Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q2 FY16 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Sudhir Kulkarni
Global Head of Sales & Marketing

Mr. Rohit Kamat
Chief Financial Officer

Mr. Mritunjay Singh
Executive Director & Chief Operating Officer

Mr. Amit Atre
Company Secretary

Mr. Mukesh Agarwal
Chief Planning Officer

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Moderator: Ladies and Gentlemen, Good Evening and welcome to Persistent Systems Analyst Call. As a reminder, for the duration of the conference all participant lines are in listen-only mode. There will be an opportunity for you to ask questions at the end of this presentation. Should you need assistance during the conference call, please indicate the operator by pressing '*' and 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 Ltd; we also have with him Mr. Sudhir Kulkarni – Global Head of Sales & Marketing joining from the US; Mr. Mritunjay Singh – Executive Director and Chief Operating Officer; Mr. Rohit Kamat – Chief Financial Officer; Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre – Company Secretary.

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

Anand Deshpande: Thank you Inba and Good Evening to all of you who are calling in from India and Good Morning if you are in the US. Let me take this opportunity to share with you highlights of our quarterly results.

As we announced it yesterday, our revenue for the quarter was Rs.5,427 million which constitutes say 8.5% quarter-on-quarter growth. In US dollar terms the revenue was USD82.96 million, 5.5% quarter-on-quarter growth. The EBITDA was Rs.1,017.51 million which is a 5% quarter-on-quarter growth. And the PAT grew 6.9% to Rs.718.49 million.

In terms of the other announcements that we made during the quarter, Mr. Rohit Kamat who has been the CFO of the company for the last several years retires on November 30th 2015, after his retirement Mr. Sunil Sapre who has been in the company already will take over as Chief Financial Officer with effect from 1st December 2015. We also appointed Mr. Sudhir Kulkarni as the Global Head of Sales & Marketing and he is joining the call today and will share his perspectives on what we see in the US side.

During the last call we had mentioned that we had signed an agreement to acquire a set of companies around Aepona, I am really glad to announce that in the first week of October we were actually be able to close the transaction and on the 12th of October we launched our IoT and Aepona platform in the market and I will explain a little bit more about what Aepona does and the business of Aepona as we go along.

Sprint International Holdings acquired Persistent's stake in Sprint Telecom India Pvt. Ltd. In terms of the numbers, we had invested Rs.1.30 crores in this joint venture and after the changes in the holdings allowed for foreign companies Sprint International Holding acquired this stake of ours for Rs.2.03 crores.

In terms of the partner and customer momentum this quarter was extremely good. We got recognized in several of the key conferences where we are partnering with our customers. In addition to that we also had our best new win quarter in the sense that we had 91 new customer wins during this quarter and some of these are fairly key accounts in the context of what the future of the company is in the context of some of the enterprise business that we are working on.

We did a very exciting Digital Pune Hackathon a few weeks back, this was well attended and well received by the local authorities here in Pune. We also ran a share insights based "Digital Ohio" Hackathon where we looked at government problems and ways of how to address data centric solutions in our Columbus Ohio Campus. We had a similar Hackathon recently in the context of our Aepona customers in Columbus Ohio as well.

Our expertise in digital and social along with location products was used during the Kumbh Mela in 2015 and during this quarter we celebrated the 10th anniversary of our presence in Goa. Persistent won several awards during the quarter including the Dataquest Business Technology 2015 Award in Mobility along with the CIO100 Award by the IDG Group for the third consecutive year and the Chief Learning Officer of the Year and Best Corporate University Award by the Tata Institute of Social Sciences.

So with this short introduction I am going to hand this to Sudhir Kulkarni to share with us what he sees in the market in the US and how we are responding to the market.

Sudhir Kulkarni: Thank you Anand. Good evening to you all in India. This is my first call sharing with you a view from the market. Over the years, first as an employee, then as an outsider during my short entrepreneurial stint outside Persistent, and then back as an executive – I have listened in to your sharp questions on these calls. As I take on the responsibility to accelerate growth for Persistent, I look forward to these interactions.

Accelerating growth, as I see it, has two sides to it – how the market that happens upon us, shapes our growth, favorable or otherwise and more importantly, how we happen upon the market and shape it instead!

I want to draw a simple traffic analogy to describe the opportunity for Persistent. None of us are new to traffic and increasing commute times, wherever you may be, especially if you are here in the Silicon Valley. We all know how expressways are often choked and anything but express! But there are always the enterprising few who defy traffic and reach their destination faster by taking an uncommon route that often involves navigating tricky conditions. Soon enough this route often gets busier than before and eventually becomes a main road in its own right.

I see the IT Services world as that express highway. Companies going after the same global 2000 enterprises, with fairly indistinguishable strategies, services and offerings, and a focus on efficiency not innovation. And the global 2000 spend significant budgets on keeping their lights on, hence these undifferentiated offerings and underlying skills and capabilities are in demand. However this spend, on “IT modernization” or what I call “doing the same things better” is slowly but surely, getting crowded and becoming a squeeze. That is an example of the expressway getting choked or, the market happening upon us.

However, the exciting opportunity for me and for Persistent, is the opportunity for us to happen to the market. For us to be that enterprising company to help the Global 2000 find and craft new lights or experiences, do different things, instead of simply doing things differently! Building innovative software and software-driven experiences for enterprises in the digital world is our opportunity to happen to the world!

Talking of software, this is our 25th year building great software. For most part, you have known us as a leader in product engineering for software companies. Over the last few quarters, you have heard us talk about our focus on enterprise customers by engaging them in the “how” of digital.. Digital, by itself, is not the new path I alluded to. Rather, you see every IT services companies on that crowded expressway change their destination to read “Digital” today. For us, I see the opportunity very differently – which brings me to the idea of how Persistent can happen to the market.

An enterprise, on the road to digital transformation or a born digital one, is a software driven business. So, who better than a company like us that has built great software products, can help these enterprises in their journey of digital transformation?

Today our revenue from enterprises is already at 27%, up from 25% at the end of last quarter. And this was a business we were not even in, three years ago!

Our focus on digital is also built around our partner ecosystem. This quarter saw some of these partners recognize our solutions built with them, in major announcements: by Salesforce in the roll-out of their Health Cloud, by Apigee in the launch of a platform for building innovative experiences in Healthcare, and by Appian in the launch of the Public App Marketplace.

During this quarter, we also had multiple wins to digitally transform patient-care and physician experiences in the US Healthcare market, across New York, Texas and California. Digital transformation in healthcare is one area you will see more from us.

Our positioning around the ‘how’ of digital also led to new wins focused on the building blocks for digital in the financial services industry.

Before I hand it back to Anand, let me conclude: we see a market shaped by a Digital wave, where customers are looking for better experiences in their systems of engagement, agile and iterative are becoming the dominant discipline along with an API centric platform approach to enterprise software. Our history as a company, built on a culture of innovation with our customers, within Persistent and for social good is standing us in good stead. You see this culture of innovation in our hosting India’s first joint public/private hackathon ‘Digital Pune Hackathon 2015’. In the same week, here in the US, we hosted the “Digital Ohio” Hackathon at our Columbus, OH development centre. So, this is our time to accelerate our growth, by leading the wave of enterprises becoming software driven businesses.

Thank you very much and back to Anand.

Anand Deshpande: Let me now invite Rohit Kamat to share little bit of details on the financial that I am sure you are all anxious to know.

Rohit Kamat: Thank you Anand and Good evening to all of you, it is always a pleasure to talk to you. While Anand and Sudhir have given you insights about the business and market outlook, I would like to share with you some more information and analysis of revenue, margins and capex for the quarter and liquidity and hedge position as on September 30, 2015.

In Q2, our Revenue increased to Rs. 5427 Million recording 8.5% growth QoQ and 16.9% growth YoY. In US Dollar terms, the revenue grew by 5.5%, quarter on quarter and by 8.7% year on year.

Q2 recorded, 8.4% growth in the Services revenue which was broad based and across multiple industry segments, business verticals and geographies. In terms of industry segments, the enterprises revenue grew by 14.3% and the ISVs recorded 5.9% growth QoQ. In terms of business segments, financial services grew by 12.4% QoQ, Life Sciences revenue increased by 6.4% and Infrastructure & Systems recorded rise of 6.6%. In terms of geographies, the USA recoded growth of 7.8%, while Europe grew by 13.2% QoQ.

The growth of services revenue was driven by 3.9% increase in volume and 4.3% rise in the average blended billing rate. The onsite services revenue showed growth of 16.1% QoQ, which was due to the volume growth of 18% and dip of 1.6% in the average onsite billing rate. The offshore services revenue grew by 4.6% QoQ, driven by the volume growth of 2.1% and rise in the billing rate by 2.5%.

Now let me throw some light on the margin movements. The EBIDTA margin was 18.7% for the quarter as compared to 19.4% for the preceding quarter. The major headwinds were pay hike 230 bps, higher gratuity provision 180 bps and increase in purchase/royalty cost by 50 bps. The tailwinds were improvement in utilization 180 bps, Visa Cost 110 bps, currency 80 bps and reduction in the SG&A 20 bps.

Depreciation and amortisation was at 4.3% of the revenue as compared to 4.6%, taking EBIT to 14.4%. The treasury income contributed Rs. 111M and the exchange gain contributed Rs.70.9 M to the quarterly profit. The Profit before tax was at Rs.963.8 M recording 2.5% growth QoQ.

The increase in profit of the overseas subsidiaries with lower effective tax rate resulted in reduction in ETR to 25.5%. As a result, the Profit after tax for the quarter increased by 6.9% QoQ to Rs.718 Million.

The Capex for the quarter was Rs.111 M out of which Rs.78 M related to hardware, software and equipment and balance of Rs. 33 M related to building, interiors and facilities. Cash and investments amounted to Rs.7,977 M as at September 30, 2015. The value of forward contracts outstanding as at the quarter end was USD 115 M while the average forward rate was of Rs.67.57 per USD

I take this opportunity to wish you all a very Happy Diwali and hand over the call back to Anand.

Anand Deshpande: Thank you Rohit. Let me also take this opportunity to thank Rohit for being our CFO for many years. This will be his last call as a Chief Financial Officer and I hope he will join this call as our participant next quarter as well. But let me take this opportunity and wish him all the best of health and happiness as he moves on to the next phase of his career and his life. So wish you all the best Rohit and I am sure we will all be in touch with you.

Rohit Kamat: Yes, thank you Anand.

Anand Deshpande: Let me also take this opportunity to throw a little bit of color on few things that I could anticipate the questions that I would get. So one is, let me share a little bit about what is going on in Aepona and how that business is being defined and structured.

So Aepona has been an independent company for several years, they started in the early 2000s and have built an exciting platform which is an API centric layer that allows you to access assets within the telecom network through an API layer. This is essential for telecom companies who want to expose their gateways of various kind to partners and various other partner networks. Aepona has a large number of customers, about 20 or so customers which are all telecom carriers that we have inherited as part of this acquisition. They also have a very interesting billing solution that allows telecom carriers to create a very creative business model and billing opportunities against these assets that they have in their telecom services network.

Over the last three years after the acquisition of Aepona by Intel Aepona has been investing significantly in building IoT gateways, meaning Internet of Things gateways and other components that allows telecom carriers to expose Internet of Things assets related to smart meter, smart power on all of those things to their partners. So we are very excited that we have a new company that has come on board and we launched our product as Aepona IoT as part of Accelerite on the 12th of October 2015. As part of this business we have roughly USD 10 million of revenues per year that we have from existing ongoing contracts that we would have, we do expect that we should be able to extend our business in the IoT space as the market starts to pick up and that should help us in growing our revenues from there. The development team for Aepona is located predominantly in two locations, there is a group in Belfast, Northern Ireland where we have roughly 50 to 60 people who are working with us and we have a team of about 120 people out of Colombo in Sri Lanka. So that’s two basic places where Aepona was structured. We have been working with this company for a long time and we have a team of about 30 people working with them now which is part of this activity that we are working on. So very enticed to get this started and as we look at the next few things we will be able to showcase some of the demos on Aepona when we meet next time.

In terms of the new business this was a very exciting quarter, as was mentioned we signed 91 new logos, several of these are fairly substantial logos and we had about 34 of them which we would classify as enterprise logos, 22 of them were ISV centric and 35 or so were IP and IP related logos. So overall this was a very good quarter for new business. Many of these have been signed up in the context of the platform business that we are in and also around the enterprise digital story that we have been working with, so fairly exciting in terms of what we see in the market.

The IP revenues this quarter dipped as compared to the previous quarter, one of the reasons why that has been the case has been because we have a new version of the TNPM product expected to be out during the first quarter of the calendar year or fourth quarter of our financial year and since that is eminently there, some of the license revenues this quarter were lower than anticipated. We expect those to catch up as the new product launch happens. The Accelerite revenue for next quarter also will include the Aepona revenues and also the costs along with the Aepona revenue and cost, so that is really what we should see in the next quarter on the IP revenues. So I expect the IP revenue by the end of the year to get to about 20% or so like we had planned in the past.

In terms of the margins, clearly they are under pressure for several reasons but we do believe that there are enough growth opportunities that are there in the business which will help address the margins question and also we think that there are some margin levers which will help us improve the margin by the end of the year. Again, as been planned we are looking at margins typically in the 18% profit before tax range, so this time they were just a little bit below that but we expect by the end of the year they will catch up. Overall, the reasons for margin dip can be attributed to a higher mix of onsite effort and the reason for that has been the increase in new enterprise accounts. The fact that we are doing digital transformation activity requires us to have more onsite presence. Second reason has been the salary hike that contributed to this quarter’s dip. That should also flatten out as we start to increase our revenue numbers. And finally, there are certain actuarial and other expenses that came in this quarter which contributed to the margin pressure as well. In addition to all of this we are of course investing in the long-term business and we are being making investment for some of the digital transformational activities that we have been working on.

Finally, let me share a little bit about what is happening in the digital market for us. In general as you are all aware we have traditionally worked with ISVs and product companies, building products for them. What we find is that our product development strategy is starting to become very relevant to enterprises and as we look at this transformation and as we pivot the company from being exclusively working for ISVs to starting to work with enterprises as well we are seeing some very exciting opportunities. Our whole architecture or premise on digital is based on the following specific three things, one is IT modernization and digital transformation are two different things, they should be run and operated separately. Second thing, we believe that when you are doing a digital transformation project you should focus on an API first architecture, start with an API layer, build experiences north of

API and focus on data south of the APIs. This architecture in our opinion allows companies to run two speed IT, that is what people are saying where you can run your fast speed agile platforms and track IT around digital transformation north of APIs and run the existing migrations or upgrades for IT migration south of the API layer.

And finally, we believe that when you are doing a digital transformational project, selling a product or building a product is very essential and that is really the objective of what we are selling in the market. We have built some very interesting sand boxes and solutions for this and we hope to showcase these to you during the investor day that we have. And I would like to announce this and specifically say, invite you all to come. So we propose to host this year's Investor Day on 4th of December 2015. Last year when we had this towards the end of December we got lots of suggestions that it should be held earlier in the month of December rather than in the last week of December or towards the end of December, so this time we want to host the investor day on 4th of December in Pune and we will spend the time to showcase and demonstrate some of the artefacts, sandboxes and technology components that we have built around data layer, the API layer and also the experiences and we will also be able to showcase some of the work we have done around IoT and Accelerite's new products and also the TNPM product and of course Aepona product as well.

With this sort of quick overview of the business and the conditions that we are in, we have nearly 45 minutes for questions. We will start taking questions one by one and request you all to limit your questions to a couple of them first and if you find that you are not able to get through, please tweet your questions, we are tracking the Persistent results, #PersistentResults as the handle that we are tracking. If you have questions on them we will take them after every few questions on the line.

Let me hand it back to Inba and let her coordinate the meeting from here on.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Sandeep Agarwal of Edelweiss. Please go ahead.

Sandeep Agarwal: So my first question and it is to Anand and this is the only question which I have. Anand, if you see we have been tracking Accenture and other big companies on the digital side and if you see their quarterly numbers are extremely encouraging, they are quoting number of 13%, 15% or so, while what I understand is that probably we are the company which are way ahead of time at least in the mid-cap space in India in that space and we also have added advantage of significant and immense knowledge on the IP side. So in spite of that if you see this year probably in best case scenario also our double-digit growth is quite a task, I understand from your morning comments on the media that we should be able to do 10%, 12% but still it is not that great a number in spite of we being way ahead of others in digital side and also way ahead of others on the IP side. So what is not allowing us to cater good 20% kind of growth on a small base and I think that is the only question if it gets the answer.

Anand Deshpande: No, I think it is a very valid question and this is something that we have been thinking about as well. I think let me state a few things here, one is I think what exactly is meant by digital is starting to get very confusing at the moment in the market at large and if you said all SMAC is digital then good percentage of our business is SMAC related and it is all digital in that sense. What we are trying to focus on in terms of our digital transformation business is mainly the business where we are working with enterprises and helping them transform their business and as I said the way we are doing it is based on architecture that is based on data, APIs and experiences and clearly that is what we are focusing on. And what we find is that, as a company where we have limited presence in the enterprise market this is a reasonable way for us to get in and we are starting to see some very good traction and I am very confident that the digital part of our business will grow quite substantially by the end of the year, we have some very good IPs that we can showcase. Clearly our challenge in general has been the fact that we are not perhaps as well known in this market and as well known as some of the other companies like Accenture and others, but I think we are doing quite well in the way we have set up the technology and I am quite confident that we will show growth in the next couple of quarters. Clearly the proof is in demonstrating that growth and there is not much I want to say beyond that at this point of time.

Sandeep Agarwal: So if I can squeeze one more, because two questions are allowed. So my extension of the previous question and based on your answer, so we saw a huge growth opportunity in late 90s in the outsourcing side and if you see most of the commentary today also in again any of the big companies or small companies the only talk in the Annual Reports or on the conference call is all about digital. So many of them have in fact gone ahead and mentioned that this is a much bigger opportunity than even that wave in terms of growth and since we are quite early in this play I understand because of enterprise non-presence earlier or minimum presence we would have suffered a bit and we are getting there aggressively. But still do you see that kind of similar wave where you can probably over next five years make your revenue four times, five times, I am not kind of asking a guidance but I am just trying to understand, can the revenues become 5x, 6x in the next five, six years that kind of wave you are seeing or it is too much to ask for?

Anand Deshpande: Again, see it is a loaded question, let me explain to you few things that I find in the market. One is that in general effort required for the same work is shrinking, so in general I do believe that because of newer technologies once the technology stabilizes there will be a compression in the spend because you do not need that many people to do the project. That said, all the new activities are going to happen around digital and that is clear and we are seeing definitely a lot of activity that we are seeing in the market. So this has a substantial opportunity to match the growth that we have and get to a point where our digital or the enterprise segment of the market is as big as the ISV market or even bigger than that. So I do expect this to be an important area for Persistent, but in general I am not ready to comment on the fact that this wave is as big as the Y2K or the next wave from the India outsourced software point of view.

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

Priya Rohira: My first question relates Anand more on the enterprise side, how have we seen the average deal sizes inching up and importantly in the greater than USD3 million clients do we have now few accounts coming from EDT? The second thing is, if you could share outlook on the IP side in terms of while we will reach 20% just on the future benchmark of 25% what are the areas where you think it would need to be supplemented by inorganic initiatives?

Anand Deshpande: So on the first one clearly if you look at…I will tell you that in a minute, somebody will just calculate and count and get back to you. In terms of the EDT deal sizes, we are seeing phased approaches on that, clearly the first phase of EDT projects are in hundreds or thousands of dollars and not millions of dollars yet and we think that there are second and third phases of these projects which will be more like 0.5 million plus. So right now these deals are of this nature at this moment. There are some accounts where we have few year kind of a long plan in terms of how to grow that business and we do see that eventually deal sizes will get to the USD 3 million range specifically around enterprise digital transformation. One other point that I would like to make is that because of our push around enterprise digital transformation we are seeing a lot of partner driven accounts, things around sales force and Appian specifically generating a larger deal size. So we had a few accounts where we have closed USD5 million plus deals in the last quarter as well and they are all both enterprise deals that we have.

Priya Rohira: So would you say that the partnership driven model would be equally helpful in terms of compared to direct effort and that is the reason where the EDT growth can be substantially offered of say 40%, 50%?

Anand Deshpande: See here is the story right, when we work with our partners such as take Salesforce and Appian and Apigee and others that we have already announced and talked about they are taking us into new sets of customers and we have been doing this for the last several years. What has happened traditionally in the past is that we have been working on a per-project basis so we would complete a project and the project gets done. What we have changed with the whole story around enterprise digital transformation is instead of focusing on just delivering completion of the project, in certain cases we are able to get into the account with a view to transform the business for the long-term. This gives continuity in the account and that is one of the objectives of how we are approaching the customers and that is giving us some better opportunities for long-term growth in these customers.

Priya Rohira: And my second question was more on the IP side, we already would reach 20% but in terms of some areas where you may have to substantiate it to inorganic and when do we reach towards that 25% benchmark which we have been looking forward to?

Anand Deshpande: So we do have a fairly good pipeline of products from some of our ISV customers that we are in discussion with, depending on those discussions, in the next quarter and the quarter after that we should be in a better position to say how far are we from getting to 25%. So I am quite optimistic about what we see in the pipeline, but what we have observed is that some of these deals do not close very fast and some of the large companies with whom we are trying to do deals sometimes change their mind and do not do the deal at all. So, I do not want to speculate a whole lot on this at this time, but hopefully by the time we have the investor day we may be able to give you a much better information on that particular data.

Priya Rohira: And just one last data point, Aepona USD 10 million is on an annual run rate, what were the likely margins over there?

Rohit Kamat: It is hard for me to tell you right now because there is a transition that will happen over the next two quarters in terms of the cost base, some work is being moved around to other geographies and various other things. So I do not want to comment on that right now, I will be able to provide you a more detailed number on the margins in a few weeks from now.

Priya Rohira: Sure, that's helpful. And wish you all the best.

Rohit Kamat: Now there was this question about how many of those USD 3 million deals are enterprise accounts, four of the accounts which are greater than USD 3 million we have four enterprise accounts out of the total of 17.

Moderator: Thank you. Our next question is from the line of Ankur Rudra of CLSA. Please go ahead.

Ankur Rudra: Anand just to begin with, you have not shared the acquisition price and the LTM revenues, can you throw a bit more light on Aepona?

Anand Deshpande: Actually we are not allowed to disclose the price on this particular deal because it is bought from a large company which was trying to shelve off their asset, I can say that it is highly competitive and a lot of it is related to revenue, revenue related stuff. So price is not, let me not say more actually but I cannot really disclose the number at this moment.

Ankur Rudra: If you can share some more light in terms of how it fits into your long-term strategy?

Anand Deshpande: So two things, in terms of the long-term strategy there are a few reasons why we bought this product and there are certain things going on which I am going to share with you right now. So one is of course we were working with this product, we knew this product well, we acquired this from Intel which is one of our large customers and there was an opportunity to take over a product where they had done a lot of investments around IoT and services in the telecom sector. So that was one reason. Second is, we got through this access and MSAs or whatever you want to call Master Service Agreements with a large number of telecom carriers, about 20 or so including some very active discussions and projects ongoing. The third thing is that in terms of our strategy that we have adopted around enterprise digital transformation, a lot of that strategy is based on API level architecture for various kinds of things. So Aepona is just like Apigee in the telecom industry, so Aepona has focused on creating an API layer in the telecom industry so this whole transformational stuff that we have been working on in the enterprises, if we had to look at an IP platform in that context Aepona was very directly aligned to this strategy that we have around APIs and federating APIs so that partners can write applications on top of the API. There is a very interesting component that is part of Aepona which is the billing module, so they are able to do micro billing of transactions that happens on the API layer. So that is another exciting product in there. Now there was a lot of investment made on the IoT side of the house for

Aepona but I guess Intel decided to change their mind for whatever, so a lot of this has not been sold in the market yet but I think there is an opportunity to sell some fresh IP around IoT in this market which is going to be a big area and we think we have acquired some interesting assets in this area that we want to rebrand and take them as Accelerite, Aepona in the market.

Ankur Rudra: Acquisitions have been I think earnings accretive over a 1, 1.5 year period, any comments there?

Anand Deshpande: We have a challenge on the revenue side versus margin side for the first two quarters, by the end of the year this should be accretive directly. The reason why we have this challenge in the first two quarters is partly to do with the cost that we have and the cost optimization that is required over the next two quarters.

Ankur Rudra: So it will be accretive from the beginning of next year effectively?

Anand Deshpande: That is correct.

Ankur Rudra: Just a book keeping question, the doubtful debt provisioning has gone up significantly this quarter, any comments what drove that?

Rohit Kamat: See as a percentage of revenue it is not high, so typically we provide for all outstanding invoices above 180 days. So some of them have fallen in that range and we have provided for them, but you have seen that we are able to collect this money and reverse them. So nothing to worry about, it is just a provision as per our accounting policy.

Ankur Rudra: Lastly, if you could comment Anand on the PBT margin guidance of 18%, it is lower than your previously maintained 20% and despite significant unexpected support from INR depreciation, is there a structural change in your pricing power because you see billing rates go up, one would expect that PBT margin guidance of 18% which implies relatively weak EBIT margins, is it more about Aepona for the next two quarters that you are guiding to?

Anand Deshpande: Well, some of it is Aepona and the other one is the higher percentage of onsite that we have. See our onsite number has gone up in the last three quarters and part of it has been driven by some of the digital work that we are doing and the enterprise work where we have larger requirement for people onsite or close to the customer and we have been investing in some of those by creating teams locally in Ohio which causes the margins to be under pressure. We expect that once these enterprise accounts stabilize and we get more growth happening on those accounts, most of that growth will come from offshore and that is where the margin improvement is expected.

Ankur Rudra: So is this the sort of base margin from where we might expect a recovery next year, will this be your target margin for medium term perspective?

Anand Deshpande: No, in the short-term perspective this is what I am referring to, about 18% for this year but of course we think we can improve these margins for next year.

Moderator: Thank you. Our next question is from Dipesh Mehta for SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just two questions about the IP you suggested about some kind of weakness and that weakness is likely to persist till Q4 kind of period. So do we see weakness to continue till Q3 in IP business excluding Aepona? And related question, I think you partly addressed about margin but just to understand medium term considering digital, our focus on enterprise business and related requirement of onsite-offshore mix and other things. Do we expect we can go back to our historical margin or you expect that would be far away from considering what medium term we see? And last is about attrition, if you can help us provide some color because it has this quarter also inched up slightly. Thank you.

Anand Deshpande: Right, so let me answer the margin question, I will ask Mritunjay to comment on the attrition question, so let me comment on the IP stuff first. So on the IP side, yes we should see growth in the Aepona part, there is also some volatility in general on the IP revenue so it is very hard to predict exactly what Q3 revenues will look like. We do expect that they will grow this quarter as well but I do not want to comment beyond that because we do not always have all that clear visibility on exactly what these new license sales that can happen on the IP side. So renewals as such there are lots of them that are tied to the calendar year because of the way customers sell these, so those should come during this year but it is hard to predict exactly what that is going to be. See, Aepona will add into this IP revenues for sure and there are some other things in the pipeline. In terms of the margins, overall when we are selling digital software right now we are selling at better price points and we are selling an IP plus services deal in that context. So, we do expect that we have significant opportunities to improve the margins on the digital side of the business selling into enterprises once we can crank the engines to the extent that we are able to deliver systematically and consistently and IP based solution which has a platform that we have built and also then we are selling at fairly high rates on the digital side. So if you looked at our rates they have kind of gone up and they are not quite under the same pressure that it would have been in the past. So the digital market is pretty good for rates, that is not the problem. So there is an opportunity to move the margins higher, now how much we should do it is hard to say at the moment. I will let Mritunjay comment on the attrition numbers.

Mritunjay Singh: So attrition has marginally increased to 17.1%, so I will give you a little bit more color on attrition. Some of the attrition is in the new center that we have been expanding in Bangalore as you know, so we are seeing a high amount of attrition in Bangalore but the numbers are low. Most of the other attrition is in the bracket of three to four year experience which is a replicable pool, we are not unduly worried about this attrition. The other factor is, this quarter we do a hike in promotion and there is a little bit of effect of that in this quarter. So going forward we think attrition should be lower than this.

Anand Deshpande: Maybe while you are at it, maybe you can look at the Twitter questions because some of them are also related to that.

Mritunjay Singh: So there was a question about net hiring expected in FY16 and I had replied about the gross hiring number, essentially for the year we had said we will hire around 1500 people. In the first half we have hired around 830 people gross and we are expecting to hire another 900 people gross for half two. So that is little over the 1500 number that we had projected, but that also includes freshers who become billable after six months.

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

Nitin Padmanabhan: The question was one, with regard to the earlier IPs that we had taken over, typically the sales force would reside with the client, and a lot of sales would happen with the client. With regard to Aepona, I presume most of the sales will have to be done by us and incrementally does that mean that from a margin perspective it should be lower than the rest and the investments on sales force should be incrementally higher for this business or can you leverage our existing sales force?

Anand Deshpande: No, as part of the acquisition, see again let me sort of explain a little bit here. So wherever we need our own sales team that is different from our services sales team, those are the IPs that we have housed under Accelerite, so Accelerite has it's own sales team. And as part of the Aepona acquisition we got about five to six sales people who are well located in the telecom area and while they might sell some services as well, that sales team is quite different from the Persistent sales team at the moment.

Nitin Padmanaban: And last year towards the end I think we had quite a few client specific issues, do you think those are behind and the road seems clear at least in the near to medium term with nothing expected, or in terms of that magnitude at least?

Anand Deshpande: No, here what is happening is as we have pointed out in the past, traditionally the customers that we have been working with on the ISV side they are all under pressure and I do not expect that to change, so the volatility on those accounts and I do not want to name them but they are all the well known product companies, they are all under a lot of pressure in terms of changing business climates and changes that they see on their side. So, we do expect continued pressure on the ISV side of the business which is partly responsible for us not seeing really high growth rates despite closing a large number of accounts, but clearly this is going to happen every quarter and I cannot just keep making that as an excuse forever. So we have to find a way to get beyond that, we think that some cuts on an ongoing basis on existing ISV accounts are par for the course, we will have to handle them and we will have to find new business and grow the new business in newer areas which will have potentially longer term stability and through the IP stuff also we will have longer term contract trades as well, so this is really the plan and we have been on this course for the last 1.5 years now. And yes so we will see some challenges moving forward but what is exciting is the fact that we are able to close new accounts and move on to new projects and business as we go along.

Nitin Padmanaban: If you look at the margins, is there a base margin that we looked at saying that we will not go below this from a margin perspective? That is one part of the question. The other part is, if I just look at the G&A expenses as a percentage of revenue, it seems to have grown at let's say 35% in FY15 where revenues have grown by 13%. So how do you see that part of the cost, do you see that coming down? And the second is, what is the floor on margins?

Rohit Kamat: See some of the G&A expenses that you are seeing is essentially our expansion of our locations, if you look at we have multiple centers and we have been expanding Goa and Bangalore as location. So it is about that, there is no aberration in terms of sudden spike in G&A expense.

Nitin Padmanaban: So that should see some leverage going forward is what you mean?

Rohit Kamat: Yes.

Nitin Padmanaban: And in terms of the floor on margins?

Anand Deshpande: See, our desired goal is to operate at 18% profit before tax, but that said there is definitely a focus on growth and we are making investments that are needed to be made, but I think we will be able to maintain those.

Moderator: Thank you. Our next question is from the line of Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain: Two questions sir, one is on the seasonality in the 3Q and 4Q, now that enterprise business is growing fast for us do you expect some seasonality to change for Persistent or do you think the current growth rate can be continued in the next two quarters on the services side?

Anand Deshpande: Well, there will be some seasonality that we expect because of furloughs, holidays, all of those kind of things in Q3 numbers but we have to factor that in and lot of the projects if they are fixed price they are not affected by those things. So we have to manage all these in the context of quarterly seasonality as such. In terms of the market requirements, we do not see a slowdown as such, I mean we do see a lot of opportunities in the digital space, the enterprise space and we are seeing enough activities on the sales side right now that, I do not know how exactly to give you a more precise data on this for this quarter.

Mohit Jain: Second is on the IP led investments, it has been quite some time that we are investing continuously into IP but then at the same time organic growth is not coming through, is there a timeframe you are looking at in terms of scaling back on the IP investments or do you think that should…

Anand Deshpande: No, absolutely not, but see the IP strategy that we have been deploying is a conservative strategy where we are acquiring products at very low to no upfront cost and if you look at the overall way of how we have been operating them we are able to get substantial revenue over a period of time at a very healthy profit margin, much better than the typical profit margins that we have in our services business. So the strategy is to go acquire as many as we can, they are not the fastest growing unicorns or any of those kinds of products that we are acquiring, we are acquiring products that are not strategic for our ISV customers. So there is an inherent business model that is fairly conservative in terms of how we are operating the Accelerite business and we see a good pipeline of these kinds of products in the mix, this allows us to get better stability in some sense, so we do expect us to continue to enhance our IP portfolio and we have a good pipeline for doing that and over the years we have figured out a way of how to rejuvenate existing old products and how do you create sustained long-term revenue opportunities on products at a very economical price.

Mohit Jain: Sir I was specifically referring to the people investments, the data that you give in the sheet there are some 1,000-odd people employed continuously into IP development organically, not in terms of financial investments but these guys are in…

Anand Deshpande: So that is all the people, so what we have done is we have distributed the company so that it is easier for people who are tracking these numbers from the analyst point of view, we have divided the company into two parts, the IP company and the non-IP company and when we show the number of people in the IP company that includes everybody that is in the IP company that includes development, support, maintenance, sales, whatever it is in the IP company and that to some extent does not depend on, it is not directly related or linearly related to the revenues, so if we make more money or less money we still have to retain that size of the team which is why we have bifurcated it that way.

Mohit Jain: So there is no discretion per say wherein you can cut down on the team size or you can…?

Anand Deshpande: No, we can cut some but we think that there is growth in it and there is a reason why these teams are required, but there will be some adjustments here and there. Let me move this quickly because we do have very few minutes left, we can take this question offline again if you want.

Mohit Jain: Yes, thank you. That is helpful.

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

Abhishek Kumar: My question to you was account lead strategy, if I remember right the focus was on basically few large accounts and basically mining them well, so 91 new logos this quarter comes as a surprise, especially 22 new logs in the ISV business which as you mentioned before undergoing transition. So is there any change in the strategy or do you think we are spreading ourselves too thin in terms of our sales bandwidth?

Anand Deshpande: So there is a hunting team that we have set up that is hunting new logos and the reason part of this is that clearly we continue to support and focus on the large existing accounts but we know that they are all going through challenges and unless we keep adding the newer companies in that mix our ISV business will continue to be under threat. So we have decided and I think we had mentioned this earlier as well is that we are going to focus on new business growth in the ISV segment as well, there is a big opportunity there, we are an incumbent there and there is no reason to walk away from existing accounts or even new accounts in this area.

Moderator: Thank you. We will take our next question from the line of Girish Pai of Nirmal Bang. Please go ahead.

Girish Pai: Anand, in the morning on one of the television channels you mentioned a revenue growth of 10% to 12% and 2H margins being better than one, can you just confirm that?

Anand Deshpande: Yes. So when you look at yearly growth rate side you are comparing against a flatter H2 as compared to the previous H1, so if you look at it and add it up yes we do still stand by 10% to 12% at least on the growth rate for this year. Further we are at 17.8% PBT right now, we want to see that it goes above 18% in the second half.

Girish Pai: My second question is, you said you added…

Anand Deshpande: We are sort of at the top of the hour, we just want to take one last question from I think Mayur is the one remaining. Can we answer your quarter on email?

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

Mayur Parkeria: Sir in the enterprise segment I do not know if you commented in your opening remarks but did you mention about the growth within the enterprise as to how much was led by EDT and how much was led by other segments? And also in general a color on the enterprise segment growth and how do you see that going forward because we are seeing enterprise bouncing back to show this kind of growth after two, three quarters, so was it specifically led by EDT segment within that and any specific number on that? And in general also a comment on how you see the enterprise growth going forward.

Anand Deshpande: I think overall on the enterprise it is growing through EDT, it is growing through platforms and various other areas. I do not want to say too much at this time because we are at the top of the hour already but we will be able to answer your question offline.

I do want to close this call right now, it is just past 6 o'clock. So I would like to take this opportunity to thank all of you for participating in this call. I would like to wish you all a very Happy Diwali and seasons greetings for those in the US around Halloween and Thanks Giving that is coming up. I would like to invite all of you to join us in Pune on the Investor Day on the 4th of December which is a Friday. We hope to answer many of your questions and show some of the work that we have done and also the IP that we have acquired. With this let me thank you all for being here and let me hand it back to Inba to close the call.

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