



## Persistent Systems Limited - Analyst Conference Call

### Q1 FY17 Results

**Date: July 25, 2016**

**Time: 5:00PM IST – 6:00PM IST**

#### MODERATORS

**Dr. Anand Deshpande**

*Chairman & Managing Director*

**Mr. Mritunjay Singh**

*Executive Director & President - Services*

**Mr. Sudhir Kulkarni**

*President - Digital*

**Mr. Atul Khadilkar**

*President – Corporate Operations*

**Mr. Sunil Sapre**

*Chief Financial Officer*

**Mr. Amit Atre**

*Company Secretary*

**Moderator:**

Ladies and Gentlemen, Good Day and Welcome to Persistent Systems' Earnings Conference Call for the First Quarter ended June 30, 2016. As a reminder, all participant lines will be on the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note, that this conference is being recorded.

We have with us today on the call, Dr. Anand Deshpande – Chairman and Managing Director, Persistent Systems; we also have with him Mr. Mritunjay Singh – Executive Director and President, Services; Mr. Sudhir Kulkarni – President, Digital; Mr. Sunil Sapre – Chief Financial Officer; Mr. Atul Khadilkar – President, Corporate Operations and Mr. Amit Atre – Company Secretary.

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

**Anand Deshpande:**

Thank you, Aman. And to all participants, good evening for those are in India and good morning if you are in the US. It is my pleasure to share with you the results of our first quarter. We are quite delighted to share that we did USD 104.76 million in revenue which was a 33% year-on-year growth and a 4.3% quarter-on-quarter growth. In rupee terms, the Indian rupee equivalent to the quarter was Rs.701.77 crores which was Rs.7,017.77 million which is a 3.6% quarter-on-quarter growth and 40.2% year-on-year growth. The profit after tax was Rs.732.86 million which was a quarter-on-quarter dip of 9.3% but a year-on-year growth of 9%. This was a very steady good quarter, we are quite delighted by the top-line growth and also the profitability that we had during the quarter.

In terms of the highlight of the quarter, this was the first quarter with our new organizational structure where we have divided the company into four specific P&Ls which are the Services business, the Digital business, the Alliance business and the Accelerite business. Each of these businesses have very clear focus and our focus on very specific kinds of business matrices. This was the first quarter where we had these four P&Ls lead by four Presidents who are running each of these P&Ls independently. In addition to these four P&Ls, we have Atul Khadilkar who has been running the Corporate Operations.

I am going to request him to share a bit with you about what their business is and what is going on. But just a give a very high level overview, the services business is focused on customers and ensuring we deliver to the customers' requirements and the goal is to focus on some key customers and Mritunjay Singh will share more about how the business is in his Services business. Sudhir Kulkarni will talk about the Digital business where we have been investing in Enterprise Digital Transformation, some of the platform work and other things that we are doing where we are building solutions ahead of what we are selling to customers. Accelerite is our business where we actually sell products that we have been acquiring and enhancing and the Alliance business is predominantly lead by the business that we have across all parts of IBM.

This quarter was an excellent quarter in terms of the investments we made and the recognition that we got for some of the key initiatives that we have setup. For the third year in a row Persistent

Systems was awarded winner in the Most Prestigious Coding competition and we got the title of India's Coding Power House at Code Gladiators Conference. This was the third time in a row that we have won this award. Oracle recognized Persistent as North America Partner of the Year in Security Services. Appian named Persistent as a North American Partner of the Year and recognized us for the “Best Use of Mobile” in Appian App Market Awards. Ovum ranked Persistent as the strongest overall capabilities in Distributed Agile Delivery of Services. Zinnov Management Consulting included Persistent in leadership zone in all categories in Zinnov Zones for Digital Services report.

With this, let me now hand it to Mritunjay Singh who will share with you updates from the services business. Mritunjay?

**Mritunjay Singh:**

Thanks, Anand. Good evening, Ladies and Gentlemen. It is a pleasure to be here. It has been my first quarter in this new role for people who have been part of this I used to run operations. From 1<sup>st</sup> of April I have taken this role and my first mandate for me was to actually go and meet the customers. As Anand said, we were trying to find the right customers that we wanted to grow with. So I spent on the road, last two months I have been travelling to meet 40+ odd customers, CXO level people to understand what is their journey and what they are trying to do. Most of them are keenly increasing their investment in the newer technology area, what has been traditionally known as an innovation budget is becoming mainstream and that is very exciting because that is the budget that we typically service and a lot of our work is in this area which is now collectively being called as a digital. And we wanted to deliberately chose a couple of verticals that we wanted to service, so we have chosen life sciences, healthcare, telecom and media, financial services and what we call high tech which is a traditional independent software vendor as a customer base. A lot of these customers are looking for newer partners and that is a right timing for company like Persistent because this is a time when they are looking for a long-term strategic partner who can come and help them innovate and help them create new revenue models or help them change the cost structure.

So our focus has been making sure we have the right people available to us in the market who can build this relationship. We have hired our global head of sales who has come from HCL Technologies, Anshul Verma, he has been a seasoned sales professional, been in the market for very long, has also sold to different services lines like financial services, ISV and telecom sector. We also hired John Vitekar who comes from Dell, IBM and BMC as a head of our ISV sector, he is going to sell into some of these new high tech customers that we have been having. Their strategy is very simple, we want to build a long-term deep relationship, at this point in time our approach for the next few quarter is to ensure we have the right focus on the right set of customers so that we can build a long-term profitable growth. We want to increase our repeat business with selected few customers, we will see a bit of churn because the kind of customers we have, there are lot of, as we call it pre-internet companies, there are some pre-cloud companies and some born in the cloud companies. We are particularly targeting a certain type of customer base that we want to go after. In lieu of that I am sure we will see traction in the coming quarters. It is difficult to predict right now when we will see that, but we are very excited about the opportunity because most of the customers we are meeting are willing to talk to us, they are

willing to talk innovation budget and the kind of projects they are doing and they are very interested in exploring partnership with us.

So, on that note, I will hand it back to Dr. Anand Deshpande.

**Anand Deshpande:**

So let me now invite Sudhir Kulkarni and then follow it with Sunil Sapre. Sudhir?

**Sudhir Kulkarni:**

Thanks, Anand. I want to share some of my learnings in the last three months as I took on the mantle of Persistent Digital. We have been talking about some of these things before, so pardon me if I am repeating some of them because I think it is good to reiterate when we really focus on certain areas. So the focus for Digital has been on building pre-built solutions upfront and trying to drive transformational experiences in the enterprises that we are working with. A large part of the unit's work has been in working with our digital platform partners like Salesforce, Appian, Oracle, Apigee, and increasingly bigger ones like Google and Amazon probably in the next few quarters. So in meeting with numerous customers during the quarters I have been tremendously excited by the resonance that we are getting for our digital message.

Almost all the companies that have really gained market value in the last five to 10 years and stall the advance of the digital natives, taking this business over have reflected two things: One, they have reflected in ability and an agility to adapt and adopt technology advancements and offer innovative products and solutions to their constituents. The second thing is, they have done this at a staggering frequency, meaning that they have been putting new products and services and solutions in place very-very fast. So they have engaged customers and employees better, they have reflected a culture of innovation and this is what we have heard, we have gone to several large customers in the healthcare space, in the financial services space and this is what I am hearing. They have also engaged their employees better and they have reflected a culture of innovation that includes things like Hackathon, etc. which are in stark contrast to some companies that have not done that, and hence kind of lost their mojo in the market.

So, on the one hand technology has advanced at an accelerating pace, enough said about that, not just hardware and software but processes, structures, collaboration, openness and all those things that are now reflected as a new initiative that is being loosely defined under Persistent umbrella as software 4.0. It has become practically impossible for even one company or a few companies to determine the course of technology advancement or its adoption into building new products and services.

On the other hand, the born digital millennial generation of employees as well as consumers are expecting new products and services with benchmark digital experiences like those of Apple, Amazon and Google. They make choices and decisions, including those at work at the speed of light, they expect seamless transition between their work life and their personal lives and they often chose to make no distinction between the two. So, in this landscape, to run a legacy business and maintain stakeholder value, companies not just need to transform but they are kind of forced to transform and they are forced to transform fast. The way we have looked at some of the customers that we are

working with is they have transformed the structure of their operations, they have transformed who and what they sell to, they have transformed who they partner with, they have transformed with who they hire, how they engage with their employees or who they compete and collaborate with. So CXOs that we have been meeting, they have been expressing this very clear desire that they need to determine what part of their technology investment, their legacy technology investments do they modernize and what part do they discard or what part do they actually transform and how do they do that. That is where I think our whole strategy around talking about experiences, digital experiences at speed has taken. This has resonated very-very significantly. The experience, experience by consumers, partners, channel members, employees, managers and even citizens in the case of cities and corporations that we have been working with is getting transformed and that is the way our business of digital transformation is going to grow. So, we are talking all about the 'how' of transformation and that notion is now carried in to the mainstream of the enterprises.

Persistent's relentless focus on the 'how' of digital, first outlined about a couple of years ago by Anand, has earned us recognition as a leader for providing these digital solutions and services as evidenced by the ratings and awards that we have won that Anand alluded to. And also in the recent past and in this last quarter, the number of customer acquisitions that we have done, the revenue growth that we have experienced in the enterprise space during this quarter was clear evidence that directionally we are on the right track and I think the trajectory is going to go up from here onwards out.

Back to Anand.

**Anand Deshpande:**

Let me now invite Sunil to share a bit on the financial details of the quarter and other specific details there.

**Sunil Sapre:**

Thank you, Anand. Good evening to all of you. While Anand and Mritunjay and Sudhir have shared the business updates and market outlook, I would like to share some information on margin movement, the CAPEX and liquidity position as on 30th June, 2016. The revenue for the quarter was \$104.76 million, recording a growth of 4.3% quarter-on-quarter and 33.3% year-on-year. The revenue in INR terms was Rs.7,018 million with a growth of 3.6% quarter-on-quarter and 40.2% year-on-year. The growth of linear revenue was driven by 2.5% increase in volume and 1.8% by rise in average blended billing rate. The offshore linear revenue grew by 4.3% quarter-on-quarter, driven by volume growth of 3.2% and increase in billing rate of 1.2%. The onsite linear revenue grew by 4.3%, mainly due to increase in billing rate by 5.9% while the volume declined by 1.4%.

Now let me explain the margin movements. The EBITDA margin was 15.1% for the quarter as compared to 15.9% for the preceding quarter. This is primarily due to Visa cost we show up in this quarter, the impact of which was 1%. The blended utilization for linear business was 75.3%, marginally higher than the previous quarter. There was provision made for doubtful debts which accounted for 0.3% as compared to credit of 0.3% in the previous quarter.

Coming to depreciation and amortization, it came at 4.9% as against 4.6% in corresponding quarter of previous year and 3.7% in the preceding quarter. The EBIT was 10.2% as against 12.1% in the preceding quarter. The treasury income was Rs.172 million as against Rs.246 million in the previous quarter. The previous quarter included profit realized on certain long-term mutual fund investments. The exchange gain was Rs.81 million, higher than the previous quarter due to favorable currency movement. With this, the PBT was Rs.968 million at 13.8% of revenue as compared to Rs.1,028 million at 15.2% in the previous quarter. The ETR for the quarter was 24.3% and PAT for the quarter was Rs.733 million at 10.4% of revenue. PAT was higher by 9% on YoY basis and PAT for the previous quarter as per IndAS would have been Rs.728 million, thus there is a marginal growth in PAT from Q4 to Q1 if you look at comparable numbers on IndAS basis.

The operational CAPEX for the quarter was Rs.138 million. The cash and investments amounted to Rs.7,765 million at the end of June as compared to Rs.8,693 million at the end of March. The value of forward contracts we have at the end of the quarter was USD111 million at an average forward rate of 70.47 per dollar.

Thank you all and I hand it back to Anand.

**Anand Deshpande:**

Thanks a lot for this detailed analysis. As you see, we had already guided market in terms of the IBM, IoT business deal that we had done in the March quarter and some of the numbers that we show play along from there. Overall, for the last two years we have maintained a position that changes in the IT or the technology industry are around two axis, one is the fact that the effort required for the same work is going down; and the second, that there is new technology spend that is happening and shifting our business from the traditional T&M work for higher business to next generation products, technologies and business models is one of the key work in progress that we have been working on for the last two years.

If you look at our numbers this year, this quarter you will see that our quarterly results are fairly steady because of the strategic changes that we have made over the last year or so. The overall IP revenue contributed to 28% of our business, the enterprise revenue is 26% and we are making efforts to ensure that the potential volatility that we have in traditional customers is offset by newer revenues and enterprises and IP. And that is really the focus of the company. So I think overall, quite pleased to share the numbers as to where we are and the fact that we have their distribution chains that we had promised, we are starting to see that already.

I am going to sort of put a little bit of caution on the way these IP revenues come up. There will be seasonal quarter-on-quarter volatility on the IP revenue which is part of the business. Overall, I would say this one is a steady quarter, you will have some quarters as well, we will see much greater revenue on IP and some quarters it may be less. But it is time that we stopped looking at the IP revenue just on a quarter-on-quarter basis, but take a long-term approach on the IP revenue. And I am quite pleased to see the situation that we are in at the moment, because overall most of the numbers are trending well

both on the IP revenue and each of the business units that we have identified our focused on their business and are doing well in their own context.

With this, let me take a pause here and open the board for Q&A that we can take as we get along. So we will open it for questions, if you have any questions, please follow the instructions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:** Sir, few things here. We do not have much idea of how you have internally also broken the revenues, although you have given clarity that there are now four businesses. So two, three questions here. One, ISV business, I think it would be fair to assume fully goes into the services business which is headed by Mritunjay and there is a digital and a part of IP which you bifurcate I think goes into Sudhir's Digital, will it be fair to say that? That is why if you can throw some clarity on that side.

And also Anand, particularly what we are hearing in most of the cases and the reports which are coming, we are seeing that the size of the deal in the Digital get increasing consistently at a 15% to 18% rate on the deal side, are you seeing the same thing and do you see it is because either lot of the business projects have now got clubbed in the innovation or there is some other reason or some other trend you are looking?

And finally, I have a bookkeeping question for Sunil. Sir, I just wanted to know if you can disclose exactly how much is organic and inorganic growth both on quarter-on-quarter and year-on-year basis? And what kind of cost impact we can expect, because I remember that from 7 million - 8 million kind of number that is there for IBM integration, so where do we stand on that and by when this is totally taken off and we can see those margins improving?

**Anand Deshpande:** So the first part about how the groups are reorganized, so yes, you are right, most of the services business which is the ISV business is also included in the services business and is lead by Mritunjay Singh. The idea there is that in the services business we are working very closely with customers and mainly doing what they tell us to do, by and large, and work very closely with a select set of customers. Currently we have a large number of them, but we are trying to focus on a small set of customers where we think there will be growth and we are working on building deep relationships with those kinds of customers. So, that is really what included in the services business. All the platform business that we had which was Appian, Oracle business and also the stuff we were doing with Salesforce and the EDT business i.e. new digital business that we are focusing a lot on is all part of Sudhir's organization. The idea there was that we wanted to get to a model where we can sell Digital without selling resources in some sense, so we want to sell Digital as a solution, we are pre-building a whole bunch of technology and partnering with customers to go with a point of view on how Digital needs to be done and the focus is on the how of digital and that is really how we are trying to sell the Digital business and yes, that is really the plan that we have with Sudhir. Nara was already running Accelerite, most of that has continued to remain what it is. All the stuff that we were doing in and around the IBM

ecosystem has been put together with Jitendra as the IBM business. So that is really how we have split these four into four different operating business units with each independent P&Ls. This has helped us in trying to focus on specific key matrix for each of the business and we found that for the business the same things do not make sense for all four businesses. So that is really what has been the focus and that has helped a lot, it has helped creating clear focus for each of these business units.

In terms of the organic and inorganic and all of those things, I think it is best, we do not have that much detail on sharing those numbers at the moment. In a sense this is really where it is at the moment, there was no new or inorganic deal that we did during this quarter so there is no inorganic one-off revenue that showed up this quarter which did not exist in the previous quarter. I am not in a position to disclose IBM specific numbers, partly because of the way our agreements with IBM are. Suffice to say that the overall business in the alliance bucket that we have shared in the segment distribution is coming from all the IBM work that we do and the ecosystem of IBM projects that we work on.

In terms of the overall trend on the IoT business that we acquired, I think we are on target or slightly ahead of target on what we had set up. However, that said, we have committed to investing in excess of what we will earn in this financial year and we still hold on those numbers and the plans that we had shared in March when we did the deal.

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

**Sagar Rastogi:** Sir, again on your restructuring of your business, so it appears that you have moved the non-platform digital services out of the enterprise segment in to the services segment which to me appears a bit confusing because I would have thought that you would enter a enterprise customer using a very different sales technique than for entering a software vendor, specifically more domain intensive, talking the language of the customer whereas in a software business you would be selling on technical expertise. Also, it will be difficult now for you to mine a customer from a digital project to an enterprise digital transformation because they are now housed in two different segments. Could you explain why did you put both software vendors and enterprise customers in the same bucket under services?

**Anand Deshpande:** So I will get Mritunjay to share a little bit more on the exact things that are going on. I just wanted to point out that this IP and enterprise in some sense that we are showing, actually goes across these businesses, it is a slightly different cut from the business units that we have. So not that all enterprises from services come up it is from the digital business as well, the goal is to look at all those customers which are enterprise customers. Let me get Mritunjay to comment a bit more on the earlier question and we will see how to best justify what we are doing.

**Mritunjay Singh:** So ideally the best way to look at is, in one case we are essentially pre-building a lot of solutions that we can apply quickly on a platform which could be one of these three that we have or the one that we have already built along with the product and white label products. Whereas what we are doing in the services is going where customers are trying to build this custom build, so if there are customer trying to define our experience journey on an API or a data which will transform their customer which is

trying to in-house, so that is where we are trying to do. You are absolutely right, this is a domain intensive play, we are not looking at providing the service only in terms of technical capability. So I had given, right now we are engaged in a credit card customer, we have somebody who has done like 25-year credit card roll out for like large banks, global rollout. So we are building that kind of capability, we already have people who understand hospital, healthcare provider, we have somebody who has ran life sciences as a client of ours and he is now running my life sciences business. So there is a lot of domain intensive knowledge that has been built and the idea is to go and work with a certain few set of clients, earlier we had a lot of customers that we used to work with but now we are focused on certain few customer where we know that they are going on a journey which is not necessarily on our specific platform, we are going to do services around that on either helping them simplify it or helping them build large data or database decision system or helping them new kind of experience on a business process that they wanted to build. So, Digital is a very broad and a loosely defined term and in industry everybody is calling themselves digital and it is very difficult to pinpoint what exactly is digital. But our approach is what is pre-built, pre-fabricated and that is why Anand explained there we are building a lot of solutions upfront that we want to redeploy and reuse and here we are trying to do a lot of custom built services only for a targeted few customers.

**Sagar Rastogi:**

Thanks Mritunjay, that definitely helped. But it appears that in your go-to-market is driven by the type of solution or the horizontal rather than verticals. For example, for this credit card customer once you have built custom built solutions and now want to sell something that we indicated?

**Anand Deshpande:**

Sagar, so we can take this offline, but let me explain one last thing in this context. See, the idea here is that, let me give you overall, the problem that the industry has is that traditionally we have been billing on effort and most of the billing has been effort based and the challenge that we have right now as an industry is that the effort required for the same work is going down. So what is happening is that if your billing is effort based then you are going to keep losing your value in some sense. So the services business has been our traditional business and predominantly we are effort based in that traditional business or goal on the digital business is not billed by effort but billed by outcome or by solution or by something else. And that is really the motivation for keeping them separate. When you go to the same customer and try to sell new sets of things, you cannot charge completely different rates and then that defeats our purpose of what we are trying to do.

**Moderator:**

Thank you. We have the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:**

Hi sir, just two questions. One is, if you can share your CAPEX breakdown during the quarter. And second was on the margin trajectory, last time you mentioned there could be 200 basis points margin impact because of the IBM IoT integration. Now that the first quarter is complete with the recent margin and second quarter you are looking at wage hikes, so how should we read margin trajectory, is there a possibility of a disappointment on that side in FY17?

**Anand Deshpande:**

Okay, let me get Sunil to give you the CAPEX info. See, the thing is we have already factored in the 2% dip on the IBM business because of the IBM business in Q4 of last quarter which was the first quarter

that it got counted on. So if you were to draw a line from where we were, just draw a line 2% below that and stress that through the year, that is really what we are saying. We still hold on that, we do not see any real reason to change on a yearly basis on that count, we still think that the revenues that we expect on the IBM IoT business and the expenses that we expect, the difference is about 2%. And on the rest of the business we do think that we have opportunities to improve and help on the revenue numbers and on the bottom-line and we think we can maintain the profit margins at the end of the year to the levels that we have promised. That said, I do expect that we will have some variations because of the IP revenue quarter-on-quarter and that may have an impact on the next month or the next quarter. So I don't want to rule that out but I don't want us to look at things just on quarter-on-quarter basis but at the end of the year I think we are very confident about delivering on the profit margins that we have promised.

**Mohit Jain:** And on the CAPEX breakup?

**Sunil Sapre:** Yes Mohit, on the CAPEX the total increase in CAPEX during the quarter was Rs.130 crores odd, of which about Rs.18 crores is on the operational CAPEX and the balance is on the acquisitions that we did in the last quarter for which the payout happened during this quarter.

**Mohit Jain:** So almost on Rs.110 crores is based on M&A that has been done?

**Sunil Sapre:** That is right.

**Mohit Jain:** Anything pending for the rest of the year?

**Sunil Sapre:** Yes, there will be an amount similar order which will get paid during the year.

**Mohit Jain:** Rs.110 crores more to go, is it?

**Sunil Sapre:** Not of that order, it would be about Rs.70 crores to Rs.75 crores.

**Mohit Jain:** And the operational CAPEX will remain at the current levels?

**Sunil Sapre:** Yes.

**Moderator:** Thank you. We have the next question from the line of Sandeep Muthangi from IIFL. Please go ahead.

**Sandeep Muthangi:** I have two questions, Anand first one is on the classification of the alliance business, is it just IBM and the entirety of IBM that is there or is there any other client or some part of IBM is outside of this alliance business also?

**Anand Deshpande:** No, it is all IBM and IBM related business. So there are certain customers where we work with IBM but we have our own MSA, they are all part of the alliance business. Again, we are trying to sort of keep it

to one customer at this moment because there are several reasons why we find that keeping them in one group is better than distributing them across various groups.

**Sandeep Muthangi:**

And secondly on the IBM Watson deal, the last time when you won the deal and in the last conference call you mentioned that you expect the annual revenues to be about \$50 million, is that broadly on track and it has been six months since you won the deal, what is the kind of progress that you have seen apart from the deal going well any new clients that you have been managed to win based on that or any material progress on that?

**Anand Deshpande:**

See, we have really been working on this together with IBM for one quarter. The first quarter which was their calendar quarter was mainly a transactional entry in the sense that we were really not working together because everything was not signed but it was just with effect from 1st of January because of the calendar year and other considerations. So in the last one quarter we have made very good progress on getting to know what the customers are doing, what the gaps are, filling those in and starting to engage with customers. So really good progress but it is not going to hit top-line or the bottom-line in this quarter at all and we will see impact of that more in the second half of our financial year.

In terms of specific numbers on how much we have done in the first six months as compared to 50 million, I know it is a good question but actually we have to seek a lot of permissions before we answer that number last time, I do not want to share any specific number at this time. All I can say is that there is seasonality in the numbers and the revenues that we have quarter-on-quarter, factoring the seasonality we are doing well.

**Sandeep Muthangi:**

And I wanted a clarification on a question that was asked on the investments for the deal, your response was that whatever cost had to hit the P&L had hit the P&L in 4Q FY16 itself, beyond that there is no incremental impact basically on the cost side from this deal. Is that correct or will there be...?

**Anand Deshpande:**

Let me explain that because I think that may have created some confusion or otherwise. See, here is what is happening. So what is the investment that we are making is all in the people that we need to invest in. So we have taken on a large number of people from IBM who have moved and transferred to Persistent, in addition to that we have added another about 150 to 200 people on the product to work on enhancing the products for the next generation. That investment was made in starting January, February, March and was fully loaded during this quarter. Now we do not expect to add any more additional people on this project through the rest of the year or potentially into the early parts of next year and then depending on what revenues we have during this quarter and this year we may enhance or reduce our expenses next year. But right now for the rest of the year, including our let's say the financial year, we are not seeing any need for adding any additional people which means any additional cost to this particular project. I don't know if that is clear.

**Sandeep Muthangi:**

That is very clear Anand. Thanks for that.

- Moderator:** Thank you. We have the next question from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.
- Avinash Sharma:** Sir one bookkeeping question, mainly on the amortization figure going up by almost Rs.8 crores QoQ and is it mainly to do with the new standards or reporting? And also sir, some clarification you mentioned about the quarterly seasonality in the IBM revenues, so could you just clarify as to which quarters are we expecting the major chunk of revenues to come in? Thank you.
- Anand Deshpande:** See it is like this, you can easily look at this by looking at IBM's revenue quarter-on-quarter. So I do not want to comment on their revenue because that is something they do not want us to do, so I am not going to say anything on their seasonality. But the fact is, product companies do not sell steady 25% every quarter for four quarters, there is seasonality, deals close at a certain period, there are problems that people go on vacations in Europe in this quarter, so there is ups and downs. That is very obvious, if you just look at IBM's four quarter revenues you will see the numbers and they play along with us as well. So, we will have this kind of seasonality as part of the change that we have made in the mix and we just have to live with it.
- Avinash Sharma:** And amortization figure?
- Sunil Sapre:** See, on the amortization actually if you see the quarter-on-quarter trend through the year, it is in the order of about 2% whereas in this quarter it is 2.8%. You might have seen that number going over a curve of say 2%, 1.6% through the last financial year and it is mainly on account of the products that we have acquired over a period of time which run off the entire amortization stream. So the impact is not so much because of the new standard, there is a marginal impact, but large part is only because of the acquisitions we have made.
- Avinash Sharma:** So sir, can we expect similar trajectory going forward in this year?
- Sunil Sapre:** Yes, this will be more or less in that trajectory.
- Moderator:** Thank you. We have the next question from the line of Rohit Gupta as an individual investor. Please go ahead.
- Rohit Gupta:** Can you please share, was there any upfront payment for the IBM Watson deal during the acquisition or is it just like operational expenses?
- Anand Deshpande:** No, on the IBM Watson deal we did not pay any upfront, it is a revenue share agreement and we are investing in the team. Whereas another deal was announced where we have a small upfront payment which is the MDM deal and some of that, it is a much smaller deal but that is where there is some upfront payment.
- Rohit Gupta:** So the Rs.110 crores this quarter, what is that, which are the acquisitions that it was spent on?

- Anand Deshpande:** There is multiple of them.
- Sunil Sapre:** You are referring to the amortization figures or...?
- Anand Deshpande:** We will just come back to you, Sunil is trying to give you the exact answer on that. I will come back to this question in another minute or so. Let's take the next question and we will come back.
- Moderator:** Thank you. We have the next question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.
- Sagar Rastogi:** I just wanted a non-quantitative clarification, sir in the IBM Watson deal I wanted to understand, are we saying that if any client uses IBM Watson technologies to implement IoT, is it fair to say that Persistent will for sure get some revenue out of this or that is different?
- Anand Deshpande:** No, actually it is not all of IBM IoT but there are parts of IBM IoT's product where we are responsible for it which are around continuous engineering and continuous lifecycle management.
- Sagar Rastogi:** So can I assume that any client, if suppose there is a press release that a client implements continuous engineering using IBM Watson, Persistent Systems is getting some revenue somewhere, is that fair?
- Anand Deshpande:** Yes, that is a fair assumption.
- Moderator:** Thank you. We have the next question from the line of Sagar Lele from Motilal Oswal. Please go ahead.
- Sagar Lele:** While you have reorganized the structure of the company, could you throw some light on how your sales engine looks now both in terms of management of existing customers and hunting for new ones, I mean have you shuffled your existing team around, are you looking to add some new guys probably on domain?
- Anand Deshpande:** So we have done both, we have now four sales teams which are selling independently which have very different requirements and they are run as P&Ls So each president runs their own sales and operations team. Each of the presidents have added key individuals on their sales team as appropriate. And Mritunjay mentioned Anshul Verma as someone who joined his team, John Vitekar as the other guy who has been very senior person who has joined the team, Hemant Ramnani has joined Sudhir's team for Digital and there were some more additions that have been made. But yes, the idea is to get people who have different capabilities and skills that are aligned to the business line that we are selling into so that sales, delivery and the overall ethos of that group is aligned to what we want to sell.
- Sagar Lele:** Would this also imply some more additions going forward and probably a spike in S&M?
- Anand Deshpande:** I would not see that there will be a huge spike in S&M, there is some reshuffling that will happen and we will add some more sales for sure. But as percentages, we are trying to manage them at similar levels.

- Moderator:** Thank you. We have the next question from the line of Rohan Advant from Multi Act. Please go ahead.
- Rohan Advant:** My question is that, if I look at our only IBM revenues which were 25.4 and now 29, so the net addition in absolute amount would be 4.87 million USD which is higher than the total growth that we have done. So have we dropped revenues in any of the segments?
- Anand Deshpande:** So some of the IP revenues which are non-IBM revenues, yes there has been a drop in revenue in that one.
- Rohan Advant:** So it is only in the IP segment that there is a drop, in the ISVs have we like cut the tail and reduced non-IP?
- Anand Deshpande:** No, we have not done much this quarter, we had good growth on Digital we have had, some growth on Services, the IP side there has been some seasonality on this, so again this quarter will be lower than the last quarter. Last quarter was the Q4 quarter so that is usually a better quarter than Q1. But there is nothing inherently too much to read in that, I think we should see good numbers in subsequent quarters in IP as well, but yes that is really the situation. See again, when you look at it next quarter onwards so you will be able to see the four business units and each of their performance because you will see a QoQ number. It was too much work for us to look at previous quarters to split that to the same number, so we felt it was best to give you what we had last year IP, enterprise and services that is given for benchmarking and from moving forward we will give you more and more of the four business units and their performance of each of those.
- Moderator:** Thank you. We have the next question from the line of Shivam Gupta from CWC Advisors. Please go ahead.
- Shivam Gupta:** So I just wanted to correlate a few comments on this call and an earlier comment you made that post the new restructuring you are planning to prune certain business, I mean drop certain business offline. And on this call we mentioned that certain enterprises with which Persistent is working very closely is now placed under Mritunjay. If I take both these comments together, does it mean that in those enterprises which are going to be under the Services segment the play book has matured enough for Persistent to actually expand meaningfully into those clients and which are not ISV vendors so to say?
- Anand Deshpande:** The answer is yes, absolutely that is the case. But the other thing that I would like to point out and I will let Mritunjay comment further on this one. So if you look at the number of customers we have, so if you look at just the sheer count of customers we have on the Services business, that number is in excess of 200 something. Clearly not every customer of the 200 can be key and strategic and all of that stuff, right. So what we felt which was important to us was that let's go identify set of customers, maybe 15, 20 whatever, in different segments of growth for that customer's point of view. So some early stage, some mature companies, some emerging companies and create relationships with them to so that we can get long-term sustainable growth in the Services business. And as a consequence of that, we also realized that after 200 customers there are some which are very small but not entirely as

profitable as they ought to be. So we are talking to the customers and trying to explore if there is any specific reason why we are that small in that account and if at all it is possible to grow that business or if not then does it make sense to continue with that account. So that activity will go on for the next few quarters, but if you look at the chart that Mritunjay has, by the end of the year he needs to have set of key accounts where we have a seat on the table, the customers are interacting with us and defining road maps together with us for what they are trying to do. So that is really the objective. Mritunjay, you want to comment on it?

**Mritunjay Singh:**

Yes. So I will give you a little more color, so I will give you couple of examples. One of the customer is a banking customer, we do significant work in wealth management but we have not explored work in either on the card division or in the retail. We realize that the kind of work and the money they are spending on the card and the retail is similar to the kind of work we have done in the wealth. So we have over last one quarter we have started to make inroads strategically into this division and we have started to find what are the kind of things they are trying to do, in some cases we are building capability. So that is one example. I will give you another example, a life sciences company, we used to work heavily on the instrument side and we are seeing that they are investing disproportionately in the genomic side and because we were very heavy on the instrument side we had never explored the genomic side of the business. So we have started to explore how we can do a lot more in the genomics side of this client because we have great relationship. So we met the CIO of the genomics side and we talked about how can we collaborate because they are trying to build something similar in terms of what we are offering in the market like API, they want to modify a lot of equipment that they use in the genomic side. I will give you a third very interesting example, we are working with a telecom company and what they are trying to do is trying to create a market place for a last mile network and we have been working with them on trying to keep the network. And now for their sales team they are creating a completely new workflow using how do you actually sell differently when you have to service an entire manage services of network. And we are building this something which is going to leverage our platform capability on Appian.

So these are very three different examples I gave because when we go deeper with certain relationship we start to look at wallet shares that the customer has, we look at broadly not just from a technology spend but we start to look at what are the business plans they are trying to sell, are they changing their business model and how do I become a partner in that? Like Anand said, my intention is that at the end of the year we will have a few customer where I will have a seat on the table where we will sit and partner in terms of roadmap creation in terms of strategies, changing their business model of changing their cost structure. We are deliberately going after small fin-tech companies or health-tech companies because what we are also bringing to enterprise, a very unique differentiator. So the enterprise CIOs, we offer half a day session by our start-up ecosystems where CEOs of start-up companies make a pitch to this enterprise CIOs, we are hosting two days in London actually in September for two of the large banks where we are bringing some of the start-up CEOs to come and make a pitch saying how can they leverage a capability that the start-ups get. And we want to offer this as an offering to all our enterprise customers. So we want to be an ecosystem of innovation, whether it is being done

internally within Persistent or it is being done by some of the start-ups that we partner with. So build a very broad and differentiated offering in the market.

**Moderator:** Thank you. We have the next question from the line of Nirav Dalal from MayBank. Please go ahead.

**Nirav Dalal:** I just wanted to know what would be the wage hike impact for next quarter?

**Anand Deshpande:** So I think it is a good question. We have announced wage hikes for all the employees and we expect that to contribute about 3% in terms of absolute numbers. However, we think by the end of the quarter we should be able to maintain or absorb most of that wage hike through growth in numbers and the fact that there are some costs that we had this quarter which we would not have next quarter. Let me have Sunil also talk a bit about the amortization and other related to this for next quarter.

**Sunil Sapre:** I think there was a question around the CAPEX and amortization, so I will deal with both of them. So, so far as the CAPEX is concerned, you would see that we had besides the IBM acquisition other two small acquisitions which was Gen Y and PRM. And the CAPEX accounted largely, it was due to the consideration paid to IBM and small amounts were relating to the other two acquisitions. And again, IBM was not the IoT acquisition but it was a different acquisition, MDM acquisition which contributed a bit to the revenues, this quarter you will see more of it in the next quarter. And coming to the amortization, as I explained earlier, it is arising out of the acquisitions that we have made in the past, you will have R-Gen, Akumina, Citrix and all of these acquisitions which are getting amortized during this year. So, there is a small impact out of Ind AS but a large part is normal operational amortization.

**Moderator:** Thank you.

**Anand Deshpande:** Let's also look at a few Twitter questions before we close. So, the question we have on Twitter is, what is the impact of Brexit on our business?

Clearly we have a very small footprint in the European market and even much smaller in the UK market. So as such we do not expect any significant impact on our revenues from Brexit. However, if new opportunities open up, we will be very keen to go after them, but there isn't a whole lot that we are expecting as Brexit related stuff for Persistent.

There is a question on what is the FOREX hedging position as of June 30th? I think Sunil answered that question, but let me ask him to state that again.

**Sunil Sapre:** The outstanding hedges we had as on 30th June was \$111 million and at an average hedge rate of 70.47 per dollar.

**Moderator:** We have the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** So a couple of book keeping questions on CAPEX and ETR for FY17. And also saw drop in the large client engagement that is greater than 3 million category, so anything to read out there?

- Anand Deshpande:** One of the move to key one account, I would not read too much into it, let us wait for the rest of the quarter and we will see that. Let me have Sunil comment a bit.
- Sunil Sapre:** You had a question on ETR, ETR was 24.3% in Q1. See, in the last quarter we had explained that the ETR was lower because of write-off of debt provided earlier which get reduced from taxable profit, so this is of course not a recurring feature and we expect the ETR to be in the range of 25% for the year.
- Apurva Prasad:** And the CAPEX?
- Sunil Sapre:** CAPEX, I think maybe you can send me a mail off line because we already dealt with some of the questions and we can clarify any other query.
- Anand Deshpande:** So we are at the top of the hour right now Apurva, so we are going to close this call right now but we will send you the details on the CAPEX.
- Moderator:** Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Dr. Anand Deshpande for closing comments. Thank you and over to you, sir.
- Anand Deshpande:** So I would like to thank all of you for participating in this conference. If you have any further questions, please do not hesitate to send them to us by email and I look forward to talking to you again after the end of next quarter's results. Thank you very much.
- Moderator:** Thank you very much. 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.