistent Systems Inc.

Mr. Rohit Kamat

Chief Financial Officer

Mr. Mritunjay Singh

Executive Director & Chief Operating Officer

Mr. Vilas Kate

Chief Planning Officer

Mr. Amit Atre

Company Secretary

Moderator: Ladies and Gentlemen, Good Evening and Welcome to Persistent Systems Analysts call. As a reminder for the duration of the conference, all participant lines are in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please indicate the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. We have with us on the call today, Dr. Anand Deshpande – Chairman and Managing Director, Persistent Systems. We also have with him, Mr. Ranga Puranik – President, Persistent Systems Inc. joining from US; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Vilas Kate – Chief Planning Officer; and Mr. Amit Atre – Company Secretary.

I would now like to hand over the conference to Dr. Anand Deshpande. Thank you and over to you Dr. Deshpande.

Dr. Anand Deshpande: Thanks Inba. Good Evening all of you and welcome to this event. I am going to give you a very quick summary from the press release that we have issued on Saturday after the board meeting and I am going to invite Ranga Puranik – our Head of Sales to share with us the view from the US and from the sales side, then I will have Rohit share with us the details on various financial parameters of the company, after which I would like to share with the investors some of the activities that we have been involved in and the strategy around "Enterprise Digital Transformation" that we have been working on.

So just to get started, the revenue for the quarter was US\$76.32 million, the revenue in rupees was 464.17 crores or 4641.74 million. The sequential US dollar revenue growth was 5% and in Indian Rupee terms it was 6.7%. The profit before tax was Rs.993.77 million, a 4.2% quarter-on-quarter growth and PAT was Rs.713.15 million, a growth of 3.6% quarter on quarter.

In terms of other highlights I would like to share is that through Persistent Venture, we made an investment in a Pune-based start-up, focused on Internet of Things (IoT), called Altizon Systems. It is important to note that the founder of Altizon is an ex-employee of Persistent. We signed up as Gold Partner for Scaled Agile, Inc. for Scaled Agile Frameworks. We have launched a Centre of Excellence for Appian Platform in Columbus, Ohio. We had good progress on Oracle and Appian during the quarter and since they had two events we announced partnerships and extensions of partnerships in both those cases. We won the Certificate of Recognition for Excellence in Corporate Governance for the 4th consecutive year by the Institute of Company Secretaries, this was at an event in August 2014. And we were included in the prestigious ET 500 Economic Times list of top 500 Indian listed companies at 454.

With this quick intro let me forward it to Ranga Puranik who will share with you the view from the US and then over to Rohit as well. So Ranga?

Ranganath Puranik: Yes, thanks a lot, Anand, and hello everyone from Santa Clara in California, here, its early morning but Good Evening, Ladies and Gentlemen, it is nice to be with you all to discuss our market outlook and Q2 results. As Anand mentioned, we finished the quarter at US\$76.32 million with a sequential growth of 5% in USD terms and 6.7% in INR. We added 40 customers during the quarter in our Account-led and

Platform businesses. Our Accelerite business launched in May 2014 to build and sell Persistent IP, continues to make progress on the Client Management and rCloud products. We added 47 customers for our Accelerite and other IP sales.

As I had indicated last time, this was the second full quarter of our strategy in action in terms of our go-to-market models around Account-led, Platform-led and Product-led businesses.

Having been a pioneer and acknowledged industry leader in the OPD segment, we are now firmly positioning Persistent as the leading technology company in the Enterprise segment around Agile Software Product Development, SMAC and Enterprise Digital Transformation offerings. The enterprises are becoming increasingly technology intensive as they prepare and position themselves to compete in a highly disruptive economy where customers are demanding new and innovative products and services sooner. Cloud has become truly transformational. Enterprises have to operate very differently from the older data center models. While the earlier Mainframe and Client Server models favored big businesses, now anyone with just innovative ideas and a credit card and a computer practically can launch new Cloud-based business in minutes. You might have followed Airbnb, Uber are well known examples of having disrupted century-old hotel and taxi industry models in just a couple of years, all made possible by Mobile, Big Data, and Cloud Software Technologies. Marc Andreessen's now classic and visionary essay from 2011, "Why software is eating the world" is being exemplified by these dramatically disruptive business models but that is exactly where our huge opportunity lies.

Our growth would have been better but for some unexpected reduction in some older customer base this time. At the same time, we have got significant new customers including 14 Enterprise customers this quarter that are \$(1+) billion in revenues. These include some leading names in BFSI and Healthcare segments specifically. Our Platforms business continues to grow very healthy during the quarter. As we have discussed in the past, our SMAC and Platforms business takes us in front of key business leaders and CIOs.

We are now focusing on developing long term partnerships with these Enterprise customers and expect to expand our footprint significantly as was validated by new business that we won around our core capabilities this time. An example of a major win was to develop an OpenStack Cloud solution for a leading US-Japanese Enterprise customer recently. We announced an industry-first technology Center of Excellence for Appian Platform-based solutions that enable Custom Software Application Development for Enterprises in alignment with our Digital Transformation strategy. This center now has some senior and experienced technical experts from the industry that will help us rapidly build a global delivery model for next generation software projects. Our business model and vision are now getting executed towards becoming a unique and differentiated global leader in the software product and technology development for both ISVs and Enterprise markets.

Market outlook is strong, as enterprises significantly reverse their spending from legacy to future technologies over the next 3-years. Our positioning as a technology company with a well differentiated

focus on the future needs of our Enterprise customers provides us with an enormous opportunity to create strong growth in the coming quarters and years.

That is my summary. Wanted to take the opportunity to “Wish You and Your Family a Happy Diwali and Prosperous Festival.” Thanks, Anand, and I will hand it back to you.

Rohit Kamat:

Thank you Anand and good evening to all of you. It has always been pleasure talking to you.

While Anand and Ranga have shared business highlights for the quarter and their outlook on the market, I would like to give more colour on growth drivers, margin movement, liquidity and hedge position.

The revenue grew sequentially by 6.7% in the Rupee terms and 5% in the Dollar terms. Of total revenue of \$ 76.32M for the quarter, 80.4% came from services while 19.6% came from IP.

The overall Services revenue grew 5.6% QoQ in dollar terms driven by 3% volume growth and 2.5% rise in billing rates. Onsite revenue grew 11.2% QoQ, driven by volume growth of 11.5% and 0.3% fall in rates. Offshore revenue grew by 3.3 % QoQ driven by 2% increase in volumes and 1.2% rise in the rates.

Now moving to margins, it is pertinent to note that despite the salary hike which came into force from July 1, we have improved our gross margin for the quarter to 40.2% as against 40.1% in the previous quarter. While the salary hike impacted the gross margin by 300 bps, better utilization, lower royalty expense and favourable currency movement helped to neutralize its impact.

The EBIDTA margin in Q2 was 20.6% as compared to 21.8% margin in Q1. The continued investment in S & M and establishment of Appian center in Columbus, doubling of capacity in Goa and expansion of facility in Bangalore resulted in increase in GA costs. In Q2, we had a charge of 60 bps towards doubtful debt as compared to reversal of excess provision in Q1. This has 120 bps impact on the EBIDTA margin.

During the quarter our treasury income recorded a rise of 19% due to higher income from investment. The forex gain for the quarter was Rs. 155 M as against Rs. 133 Million in the previous quarter. This boosted the PBT margin to 21.4%. The Effective Tax Rate for the quarter was 28.2%.

The PAT recorded a rise of 3.6% QoQ and 17.4% YoY. The PAT margin was 15.4% for the quarter. The diluted EPS for the quarter amounted to Rs.17.83 as compared to Rs.17.20 last quarter.

Capex amounted to Rs.378 M during the quarter and it related mainly to acquisition of hardware / software. The Capex plan for the year is around Rs.1000 M.

Our cash and investments stood at Rs 6,868 million as on Sep 30, 2014 as compared to Rs.6,586 M as on June 30, 2014. The forward cover as on Sep 30, 2014 amounted to US Dollar 111 M at an average rate of Rs.65.05.

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

Dr. Anand Deshpande:

Thanks a lot Rohit and Ranga. There were a few comments that we received from various calls that we had during the day. So I am going to give you quick answers on some of those to pre-empt these questions in the discussion. In addition to that, we have always used this investor community to share with you our strategy and how we see the market. We would like to share with you a little bit about how we are addressing the Enterprise market and exactly what our positioning is and I have a prepared statement that I would like to read out on that effect, which I will share with you in a moment. As you would look at the 'Fact Sheet' it may become quite obvious that the distribution of customers for top one and top 10 has reduced as compared to the previous quarters. Some of this was alluded to by Ranga when he mentioned that some of the customers because of their re-definition of strategy had a cut on some of the projects that we were working on and that caused some of the top 10 customers to have an impact in terms of our distribution with them. This is kind of to be expected at this time considering the market and the changes happening in the market and we believe that by doing the other things that we are doing we are in a position to deal with this problem as it comes along.

In the context of the IP revenue, the IP revenue during the quarter was 2.8% that is slightly lower than the previous quarters IP growth as such, but if you look at our target for IP internally and also the growth on IP H1-to-H1 the IP growth has been about 30% and we are ahead of our target in terms of what we were planning for IP revenues. So overall, I would not consider this as a cause of concern and we do expect to have a fairly robust growth for IP during the year. The IP strategy is based on other acquisitions and new development of IP, and both of those we have a fairly healthy pipeline and discussion in the process. So hopefully we should end the year with a fairly reasonable IP distribution as was planned.

Now, let me get to the point about Enterprise Digital Transformation. Ranga alluded to the fact that we are focusing a lot more on Enterprise customers, and I want you to differentiate that because as Persistent we have always stayed differentiated and being a leader is an important aspect of how we want to operate and this quarter was very significant as we were able to demonstrate and validate two important strategic initiatives that have helped us define a category, establish leadership and will define the future course of the company. First, we were able to get overwhelming support from customers, platform partners, and technology analysts, on our position that Enterprise Digital Transformation and IT Modernization are different and must be managed concurrently, independently and separately. It is clear that technology is broadly classified under SMAC are influencing enterprises and are driving two very distinct work streams in the Enterprise – one around IT Modernization and the other around Enterprise Digital Transformation. IT Modernization focuses on efficiency and cost optimization, while digital transformation is about new ways of doing business about innovation and transformation of business capabilities or business models that are necessary to compete with innovative bond digital disruptors. Both these initiatives are important but are quite different and must be managed and approached differently. IT Modernization is not a precursor or a pre-requisite to Digital Transformation as many have thought in the past or rather enterprises simply cannot afford to

delay any further the start of their Digital Transformational journeys. Both must be managed independently and concurrently and are best done with different set of vendors or vendor approaches. Persistent with its product development DNA, technology expertise, and partnerships is best suited and is a market leader for Enterprise Digital Transformation.

Second, we further strengthened and sharpened our go-to-market and execution capabilities to be the Vendor of Choice for Digital Transformation with an emphasis of “How To Go About Digital Transformation.” This is very significant while hardly anyone argues on the importance of imperatives for Digital Transformation there was no clear path on how to go about the execution of this journey. Over the last few quarters, we have built significant IP and during this quarter we were clearly able to demonstrate the architecture and methodology for how to go about Digital Transformation by implementing this internally and with some of our customers. We have established some key partnerships with platform players such as Apigee, Appian, Attivio, Jive, and Lithium as well as Scaled Agile Frameworks for execution. This builds on the strong partnerships we have built over the years such as Salesforce, Dassault, Oracle, to name some, all of whom have a significant play in the “How to do Digital Transformation.” You can expect to see more from us as we partner with both established technology leaders as well as some of the very exciting start-ups and innovators to help our customers in their Digital Transformation journeys. The Digital Transformation journey is all about speed and agility. Our approach for implementing digital transformation focuses on enabling speed and to help enterprises become software-driven businesses. Our approach for enabling speed and becoming software-driven business is based on an API-centric architecture to build a data centric platform driven from consumption to data and enabled by task specific apps deployed incrementally and iteratively within the organization. Our implementation philosophy is based on the following six tenets – Think Vision: Build to a Roadmap; second, Disrupt with Technology; three, Focus on a Fabulous User Experience; four, Involve All Stakeholders; five, build Incrementally and Iteratively and Build a Digital Team. Our positioning as a leader in the Digital Transformation is based on our DNA of over 20-years of successfully building software products for some of the best known and most demanding customers on the cutting edge of technology. We continue to help technology companies build new software products and businesses, especially as they address digital transformational opportunity and with enterprises. But with Digital Transformation, enterprises are also becoming software-driven businesses and we will build and deploy software like a product and not as an IT capability. This strategy has opened up a very large market for Persistent. I really look forward to sharing some of this and demos and also visualization during the ‘Investor Conference’ that we will have in December. With this preamble, I would like to open the floor out for questions.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Abhishek Kumar of Standard Chartered. Please go ahead.

Abhishek Kumar:

Anand, during the day in your media interaction I think you alluded that you still expect FY-'15 dollar revenue growth to be better than FY-'14. I think that implies a meaningful acceleration in the second half of the year. So I was just wondering what is giving us this confidence – do we have strong project pipeline that is giving us this confidence?

Dr. Anand Deshpande: There are two or three reasons why we believe that we will be able to make the numbers and of course when we say that we know we have calculated and we know what we have a tall order ahead, so the 2-3 things that I would like to point out is that, as Ranga mentioned, several of our partnerships that we have been working on have opened up some very large accounts and Ranga alluded to 13 billion dollar customers that he has signed during the last quarter. So some of those are just at the early stage of the quarter right now and we expect those to deliver better numbers over the second half. And the second part of it is the story that I shared with you around Enterprise Digital Transformation. What we have found is that what we have implemented and the way we implement Digital Transformation is really getting very good traction. We have seen now people like Gartner and Forrester and to some extent Zinnov and others also clearly demonstrate that IT Modernization and Digital Transformation are two different things and they should be kept separate and that is actually allowing us to enhance our footprint into some of these large companies. So, overall the strategy or what we have done we have started to see some good wind in this one and we think we can make the numbers that we are suggesting.

Abhishek Kumar: My second question is on margins. I think we have lost almost 700 basis points in the last three quarters. So going ahead what are the potential margin levers that we have and what could be the broadly margin that we can end the year with?

Dr. Anand Deshpande: As we have said consistently for the last several quarters, our focus when we operate the business has been on managing at the profit before tax level. So what happens is that because we have an opportunity to get FOREX numbers that we have, we have been using those to leverage to invest in both technology rescaling and also in sales and marketing, which help in the long term future of the company. Now, in terms of the levers, of course, we have several levers that can help us improve the margins. The question is how much do we want to stretch on them. So here the levers that we have and you have seen some of those come into play this quarter – one is utilization that is our biggest opportunity to improve margins. Right now, we are operating at 70.3% for our utilization level which is higher than the 67% that we had last quarter, but this can easily go to 72-73%, so there is some room for improvement there. Second, the IP revenues can help in improving the margins that we can get. This quarter the growth on IP revenues was only 2.8%. If that were to grow faster you will see better appreciation in terms of the margins. The third thing you will see that we have been investing ahead both in terms of training, marketing and in the sales process. This quarter we have invested in having partners and technical analysts to work with us on defining this Enterprise Digital Transformation story and that is the one-time expense to some extent but we believe that for us to break into this new market at this time which is a huge market for us being ‘penny wise and pound foolish’ should not be the right thing to do and we should actually go and invest in marketing and sales both to ensure that we can be competitive in the quarters to come. So while, yes, meaning there is a fact that the EBITDA margins and some other margins have dipped, we have maintained profit before tax and that is by design and we do not want to squeeze these levers too hard to compromise future growth in the context. There is also a general volatility and a lot of changes in the business mix and those are all opportunities for us.

One final lever that I have not mentioned is the rates. If you see our rate per person we have had a 2.5% quarter-on-quarter growth. Now, these rate increases are not just increase in the rate per hour, but it is because of the change of business mix. And as we change our business mix to higher end value-added services, our profitability will increase and that is a desired outcome of what we are trying to work on.

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

Priya Rohira: I just want to understand a little bit more on the H2 and more on the IP side, Anand if you could just throw some light on the pipeline which you have. And the second thing is, if you could elaborate a little bit more on the addressable market in the Enterprise Digital Transformation space which we are addressing and we are investing so well? And lastly, just a small follow up on selling and marketing. Do we think are we adequately now in terms of S&M team or do you think we still need more investments and what are the areas, this is more to do with geographies or some skill sets?

Dr. Anand Deshpande: I think we have launched a few products in the last quarter and those are starting to catch up. So we do expect the second half to continue to grow at pretty much similar percentage we have, and first half as compared to the previous half there has been a 30% increase in the IP revenue in terms of absolute numbers. So there is a lot of room for getting our IP numbers to go up and the deal pipeline is pretty good. So I am not too concerned about that piece of the business. Now regarding this whole marketing and sales and all of those kinds of things, one of the important things – and this is something that I would like you all to note in the following way and we have said this many times that because of new technologies such as Cloud, Analytics, Collaboration and Mobility, the business mix and how people build software and deliver software is changing dramatically. And typically as software companies that work with product companies we are on the leading edge of this kind of a problem and this comes in later on as we go along. So it takes lot less to build products if you build them on the Cloud. And this is a problem that we had anticipated and we are fully aware of this challenge. Having said that our intention was as products get cheaper and quicker to build more people will build products including enterprises. So we wanted to make sure that we do not restrict ourselves to ISVs, but focus on product development and the needs of enterprises who are interested in building products. This opens up a really large market for us- a market that we understand well. We have anticipated this, we have done this set of partnerships with companies, where we are a leading partner and all these companies like Apigee, Appian, Attivio, Jive, Lithium, these are all next generation companies that are born in the Cloud and are going to disrupt the market as we go along. There is a systematic plan of how we want to be the leader in Enterprise Digital Transformation. Relating to marketing, we followed a script in 2003-2004 to build this category called OPD which is the Outsourced Product Development. We have been following that same script for the last 6-months. And in the last 3-months if you look at the analyst reports, you will hear from everyone that Digital Transformation and IT Modernization are two different things and they should be managed separately. The beauty of marketing is to ensure that this does not come from a small company like Persistent, but it is going to come from everyone else. The fact is we have created that buzz. And overall we are very well positioned to focus on the “How of the Digital Transformation Piece.” Now, the market opportunity is very significant, the one that talks about is

some \$20 billion or some, pretty large numbers, but the number of zeros are way beyond what I am thinking. So I am not too concerned about the size of the market for a company like Persistent. The market is much bigger than what we can grab.

Priya Rohira

In terms of selling and marketing team do you think we are self-sufficient now or do you think you would require more investments there? And secondly, the current quarter G&A went up. Is it more to do with what you mentioned that this quarter you have done a lot of work with partners and industry consultants and there could be a one-off item over there?

Dr. Anand Deshpande

Whether sales and marketing is enough? It is never enough, right, meaning if we can sell more we will do more, right. Why do you want to slow things down? But now that we have got the formula if we think it works out, we will go double the sales team, grow the business as well. So, it is never like you are done, okay? So, this is an ongoing process. But right now we are trying to operate with a margin where our PBT is within the range and we do not go too much out of whack. So, it is something we have to deal with. To your second question, the only one that I would say is the doubtful debt item which is a one-off and we have a systematic plan of retiring debts which are more than 6 months old and there are some that we retire this quarter. However, we think that those amounts are not addressed. So, they should get reversed over the next few quarters. There is a new office as well.

Ranganath Puranik

In the quarter, we have also expanded our office in Bengaluru which was a rented facility. We set up Appian center at Columbus, as you are aware. Last quarter we doubled capacity at Goa. So some of the G&A recurring cost has come to this quarter. It is a mix of some of the one-time costs and some of the costs which are related to expansion of assets, some G&A portion will be recurring as well.

Dr. Anand Deshpande

One comment I would like to make. So, in terms of margins the best way to address the margins is to grow revenues significantly and grow the right kind of revenues significantly which is really what our focus is at the moment. Some of the efforts that we have made in the last 3 to 4 months in this are quite significant and when you come here for the "Investor Day", we will be able to show you some fairly amazing IP and Technology that we have built including our internal demos which will give you evidence that what we are saying is not just awkward, there is some material behind it.

Moderator

Thank you. Our next question is from Ankur Rudra of CLSA. Please go ahead.

Ankur Rudra

A bit of a big picture question, Anand if you can help me. So clearly you guys are focused on SMAC and Digital very early, but in the last one year we have seen focused on significantly versus many of your larger IT Services peers, I am talking about the likes of from Accenture and IBM too, larger Indian peers like TCS, Infosys. So, given that they have been focusing on this market and they talk about very large practice sizes, how does Persistent differentiate now – is it Mainstream already?

Dr. Anand Deshpande

Yes, here is the difference. You should look through that and we have been spending a lot of time studying the presentations of all our competitors. You will find that all of them talk about Digital Transformation, but are actually selling IT Modernization. If you talk to the CIO and you talk to the line

of business guys in enterprises and as we have said we have more than 25 to 30 active discussion with enterprises where we are already involved in this part. There is a frustration in some sense in terms of the fact that IT Modernization is not a precursor to Digital Transformation. So, give you an example, let us say, running email on Primus and you take that e-mail to the Cloud, it does not change the e-mail experience. The e-mail still feels and looks the same. Just because I moved something to the Cloud does not mean I am going to get into Digital Transformation. So, one of the things that we have done in the last few quarters and you will see the evidence of it from say the Gartner reports as the other guys saying it. They have now started to say the Digital Transformation and IT Modernization are two different things and should not be mixed. They should need different vendors and they need to be run and managed completely in different ways. We are best suited for Digital Transformation projects because of our product development heritage. We have gone one step further beyond that and we have a roadmap, Methodology, IP and ability to demonstrate to you how to do Digital Transformation. If you look at the literature from all our competitors, nobody is going to explain to you how to go about Digital Transformation. They all say, "You go to the Cloud and Digital Transformation will happen." Unfortunately, there is no truth to that. You need to do Cloud to improve efficiency. No doubt about it. But that does not cause Digital Transformation. That is the differentiation that we are focusing on.

Ankur Rudra

Secondly, a follow-on; from a go-to-market perspective, historically, you have largely dependent on the partner sales model where basically, you are going to sell with basis going to Enterprise customers, your transformation to enterprise, do you think that is a sustainable strategy in the longer term? I understand at the moment maybe your larger peers are focusing on the IT Modernization part. Hopefully, at some point they might recognize that Digital Transformation is different and they might start moving in that direction. Will your lack of having a strong enough Enterprise sales team be a hindrance for you?

Dr. Anand Deshpande

Two parts answer to this question; first is, we have fixed a set of partners who are all aligned with our story and are going together with the same message as we are such as Apigee, Appian, Attivio, Jive, Lithium all these guys. So that is one part. So, we are doing the selling on our own. But the best part of marketing or getting the word out, would be the following, right. So, here is the aspirational part of what we want to do and why we are doing what we are doing. The aspirational part of this discussion is that in board meetings in the US, Enterprise customers when the line of business guys demand that he needs to get certain Transformational businesses to happen in IT, tells him it is going to take two years to do it, because they are in this Modernization model. The CEO should get up on his seat and say, "Guys, these are two different things, you should run them differently, you need different vendors and Persistent is the best vendor for Digital Transformation and we should call them up." He has the number. This is the aspirational place where we want to go and I think we are not too far away from that and that is really what the objective is. So, if that were to happen, then people will call us and we will expand our sales team to make that happen. We are starting to see some of this kind of discussion happening at the moment. So, this is a really big thing for us and really we are very excited about where we are and if you look at the literature that you would look from the analysts such as look at the Gartner literature and look at the literature from Consolation Research' and various other places, you

will see this kind of buzz. So, we have a three-step plan here – First, we want to make sure that these are kept separate, IT Modernization and Digital Transformation. I think we have achieved that – Second part we are doing is to convince people that not only are they different but you need different set of vendors for doing that. We are nearly there – third one of course, is the harder one, is that for Digital Transformation the “Vendor of Choice is Persistent.” That is a little bit of a stretch that we have to work on, but that never stopped us from aspiring and dreaming about it.

Ranganath Puranik: Just a quick point to add on that Anand is the fact that Enterprise customers we sign up through our ‘Sell-With’ model are directly being signed by Persistent. So, these are Persistent customers’ end of the day with our MSA and our partnership and it directly takes us to the business leaders in a very short period of time and...

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

Shashi Bhushan We have seen a strong growth in PES and OPD space from our larger peers also. So, are we seeing some changes in this service line when compared to what used to say two years back?

Dr. Anand Deshpande Yes, absolutely, and if you look at our Product Engineering and Services business, some of these Enterprise deals are also included in that. So, our business mix is changing and I am sure it will change for everyone else also.

Shashi Bhushan Are the sizes of these contracts getting bigger now than what it used to be?

Dr. Anand Deshpande No. As we have said and consistently retained, right, it just takes less to build the product. When you start a project, of course, you start small, it will grow up. But they are not going to be \$ 100 million deals. They are going to be much smaller, paid in increments. So, I do not expect our per customer revenue to grow up dramatically. It will go up as you go along but we will get much stronger, sustainable presence in large companies, and our per person revenue is what is more important to track and has been going up and it will continue to go up.

Shashi Bhushan Our onsite volume growth has been very strong in this quarter. Are these projects mostly Onsite-centric or we may see corresponding growth in the Offshore as well?

Dr. Anand Deshpande No, they are not onsite-only projects. Lot of these projects involve some Onsite and some Offshore. We have created a deliberate centre in Columbus, Ohio where we have more than 50 people hired all locally, not sent from here, who have been set up for this Appian centre, we are getting a lot of traction there and we are going to become more global as we go along. So, this we will see a bigger mix, Onsite-Offshore. But we are aware of that and we do not think that this is a body shopping business, so we do not want to attribute that to saying if you have more Onsite, you will have lower margins. We can still maintain our PBT despite having higher Onsite.

Shashi Bhushan This was more to do with the Appian center that we have set up?

- Dr. Anand Deshpande** No, but Digital Transformational projects, we are actually working with line of business guys and changing business outcome. As we do that, we need to be closer to the customer. So, this is going to happen. Projects will get distributed across. We are going to distribute IP as part of the work we do and it is hard to share everything on a call like this. When you are here in Pune on the investor day, we will show you real demos of it.
- Moderator** Thank you. Our next question is from Rahul Jain of Dolat Capital. Please go ahead.
- Rahul Jain** My question pertains to two aspects – Firstly, on the onsite not just for this quarter, but over last several quarters Onsite revenue mix has been going up. So, I just want to understand one from the aspect of how do you see this trend going forward and what would be the eventual OPM impact for the same?
- Dr. Anand Deshpande** Again, I do not want to really speculate on where we are going to stop this or are we going to stop this or not, I do not know how far this will go, but I can promise you that we are not just body shopping people on the US side, we are actually working on Transformational projects and those require us to have fairly senior and high-end resources in the US. The rates that we get span a lot and we do have some pretty good rates on it. I do not know about the impact on the OPM directly but I do not really want to get into this Onsite/ Offshore business. We are in the business of solving customers' problems and when we look at a project, we look at the project in entirety rather than the Onsite and Offshore like you are looking at it. I do not want to speculate to give you the Onsite margins are so much, the Offsite margins are so much, because that is really the wrong way to look at this problem.
- Rahul Jain** So, my point is in terms of the kind of deals are, the kind of the market which is shaping up would that actually mean more Onsite gradually? That was the more precise question.
- Dr. Anand Deshpande** The answer is yes. In some of these cases, we will need more Onsite people but how many more I do not know. And this is the early days right now. As we get this figured out, we may need more Offshore people as well and in terms of the ratio that might not be such a big deal anymore. So, right now we are definitely more skewed on the Onsite side. But that may not remain like that as we go along. So, that is where it is.
- Rahul Jain** Secondly, on the IP side, traditionally for last several years, Q2 had been a very good quarter for us, this time it is not that big a growth in general, but is it because of some mix change or unexpected weakness in the subcategory or something or how do we view that?
- Dr. Anand Deshpande** Again, we have a portfolio of products, some of them are on the fly, some of them are slow growing. So, this is going to happen. So, I do not have anything unusual that happened during the quarter. We had a good previous quarter, so this was a slow one, hopefully, the next one is better. I do not want to speculate too much.
- Moderator** Our next question is from Dipesh Mehta of SBI CAP Securities. Please go ahead.

Dipesh Mehta I have two questions; one is Ranga mentioned about some unexpected reduction in some of the old customers. Can you help us understand nature of those delay and whether those revenue would it differ or there is some kind of changing their mindset and you might get some different kind of revenue mix going forward? So, that would be first question. Second question is about our hiring strategy. Now, considering Enterprise Digital Transformation kind of projects and other things, so how we look lateral-fresher mix and can you provide fresher added during Q2 and what would be the plan for the current year?

Dr. Anand Deshpande I will let Mritunjay answer the second part of the question and the first one, here is the deal, okay? You read the news like we do and some of our well-known customers are pretty big and they are doing changes in their strategy and certain projects that we were on, some of them got cut entirely as programs, so, some customers, they cut certain programs and the programs that we were involved in got cut. However, we work with all these companies in multiple programs, move from one to the other and some other things might come up but there is a hit on it this quarter.

Mritunjay Singh I believe, Dipesh, your question was about the type of people we are hiring for the transformational work right, is that the question?

Dipesh Mehta Yes, whether it would change your lateral-fresher mix on medium term perspective?

Mritunjay Singh If you look at, we do not hire a lot of freshers. Our fresher strategy is roughly around 30% of the people that we are hiring of in campus, 75% of the people we are having from the market. The second thing is the kind of work we are doing, if you look at our existing work, almost 50% of the work is in the kind of related technology that we work in which is the basis for this transformational world. So, we do have a lot of the skill already available and what we are hiring for the market is actually add to this particular skill. Yes, the mix is going to remain; part of this 70% that we are hiring is lateral, and we are confident that we can execute these kind of projects.

Dipesh Mehta So, can you quantify Q2 freshers added and FY15 plan?

Mritunjay Singh In H1 we have added around 120 freshers, for the full year, we are looking at around 500 freshers.

Dipesh Mehta Just on the first question, you suggested about they cancelled some of the projects which led to impact on us. So, is it possible for you to share nature of those things, why those got cancelled and any significant change happening from a technology landscape perspective?

Dr. Anand Deshpande Let me not take this on this call because this is really not related to that. We can have a conversation on this offline but this is all related to, if you look at all the companies and all the changes that are happening in the market, it should be quite clear. Nothing to do with us as such, but market is changing, mix is changing, and business is changing. This kind of stuff is going to happen. We are very well prepared for this so. That is what the point is.

Moderator Thank you. Our next question is from Ravi Menon of Centrum Broking. Please go ahead.

- Ravi Menon** Anand, just a picture on how you see your shift towards Enterprises, so how does it change your margin mix? And on the IP side, roughly, how do you say that compares to the kind of margins you are getting on the Enterprise side or on the Outsourced Product Development side?
- Dr. Anand Deshpande** Again, anytime you are in a new market if you are able to define the market, you can define the margins. So, I think it is early days. So, it is really not clear what the margins will be, but we believe that in the Enterprise market, we are focusing on higher value addition in terms of Digital Transformation, so we could get better margins. Our IP margins on steady state are better than what they are for T&M projects that we do. I can get you the exact numbers for the IP business in terms of steady state which Rohit can send them to you. But we operate like a product company. So the margins there are pretty good when we are not investing in them.
- Ravi Menon** In the Enterprise Services side you have had some success already, right, I see that about (+14%) of your revenues comes from BFSI. So, I assume that is all Enterprise customers, right?
- Dr. Anand Deshpande** No, that is different, that is not transformational customers. The Enterprise customers, we have been doing OPD work for those companies. So, when we look at Digital Transformation projects, it is still early days. We have a few but we are able to get much better premium on those. We are doing some very interesting stuff including IPS part of it. So we will be able to improve margins if we can get the Digital Transformation business to grow faster.
- Moderator** Thank you. Our next question is from Sagar Rastogi of Ambit Capital. Please go ahead.
- Sagar Rastogi** Could you tell me what proportion of your Platform-led revenues are from your top platform provider or maybe your top two platform providers, do you have that number?
- Dr. Anand Deshpande** Yes, let me move to the next question. We will find an answer to that question in a minute.
- Sagar Rastogi** The next one was, just a data point, if I heard you correctly, you said that you had signed 14 billion dollar Enterprise customers in this quarter. Is that correct? And if so what is the total number of billion dollar Enterprise customers that you have currently?
- Dr. Anand Deshpande** We will give you that data as well. But it is more than 45 billion dollar customers at the moment.
- Sagar Rastogi** Excluding technology firms, right?
- Dr. Anand Deshpande** No, not excluding firms, this includes technology firms. So, what we close during the last quarter from Appian partnership is 14 billion dollar non-software companies.
- Sagar Rastogi** What would be the total number of billion dollar non-software companies, would you have that?
- Dr. Anand Deshpande** We will have to check it man, I do not have it on the top of my list right now. If we can get it to you in the next 7 minutes, we will give it to you then. Let me just keep the questions moving down.

- Moderator** Thank you. Our next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.
- Srivatsan Ramachandran** Just wanted to get your sense on the Enterprise Digital Transformation space. Who are your actual competitors are if you go bid for a deal, if you are not winning who the typical winners are on the other side?
- Dr. Anand Deshpande** Right now this is still murky, a lot of people have been combining transformation and everybody is talking about transformation and doing IT Modernization. This is the reality at the moment. And in that context, the guys who are making the most noise are of course, Accenture, who have the best stories and all the stuff, they have many stories on Digital Transformation. There is also Capgemini who does this. And of course, we heard Vishal talk about the same kind of things, Chandra has been saying the same kind of things at TCS. But, if you drill a little bit deeper, nobody is saying how to do Digital Transformation and they are not separating it as well as we are. We think you cannot do both, that is our opinion. And of course, we have selfish interest for saying that, but this is the reality.
- Ranganath Puranik** Just to add to that, the software product development is absolutely a key differentiator for us which is very different from the companies that Anand mentioned when it comes to specifically deploying EDT.
- Moderator** Thank you. Our next question is from Omkar Hadkar of Edelweiss. Please go ahead.
- Sandeep** Hi Anand, this is Sandeep from Edelweiss. The US is recovering and we are in the right space in the Digital space, so obviously, our relationship with the recovery is not that great, but just wanted to have a view that, we are always getting that US is recovering, demand is improving, do you really see that happening, one, in the context of the industry? And secondly, does it really matter for us bringing the right space for the economy to recover significantly?
- Dr. Anand Deshpande** You are right, meaning, economy is recovering, we are seeing good business, we are seeing a lot of new projects and as was mentioned by Ranga as well. But what is forcing a lot of these guys is not just recovery but there is also a need to transform the business, because, they are seeing disruption from the new companies. So, the kinds of things that people are seeing with Airbnb or Uber like Ranga mentioned and there are lots of examples, including Amazon and everyone else. Every company that is large feels threatened and realizes that if they do not do something about leveraging Mobility, leveraging Internet of Things, Sensors, Big Data, Analytics, Cloud, all of these things, they have no story left and people are starting to become platforms. So, the trends are overwhelming. Then amount of stuff you can read, the kinds of stuff McDonald is trying to set up an office in Silicon Valley because they think that that is necessary and McDonald's is really a burger company or becoming a data company. All these kinds of questions that you see and read in the newspapers are quite staggering. How do you go about making this transformation? Nobody is talking about it. We have a really systematic way of how to go about doing it. That is what is very exciting for us.
- Moderator** Thank you. Our next question is from Ashish Chopra of Motilal Oswal Securities. Please go ahead.

- Ashish Chopra** Sir, my question to you was that traditionally we have been focusing on the OPD business and as a part of the same, the top 10 customers have contributed anywhere between 45% to 50% of revenues. But, as we embark upon this new strategy of focusing more on the Enterprises, you see the distribution from the top 10 clients coming down steadily as we move along?
- Dr. Anand Deshpande** Hopefully, somebody else from the Enterprise will be in the top 10 as well. So, it is hard to say that will necessarily happen like that. What is very certain is the following: We continue to remain on product development. That is the key saying. We are not jumping into Enterprises. Enterprises are starting to do product development. That is one big thing. And the other thing is we thought that it is appropriate now as a company in nearly 24 to 25 years, we should not emphasize a whole lot about outsourcing, offshoring and all these other things. So, we think it is better to stay focused and be global and look at it as a global initiative rather than just as an outsource and offshore kind of. The connotations and rates and everything else are very different then. That is the whole reason why we are doing this. There are not much in terms of the execution strategy. Who we sell to and how we sell to and positioning is different and a lot more marketing to position ourselves where we get the pull rather than the push.
- Ashish Chopra** So that would effectively imply that a single customer could actually bring in revenues from Enterprise side as well as much as you may be getting out of the OPD business today...?
- Dr. Anand Deshpande** Absolutely, and I think we could have more of this, \$5 million to \$10 million from a large enterprise for Digital Transformation is a very small number.
- Ashish Chopra** Secondly, while there should be some front-ended investments during this journey, do you see your PBT levels still being maintainable at around the 20% band which has been pretty tightly maintained over the past many quarters?
- Dr. Anand Deshpande** Yes, that is what we are operating on. So, we are managing our investments at the moment to match to that number. If we find that there is a huge opportunity and we can double the business in next quarter because of adding sales, we will come back to you and tell that. But right now, we are operating like this and we think we can do it.
- Moderator** Thank you. Our next question is from Ankit Pande of Quant Capital. Please go ahead.
- Ankit Pande** My question would be just to flip up the visibility of towards around where do you see that particularly with respect to Enterprise versus other businesses, do you see the traction more in Enterprise and therefore, that would mean that some of those top 10 metrics would bounce back? The other question is on the IP-led. I think you did announce that we had a couple of new products last quarter. So, how is the reception there and what traction do you expect as far as you have visibility?
- Dr. Anand Deshpande** So, IP products reception is good. But you have to understand, the IP strategy that we have, we are never going to see a huge hockey stick on them. Because we are taking on end-of-life products and they are going to be slow steady with steady growth on them for a long time to come. That is really the

business model for IP-led business. But we will add more IPs by building new things and buying some new stuff. So, that will happen. So, that is really what that is. Now, in terms of the Digital Transformation, Yes, here it is what happening, right? If you look at the product companies in terms of the large product companies by and large every large company in the product space is already our customer or will never be our customer because we work with someone, we may not be able to work with the other ones. So, by and large there is not a whole lot to sell in terms of the new business opportunities on the Product Engineering side for existing ISVs. The opportunity is to go after really small companies, start-ups, upcoming new happening things and hope one of them becomes the next, Facebook or whatever else needs to happen. That is really one part of the business on the Product side. And the second side is that our partnerships are leading us into some of these kinds of opportunities. So, we are getting a lot of enterprises through partnerships.

For all the other questions, I am going to encourage you to send us e-mail and we will be very prompt in responding to them today.

Dr. Anand Deshpande

It is about 6'0 clock, so we are going to end this call here. I would like to thank all of you for being on this. As you would have appreciated for the last several quarters and through the last few years, we have been sharing with you our strategy and our plan moving ahead. Of course, we have been fairly early and honest about sharing this with you, so not everything will work as we plan but we are very confident about what we have here in terms of Digital Transformation and we will be happy to share with you as we go along. On this occasion, I would like to wish all the participants Very Happy Diwali. Wish you and your family, the Best of Health and Happiness in this Holiday Season and beyond and Wish you all a Very Happy New Year, and thank you for attending this call.

Moderator

Thank you. Ladies and Gentlemen, on behalf of Persistent Systems Limited , that concludes this conference. Thank you for joining us and you may now disconnect your lines.