Persistent Systems Limited - Analysts Conference Call

Q2 FY12 Results

Date: October 17, 2011
Time: 04:00pm IST – 05:00pm IST

MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Hari Haran
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Mr. Rajesh Ghonasgi
Chief Financial Officer

Mr. Nitin Kulkarni
Executive Director and Chief Operating Officer

Mr. Hemant Pande
Chief Planning Officer

Mr. Vivek Sadhale
Company Secretary and Head – Legal & Investor Relations
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 and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touch-tone telephone. Please note that this conference is being recorded. We have with us on the call today, Dr. Anand Deshpande – Chairman and Managing Director of Persistent Systems. We also have with him Mr. Hari Haran – President, Persistent Systems Inc. joining us from the US, Mr. Rajesh Ghonasgi – Chief Financial Officer, Mr. Nitin Kulkarni – Chief Operating Officer, Mr. Hemant Pande – Chief Planning Officer and Mr. Vivek Sadhale – Company Secretary, Head – Legal and Investor Relations. I would now like to hand the conference over to Dr. Deshpande, thank you and over to you Sir.

Thank you very much. Good evening Ladies and Gentlemen and wish you all a very happy and healthy Diwali and holiday season. It is our pleasure to share with you our financial numbers for the Q2 FY12.

In terms of the highlights, the revenue numbers for the quarter were 51.53 million dollars, representing a Y-o-Y increase of 27.2%, and a Q-o-Q growth of 3.1%. Revenue was 2381.73 million rupees, representing a Y-o-Y growth of 27.4% and a Q-o-Q growth of 6.4%. The EBITDA was 453.50 million in rupees and Profit before Tax was ₹ 451.16 million. The PAT was ₹ 324.11 million as against ₹ 358.31 million from the year before and ₹ 275.68 million from the previous quarter. The consolidated revenues for the half year are also presented in the press release and in the presentation as well.

In terms of the key highlights during the quarter, we had earlier announced many of the highlights and they were also announced as press releases throughout the quarter. The acquisition that we had done for the French software business from Agilent Technologies was completed during the quarter and the team has completely joined Persistent and has been working together, with us. We have announced a strategic services partnership with Dassault Systems in the PLM space and also in research and other areas. We have partnered with CloudSense for the next-generation development on Force.com. We have launched eMee, which is a Persistent IP initiative which is available on eMee.co.in. This is a smart interactive employee engagement platform that leverages social networking. We have also launched another Persistent IP product called Klisma which is a next-generation e-commerce experience site and we have launched PaxPro in India specifically and have an Indian version of PaxPro that we are currently working on. We have also been building our video integration using Skype and this was launched during the quarter. All of these initiatives are part of the IP lead initiatives that we have been focusing on and these were some of the launches during the quarter.
In this quarter we also had the largest number of fresh graduates joining us in the company with 632 new graduates joining predominantly from Computer Science background. Persistent Foundation, which is our corporate social responsibility activity, through which we launched an upliftment project for a village called Salumbre which is close to Pune. With these initial thoughts I am going to now ask Hari Haran to give us a little bit of an overview on the sales side and later have Rajesh give you an overview of the financial side and then I will follow up with some remarks on the quarter and business ahead. Hari, can you take it from here?

Hari Haran

Yes, thank you Anand. Good evening ladies and gentlemen, it is a pleasure to have the opportunity to be on this call and talk about our Q2 results. The current economy is accelerating the part-process of Enterprise CIOs to optimize the cost and operations of infrastructure. And, we are seeing that this continues to generate opportunities in the area of cloud and collaboration technologies. Despite some of the deliberation and delay of some of the projects from our customers during this quarter we also saw growth and new engagements with our current and new customers. We added 37 new customers and we continue to see a growth in Europe. We are seeing growth through partnerships and co-selling with some of our large partners, as you recall during the last quarter we announced some key partnerships. We expect this momentum from partnerships to continue and help grow our business in the key technology areas. I should also mention that we are focusing and orientating ourselves in marketing initiatives, around the technology growth areas in order to efficiently and effectively leverage the market trends. Back to you Anand.

Anand Deshpande

Let me now request Rajesh to give an overview of the financials for this quarter.

Rajesh Ghonasgi

Good afternoon. I will focus on a few numbers, Anand has given you a picture of how it will remain in the quarter, I will focus on some more points which mark a difference from the earlier quarter, or where we had certain events taking place. The first thing I would like to draw your attention to are the employee related expenses where there has been an increase. As you recall we had announced that we would be granting a pay hike to our employees in the month of July. This is subsequent to the earlier hike we had in January. So, just to give you a picture, we had an average salary hike of 9% overall. Now, all employees were not eligible for this so the impact is not a 9% cost increase but a lower amount. In addition, we also recruited our fresh graduate engineers this year (during the quarter), so the sum total of employee cost actually went up to about 5.3%, and above that about 2.3%, 230 basis points was the impact on our margins because of the hike and I am saying this because, we had stated in the last call that between 200 and 250 basis points would be the net impact on account of wage hike. So, that is one number that got crystallized and of course, if you see the expenses ratios, we have some amount of tailwind from the Forex, so they look like a lower number but, in a very direct sense 230 basis points was the impact of the pay hike. In addition, we have been looking at rationalizing costs and sales and marketing expenses as you
see, have reduced. This was a planned control program that we ran and Hari will talk about it later on.

The next item is other income; you see there is a Rs. 1.2 crore in Other income on a Q-o-Q basis. We also got a higher amount of dividend this quarter, we invest only in interest bearing funds but since some of the returns come in as dividend; dividends are tax free. And, of course, we got a good deal on the Forex because for two months the Forex rates were lower than 46, which of course, means that for two months we had Forex as other income and for the last month we had the upside of the revenue income higher dollar exchange rate. Now the net impact of this other income, which I am specifically talking about, is that the dividend part of course is not taxed so, our tax rate looks a little lower. It is around 28.5% on an effective tax rate basis, ₹12.7 crores versus PBT of ₹45.1 crores. If I strip off this one dividend part, our tax rate expands to nearly 29 plus. We got some small credit from the past, if you recall we were a section 10A company, we had almost no taxes and some of the old write-offs are giving us some benefits, but that is a one-off event. They are not going to continue in the future. If I strip these two benefits then our tax rate would be around 30%, which is what we had stated earlier and going forward it will continue to be 30% in the next two quarters. That of course, gave us a net profit after tax of ₹32.4 crores, a 17.6% increase over the last quarter. These are the important financial points that I wanted to highlight.

Back to you Anand.

**Anand Deshpande**  
Thanks Rajesh and thanks Hari for your comments. Let me just share with you on a very high level, what we see in the market. Clearly the market in the US, which is our predominant market, has been pretty rough in general. While the technology market has been doing well, and many of our customers have been growing their business with us and the technology spends continue to be robust. There are several large accounts where our projects are in a situation where they need to renew these contracts, and we do not have clarity on some of them. So, there is a little bit of extra volatility that we see in the quarter that has gone by and, potentially that might continue for some more time as was seen in the previous downturn in 2008. What happens in these kinds of market conditions is that lots of short deals go through and people are looking at quick and flexible staffing opportunities, so we are seeing a lot of activity in the pipeline. Many deals are getting closed as well, while, there is also a lot of volatility in the market in terms of what we see in specifics.

Now, growth area wise I think we are getting good and continue to get good activities. All the four areas that we are working with continue to be very robust. We have seen good growth from the Dream Force Conference that we attended with Salesforce.com. Our Sell-with partnership has started slowly and is starting to give us good results now.
The pipeline on Salesforce.com is pretty good. We have announced a partnership with Cisco on Quad and that is also starting to happen because the product got released last month. And, there is a new product launch by the end of the year, so next year is when this will start to improve. We signed a partnership with Exalead and that is around search and various other areas, so this full Salesforce.com partnership activity that we launched last quarter or two quarters back, while it has been slow to contribute in the first two quarters the overall signs in terms of the relationships and the partnerships under pipeline are very good. So, we hope to make up for some of the lost ground in the next two quarters. But, overall I know we have given a guidance of 220 million dollars and we are well about 103 million at the moment in the first half. While, I do not really want to disclose a new number here, I think that we are trying very hard to get to that number, and it will all depend on the volatility in market. The lack of visibility at the moment, does not put us in a position to give you a new number as such. And with this let me stop here and we can take questions that, I am sure you all have.

Moderator

Thank you so much sir. We will now begin the question and answer session. We have the first question from the line of Nitin Mohta from Macquarie, thank you and go ahead sir.

Nitin Mohta

Thanks for the opportunity. If I want to understand the investments in IP lead work has shot to 5.1%, which is the highest ever that we have seen in the last ten quarters, so how should we be reading this?

Anand Deshpande

We are actually seeing a lot of growth in some of the new things that we are building out. And in this quarter to some extent, it also has to do with bench management. So, when you have extra resources potentially that is a good place to get some extra activities to happen. And as you may have noticed, last two quarters we have signed a fairly big deal with one of our large customers on connectors. And that product is supposed to ship out in the month of October and should start to yield revenues in the second half of the year. So, some of the extra people we added into that project to ensure that the project actually ships on time and with the necessary quality. So, our overall plan is to retain about 5% so, we will be in that range.

Nitin Mohta

My second follow up question is on the dollar revenue growth this quarter that we have seen, we probably expected it to be a little better, any thoughts around that?

Anand Deshpande

You are right, and we also wanted it to be higher though the challenge has been that there has been higher volatility in the market for some of the projects. See what happens in our business is that sometimes some of our projects end at different periods and they need to get renewed. But in general, the market conditions have been such that there have been delays in some of these projects getting renewed and which has got some of the numbers going down, but it is one of those ‘one-off ‘situations, some of these have closed now and they are starting to move but, this
kind of volatility is what we are experiencing in the market at the moment. Unlike 2008 when the market shut down, we do not see any of that activity right now, we do see a lot of growth and lots of small deals are happening. It is one of those situations where people are looking for a lot of flexible sized opportunities. So, there are a lot of opportunities that we are seeing in the market with our customers, Projects that need to go live quickly with a small team while the big projects are taking much longer to close.

Nitin Mohta
Thank you.

Moderator
Thank you so much Mr. Mohta. Our next question is from the line of Rahul Jain from Dolat Capital. Thank you and go ahead sir.

Rahul Jain
Congrats on your good numbers. My question basically lies on the salary cost part. If I look at the sequential increase in the cost it is 7.4%, despite the 7% hike and in general around 4% hike in the overall base of the employees. So, can you help me understand the, disparity there?

Rajesh Ghonasgi
I will explain to you the math and we will take up some more of that question if necessary. See the total increase in salary cost is 7.8%, now 7.8% is a simple sequential mathematical increase. If you look at the expense to sales ratio, it doesn’t show a very big difference from 59.3% to 60.1%. Now, we had two changes, number one was we gave a hike of an average of 9% across the board to part of our population. 100% of the population was not eligible. The other part is we had an incremental fresh graduate engineer intake, which is a substantial number which was spread over largely August and September, so they were not there for the full quarter, but that cost does not have any revenue upside, but it is embedded in our financials. So, these are the few increments that we had. In fact, the total impact would be around 5.3% on margins and you will recall last time we had stated that we will have about 200 to 250 basis points negative impact on the count of salary hike. Now, if you take this total cost increase and also relate it to the revenue increase of 3% in dollar terms, plus of course the fact that we got a tailwind, this ratio is 60.1% versus 59.13%, if I converted that into constant currency the figures will be 61.6% versus 59.3%, that is the 230 basis point impact that I was talking about. So, it is a little complex because you have got multiple increments in place. Number one is a pay hike, number two is your fresher intake and number three of course, the sum amount of tailwind which has shown the number to be nullified.

Rahul Jain
So, you are saying the effective hike is just 9% because the call suggested 7% offshore.

Rajesh Ghonasgi
See the average hike was 9%.

Rahul Jain
But that does not apply for 100%, but say if I try and understand the cost to cost increase just because of hike, what would that number be?
Rajesh Ghonasgi: That is 5.3%.

Rahul Jain: 5.3% over and above because of the addition of the employees?

Anand Deshpande: Yes, and the other thing to notice is that the additions were not for the entire quarter, so some of the people, actually a large number of them joined on 28 September, and we had a group coming in August and one group in July.

Rahul Jain: So, I am a little confused why this is 5.3% because what we indicated in the previous call was 7%.

Rajesh Ghonasgi: We got a substantial tailwind. Now, let me explain it from the right hand portion of the slide. So, if you see the expense to sales, the expense to sales was 60.1% versus 59.3%. So, this is because the rupee gave us an upside, now if I strip this and break it down back into constant currency the ratio would have been 61.6% versus 59.3%. Now that is 230 basis points impact in terms of margins, while the cost increase could have been about 7% on that rate.

Rahul Jain: Probably I need to take it offline.

Rajesh Ghonasgi: Yes, sure.

Rahul Jain: Apart from that even the S&M cost, if I look is down to 5.7% Q-o-Q and this number is one of the lower numbers if I look at the last couple of quarters. Is there anything specific in the quarter or we are a little softer on that side?

Anand Deshpande: No, I think some of it has to do with sudden realignments that we have done under the sales personnel in the US and Hari, can you may be throw some extra light on that?

Hari Haran: Yes, absolutely. Thanks Anand. So, couple of reasons why the sales and marketing expenses percentage is down. First, as we are investing more and more in some of the IPs and in the new technology initiatives we are re-orientating and streamlining the investments and sales resource to be consistent with that area. So, that means rearranging, exiting some people, bringing in some new people, etc. And second, we also want to realign the sales resources with the market trends that we are seeing. For example, with our partnerships and some of the joint co-selling opportunities that we are pursuing with customers, we want to make sure that the selling and the marketing campaigns are correctly aligned so we can leverage the trends and the growth. So, what that means is basically take out a few people here and bring in the right type of people. So, you will see the temporary fluctuations in the sales and marketing numbers for this quarter and the next quarter as we continue to do the streamlining and alignment.
Just to understand this better, you are trying to say that we are sort of rationalizing to an extent where we can co-use it with partners?

That is one, but second in terms of general levels of the sales and marketing expense in two quarters you will see it back to being what it used to be. So, it is not that we are taking it back to a new level to optimize. We want to optimize and streamline but it is just the normal process of shifting headcounts and leveraging.

So, the sales with the kind of an effort which we have initiated in the previous quarter, out of that you sort the dedicated employees which we have for the pre-emptive efforts? Are they build under this S&M cost, or are they part of some other overheads?

No, they are in the S&M cost.

They are in S & M.

Okay, because that happened in the previous quarter as well. Okay, that’s it, just wanted another number. Anand, you said how many numbers of graduate additions during the quarter?

632.

632, perfect. Thanks a lot. That is all from me.

Thank you.

Thank you so much Mr. Jain. We have the next question from the line of Shashi Bhushan from Prabhudas Lilladher. Thank you and over to you sir.

Good afternoon sir, thanks for taking my question. Is there any lumpiness in the business in the current quarter, as we have seen a certain decline in the repeat business or is it because we have seen lower number of project renewal or a large number of small project additions?

It depends on how you look at lumpiness, but absolutely there is a little bit of volatility in the market. The conditions in the market are definitely tough and many projects which we have, both new and ones with existing customers, are all going through additional scrutiny than they would have if the market were bullish overall. While it has not stopped and nothing is completely gone, their deals are taking much longer than they were before and that happens to have an impact on certain kinds of rationalization that happens. The other thing that has happened in the last quarter is that some of the key customers that we work with, have seen some M&A activity in their businesses and that has also caused some kind of a freeze on, POs getting cleared and a whole
bunch of things like that, which also causes immediate problems on our side. And that is again unusual but, that is part of the business that we operate in. So, there were some M&A deals that were pretty big in the last quarter from our customers’ point of view which affected our relationships in those cases. We hope that once the deals close, then we can go back and ensure that these POs and other projects that we have been working on get cleared.

Shashi Bhushan

So sir, when the deals get renewed, since we have an existing relationship and most of the projects are on T&M basis, can we compensate for some of the loss of man-days or some of the loss of revenue in the current quarter, in the next quarter and subsequent quarters?

Anand Deshpande

It is hard to say that, this will happen under these market conditions. So we will of course try to do those things but I am being honest here and – it’s very difficult for a big company that acquires to say that they will necessarily pay for the things that were not on the PO before the deal happened. So the PO gets delayed and that is a risk that we take on our side.

Shashi Bhushan

Sure sir, I can understand. We are not giving a new number for revenue but definitely in this quarter our margins got aided by the currency movement. So are we maintaining flat PAT guidance or are we increasing our guidance for PAT?

Anand Deshpande

Actually the point here is this is again one of those things we debated in our Board meeting today about guidance and what we should do on guidance. The point here is that the volatility that we are seeing in the market is relatively high. We still want to strive - even work hard to get the numbers we have given. By giving another number it would mean that we are on another wild goose chase in some sense. I give you a number, in October we have very high volatility and I don’t know what purpose it would serve. That is why the Board thought that it’s best to hold the guidance as we have volatility. We know the current half year number is lower than where it should be to really convince you that, we are going to achieve that guidance. So, this is where we stand right now. And we are working both on the top line and the bottom line and I don’t want to say anything more at this time. Especially since I don’t have adequate clarity on things, but I must say that the pipeline today is pretty good. There are some very big deals in the pipeline. If they can close fast enough we will definitely make all the numbers that we have given but I don’t have the deal in my pocket yet, so I don’t want to count the chickens before they hatch.

Shashi Bhushan

Sure sir, but if you can quantify the deal pipeline as you said, to a quarter back or may be two quarters back. So some qualitative or quantitative picture on that.

Anand Deshpande

These pipelines now are healthier than it was before.

Shashi Bhushan

So may be in some numbers how the percentage point is higher?
Anand Deshpande: I don’t want to give you a number, for the very specific reason that the pipeline is actually better than it was last quarter. It is better than what it was two quarters back. On the other hand, the closure rates— they are a little dicey at the moment. Smaller deals are moving faster. The larger ones, they have stayed on the pipeline much longer. So it’s just a rough time to run this business because there is too much volatility and the fluctuations are rather high. So my quoting some numbers is not very useful at the moment.

Shashi Bhushan: Sure sir and it is basically North America sir. Again about the volatility on a Q-o-Q basis, is it more to do with M&A which we spoke about or are we seeing lesser number of deals coming from US compared to Europe and APAC.

Anand Deshpande: See most of our business is US based.

Shashi Bhushan: Right.

Anand Deshpande: So everything we do is all US related and pretty much what happens in the US has a direct impact on our business. In a way Europe-India is relatively small in our context of portfolio. So it’s not that important in the whole scheme of things. And what happens to the US actually impacts us a lot more. Now, it’s a mixture of things. It’s not that this is all bad news. Lot of times what happens is when markets are moving the way they are moving, if you go have a meeting with our customer and when there is good chance that you might see someone saying that if you can staff this requirement now and if you have the availability, then you can staff requirements quite fast and some of these new deals have closed in these kinds of situations. We saw this in 2008, we saw this in 2004 ’03 and ’02 as well. Where sometimes in volatile markets and tough market conditions if you are aggressive in the market, deal closure usually happens quite well. But it does take certain time and it’s a little more volatile.

Shashi Bhushan: Sure thanks. That’s all from my side.

Anand Deshpande: Thank you Shashi.

Moderator: Thank you so much Mr. Bhushan. We have the next question from the line of Yogesh Agarwal from HSBC. Thank you and over to you sir.

Yogesh Agarwal: I just have couple of questions if I may. Firstly the slowdown in decision making which you earlier alluded to, has there been any change sequentially month-on-month. I mean I would assume things would have deteriorated around August end. So was September better or so far has October been better than September? And secondly this cut down in sales headcount; I understand the rationalization part on your side particularly as you are achieving some good technology areas. Is
there excessive focus to cut cost there on the sales in marketing side or now that the rupee has weakened, would you go back and start to hire more people in sales?

Anand Deshpande  

It’s very hard to tell you if, month-on-month there is any real change. But yes you are right in August is when it dipped the most. We have not seen as many changes in, September and October; so far it has been fine. So yes August was worse than September and October. But again this is all very qualitative and I have not really analysed it to that effect. And we don’t know if September was better because it was the end of the quarter as well. Because lot of times, certain behaviour on the sales side and, the people tend to force decisions on quarter boundaries. So it’s hard to make out if that’s the reason or it’s something else. And regarding your other question, regarding Sales, let me give you my answer then I can have Hari comment on it. See here is what’s happening and this is an overall trend; Persistent has clearly defined and identified, as we move along over a period of year or two years our business from these new technology areas like cloud, analytics, collaboration, and mobility will start to dominate our business. And we are starting to see very healthy trends from the market in terms of how the market is looking at these changes. How people are building software in our opinion is starting to change and we are seeing that change in the market. So again on a Q-o-Q basis it’s hard to snap shot these things if you were to say look at what we were doing six months back and you were to project this after 18 months. You will see a significant difference on Persistent’s business profile and portfolio predominantly because of these technology investments that we have made and the fact that the market is very accepting of this. Consequences of this on the sales team is that you need different kinds of people who are technologically deep and savvy in terms of selling these kinds of deals. So we are no longer taking orders on C++ and Java resources, but we are actually proactively convincing people on what is their strategy on cloud. What should be their strategy on analytics and a whole bunch of similar areas. So as part of this activity we did an analysis of all those sales people who were not able to prudentially scale to the new business that we are looking at and some of them who had good reasons why we thought they may not scale, we decided to exit some of them. That having been said there is no plan to reduce the cost of sales, in fact in the next two quarters you will see an increase in our sales team. And this will happen with new people who come in, who will be more technology-oriented and will be more aligned to cloud, analytics, mobility and so on. In the past we had asked the internal sales guys who were there to see if they could align themselves to these. Some of them have done it wonderfully. Some others may not be able to do it which we then exited. So this is a part of running the business. You have to look at what is going to scale and what’s not and you have to make few quick decisions as you go along, so this is just one of those scenarios and then there is no plan to reduce the overall S&M as a fraction of revenue.

Yogesh Agarwal  

Okay I understand. Thanks a lot
Anand Deshpande  
Hari, you want to add anything?

Hari Haran  
Yes, as Anand indicated, we are seeing a shift in the way customers do business with us, or let me put it another way; we are causing the shift because customers want their problems to be solved when we talk about cloud or when we talk about mobility rather than selling resources or rather than selling just pure competencies and skills. We are seeking to actually solve customer’s problems and we feel that over a period of time naturally that will result in a stronger partnership as well as pave way for making large deals, this is our hypothesis. As we are embarking in that journey we have seen that some of the sales folks and some of our marketing practices will not scale and will not be consistent with that approach that we are taking and hence we are realigning the headcounts and exiting some of the headcounts as Anand indicated. And we will be adding headcounts at this quarter and next quarter and as a percentage, we don’t see it going down, we see it in the same levels that we have predicted before. So that’s one point and the second point is, as we do more and more of partnership based selling, we are truly seeing greater number of logos opened through partnerships meaning leveraging the sales and marketing resource of our big customers/big partners. So this also gives us some way to increase the business without having to ‘linearly’ increase our sales headcounts and also the type of headcounts that interface with these partners. So the combination of these two is what you are seeing now as a fluctuation in the sales and marketing headcount and that will continue for a couple of quarters and stabilize. But this is all a part of our planned streamlined strategy, that’s consistent with our thinking of the future business.

Yogesh Agarwal  
Okay, thank you.

Moderator  
Thank you so much Mr. Agarwal. We have the next question from the line of Kunal Tayal from Bank of America. Thank you, and over to you sir.

Kunal Tayal  
Anand, could you help with some comments on the pricing outlook currently. I mean this quarter we have seen a drop in billing rates especially onsite. So are clients asking for billing rate discounts or is that just quarterly apprehension that we have seen?

Anand Deshpande  
No I don’t think anybody is asking us for discounts at the moment. That is not the case at the moment at all. The onsite rate dip is a pretty small dip. There are two reasons why that happened. One of it has to do with the fixed priced projects, a lot of our onsite is fixed priced projects and the second thing is the fact that certain project readjustments that have happened. What is happening also, may be you are probably aware of this, we have a large account where we are doing data migration activities which has a large percentage onsite in that team. And that project is going to shift over because we are completing that activity very successfully. So some of that onsite actually
is also coming back and that's one of the reasons why we see a small dip on the onsite percentage as such as well.

Kunal Tayal  
Go it. You also spoke about launching a New Connect starting October and then you had some other successes. So what is the outlook in IP based revenues look like for the second half of the year?

Anand Deshpande  
Again I don’t want to put a number at the moment, again we are dependent on other people’s sales and their sales strategies to see the real numbers. But we do have many more products in the pipeline and in the market for the second half than we had in the first half. So I definitely expect the second half IP numbers to be substantially more than what you have seen in the first half.

Kunal Tayal  
Right. One last question on the operational matrices. The technical headcount has gone up roughly about 4.5% to 5.5% in the quarter and seems like the volumes were up about 2% in the quarter. So how come utilization rates have still gone up?

Anand Deshpande  
Actually, the lot of the new people that have come in are fresh graduates, and the way they get counted is what’s happening. So lot of the fresh graduates are not counted in the utilization denominator for the first three months and several of them actually joined three days before the end of the quarter. So a lot of them joined on the 28th of September and there was a batch in August and July. So many of those have not contributed to the denominator of that utilization number and this is yet to happen in the next quarter.

Kunal Tayal  
So the utilization rate that you give, are excluding trainees?

Anand Deshpande  
Correct. Excluding trainees, see actually they are not trainees. We have a different definition for them. These guys are fresh graduates, they are employees in the company, but for the first three months they are in training. The trainees that we have are a little different and are MCA students or, pre-graduates or whatever other term you want to call them. But they are not included, to answer your question.

Kunal Tayal  
Okay. So basically I understand there were two factors actually. One is that a large amount of the net addition came in at the end of the quarter and some of them being not deliverable but not included in the utilization calculation.

Anand Deshpande  
Most of those who came in during the quarter will not get included in the utilization count for a three month period. So that’s exactly right.

Kunal Tayal  
Right. Thank you.
Anand Deshpande  Thanks a lot.

Moderator  Thank you so much Mr. Tayal. Our next question would be from the line of Srivatsan Ramachandran from Spark Capital. Thank you and over to you sir.

Srivatsan Ramachandran  It will be great if you can just run us through what you are seeing because last quarter you talked about the technology consulting practice which you are getting launched to help companies operate and migrate to cloud or analytics. Just wanted to know in the current environment, what’s the growth path that you relook at this point of time or would you continue to look at investments and what kind of improvements have happened within the last quarter?

Anand Deshpande  Good question. I think overall those things continue to be very robust. Cloud, analytics has seen a lot activity. We have signed several deals with smaller startup companies in these areas. Any of these projects continue to be slightly exploratory in nature from our customer’s point of view but we are seeing a lot of traction both in terms of deals, pipelines, and discussions in all these four areas. So the investment is actually increasing quite a bit in these areas and all the bench that we have in some sense is focused around cloud, analytics, collaboration, and mobility with very specific customer projects that we know. And many of our customers have new product launches planned for their second half of our year and we are trying to gear up to partner with them as they go along.

Srivatsan Ramachandran  Okay. Hari did mention about couple of customers delaying some project but looking at the customer concentration matrices that doesn’t seem to reflect because the top 10 continue to do well. So is it beyond some customers or the top itself is expected to have better growth expectations since some projects got delayed?

Anand Deshpande  We definitely have some of the top 10 customers also where we should have better growth and even though the numbers are all positive we also work with a large number of small customers. There is a general volatility in some of those deals as well. So what happens in every quarter is we have a starting point on the quarter, some accounts go down and some accounts go up. And we can’t interact what percentages of the accounts are going up or what percentages are going down. The volatility on this quarter is unusually high as compared to previous quarters. If I look at number of accounts where there have been fluctuations both up and down, that number is relatively high at this quarter as compared to previous quarters.

Srivatsan Ramachandran  Okay. This is my last question to you. You closed the France acquisition in terms of numbers would you say you have a meaningful impact. Just wanted to know, if it will be integrated from a numbers point of view from next quarter or it’s just more an IP kind of acquisition?
Anand Deshpande: No – no there is a numbers impact on it. I think it’s contributed to about $450,000 roughly and some of it was IP related as well and we expect that on an annualized basis that roughly this should generate about $2.5 million to $3 million as is now. But the main reason why we acquired them is not just for the existing contracts that came with it but, we believe that with their presence we will be able to leverage its 100% French only business to some people from India contributing to these projects and effectively growing that in the chromatography data systems area where we believe that the market size is quite large and we can play a disruptive role in that market. So there is more to come in that.

Srivatsan Ramachandran: Just to clarify, its $ 450,000 is already included in the current quarter numbers?

Anand Deshpande: Yes, correct.

Srivatsan Ramachandran: Okay. Thanks a lot.

Moderator: Thank you so much Mr. Ramachandran. Our next question would be from the line of Ankit Pandey from SBI Securities. Thank you and over to you sir.

Ankit Pandey: Thanks for taking my question. I just had some questions around the hiring plans for this year and the next year especially with the sort of renewed uncertainty in your outlook and also a question on the DSO. Is there anything to read into the numbers that have slightly gone up?

Anand Deshpande: Yes. I think, yes let me comment on the DSO first and then I will tell you more about the hiring plan. Yes the DSO number again is the function of this volatility. Customers by and large when market gets volatile, just delay payments. We have to harass them a lot more to get the money and is just one of those things, very strange, but people just take advantage of these kinds of situations and that’s partly the reason that the DSO has gone up. But we also have two of our customers, one of them then got acquired, the other one is in financial stress for their own reasons which is causing the DSOs to go high but we don’t think that the money is at risk so we are chasing our customers and hopefully by the next quarter this should stabilize. The second part regarding hiring Nitin will explain more.

Nitin Kulkarni: We will be completing the on-boarding of all the fresher after which for the rest of the fiscal the net addition that we expect is going to be somewhere around 100 to 120.

Ankit Pandey: Pardon me 100 to 200?

Nitin Kulkarni: 100 to 120 people net addition.

Ankit Pandey: All right okay. And for the next year, any outlook that you want to share?
Anand Deshpande  No actually it’s hard for us to give you a real outlook. But I can tell you that we are hiring about similar number of fresh graduates next year also.

Ankit Pandey  Okay. Fine thank you that’s all from my side.

Moderator  Thank you so much Mr. Pandey. We have the next question from the line of Sandeep Aggerwal from Antique Stock Broking. Thank you and over to you sir.

Sandeep Aggerwal  Hello congratulation on the good set of numbers. My only question is regarding the utilization level and attrition level. I think that attrition still has not come to the comfortable level of 14% to 15% which I expect should come because otherwise the cost will keep on going up. So when do you see that kind of improvement coming in?

Nitin Kulkarni  At the end of the last quarter, it was 17.2% or 17.3% and today it’s at about 16.7% annualized. So we are seeing this coming down. So the trend is definitely in the positive direction as far as attrition is concerned.

Sandeep Aggerwal  Okay. And sir secondly on utilization level, do you maintain to be in 70-75% utilization level?

Nitin Kulkarni  We definitely strive to be at that, but we will have our fresh grads now coming into play, so as a result by which the utilization will get impacted.

Anand Deshpande  Next quarter I see the utilization to be lower than what it is today. But the fourth quarter we should see an uptake on it. The other thing that we find and it’s what our strategy right now, is to see in a market when the market is volatile or the volatility is high, if you have resources ready and trained and available, sometimes you can get big deals to happen very quickly. So we are definitely looking at that and we are training these new people that we are getting in. And again when you take new people, it’s not just that there are only new people to do that. You have to them rotate across the business and get some teams available who are trained in some new areas so that we can go after the businesses that we anticipate will happen around cloud and analytics.

Sandeep Aggerwal  Sir, one last question on the cloud side. How much traction you are seeing there, because I hope there is lot of activity going on that space and that will be primarily the key driver of growth going forward. How do you perceive that in the current market situation?

Anand Deshpande  I think such markets actually accelerate deployments on the cloud. Because when the market is tough, people are looking for ways to readjust their financial portfolio around IT and IT spend. We think that this will help the cloud market to accelerate faster. The second thing we find is that when there is a tough market condition for customers, they tend to re-look at their entire strategy and while the decision making slows down, sometimes the new strategy that emerges actually
helps companies like us because new technologies get deployed. And you look at different ways of addressing the same problem. So we are quite optimistic about what should happen in the next few quarters.

**Sandeep Aggerwal**

Thank you sir. That's all from my side.

**Moderator**

Thank you so much Mr. Aggerwal. Our next question is from the line of Dipesh Mehta from SBI Cap Securities. Thank you and over to you sir.

**Dipesh Mehta**

I just need couple of data points. What would be your hedge position at the end of the quarter?

**Rajesh Ghonasgi**

We have a hedge at 89.25 million in an average of Rs. 47.44 over the next 12 months.

**Dipesh Mehta**

And one about IP business because we have seen the heightened volatility in our other business. So whether you are seeing similar trend in IP related business also?

**Anand Deshpande**

The answer is yes but again hard to say at the moment.

**Dipesh Mehta**

So, whatever investment we are making, can you highlight in which areas specifically we are now incrementally investing higher than what we already had planned?

**Anand Deshpande**

Yeah so if I were to break off the major revenue generators on the IP business, there is a big percentage of our business that comes out of royalties that we get from our number 1 customer around connected development. And that is where we have increased our investment in the last two quarters quite significantly to allow us to push the new products in the pipeline for the next two quarters and for longer. So we expect that that will definitely give us a discontinuity on the business that we have and you might see a step function rise in that market once the new products that come out at the end of October start to hit the market. So that is one point. The other one and these are all listed in the announcements we made in the last quarter as the products have gotten to a stage where we now have them out of the back. So, one of them PaxPro, which is again a packaging and brand packaging product. We have had this for a while, we have acquired this as an end of life, actually it’s not really an end of life, it was a strategic acquisition that we made from a product company called MWV and this product is starting to hit the market now. We have a new version in the market and we also re-launched this in the Indian market. So we expect there are more things to sell on that now. And then KLISMA and eMee are the new other products that we launched during the quarter. So essentially the portfolio of products available to sell in the IP related area in this half is better than what we had in the previous half.

**Dipesh Mehta**

Okay, thank you.
Moderator: Thank you so much Mr. Mehta. Next question would be from the line of Amar Morya from India Nivesh Securities. Thank you and over to you sir.

Amar Morya: Thanks a lot for the opportunity and congratulations for the good set of numbers. Sir my question is primarily related to, if I see there are almost 49% of the revenue, a 50% of the odd revenue is coming from the top 10 clients. And what we have seen is that few of these top 10 clients are basically starting their own captive centers here in India. So just trying to understand is it going to result in some pricing pressure for your business.

Anand Deshpande: That’s not the case with our top 10. Most of the top 10 customers we work with have had the India centers for many years. There is nothing new that has happened in the last few quarters.

Amar Morya: But then recently what I had read is that IBM had announced that they are investing heavily in India primarily into their captive centers.

Anand Deshpande: No, it’s nothing unusual as they have been in India for a long time. They have very large number of people in India but I don’t think they have made a press announcement for whatever reason, but we don’t see a real change in the customers as far as the captives are concerned. We have had many of our customers who have their own captive centers and we have learned to coexist with them.

Amar Morya: Okay. And secondly sir this is the emerging verticals which we talked primarily about cloud and analytics what our channel set suggests that now there is a huge competition also increasing in this vertical. So the pricing uptake or the margin uptake which we are sensing into these verticals, are we on or are we seeing the same pressure over there?

Anand Deshpande: No actually again this is a very new market. There will be lot of other people who will also try to get into the market. We do have an early advantage in this and we have predominantly, focused an outsource product development and product related business and all our customers that we are working this to start with, are all leading product companies in this market. So in the market that we are playing in, we have not really seen any direct competition from some of the other players. And the market potential or projections on the market are so high that I don’t believe that one should worry too much about the competition at the moment. Pricing pressure is also not there at this moment, but again if you have an existing customer then it is pretty hard to just change your pricing on a different offering. That is one of the challenges that we will have because many of the customers, we work with in the infrastructure space, are the ones who are moving into the cloud. And that’s the challenge we have in sense that we cannot just go double our rate for cloud when we are already working with them for the last seven to eight years.
Amar Morya: So, sir the margin levers which we have talked like two three quarters back, primarily from the emerging verticals, by when we can see this into the margin?

Anand Deshpande: See I think you will see some of this as we go along in the next couple of quarters. The IP levers are also there, the sell-with strategies and other places where we are starting to see some of this activity. I hate to say a number here but in the next few quarters you will see a difference.

Amar Morya: But sir what I sense is that, IP business lever which we are talking about, primarily that will be cyclical in nature right?

Anand Deshpande: We are playing a portfolio. So I'm not sure what the level of cyclicity that we will see at the moment. It's still pretty early for me to make a call on that. So over a year, we do see that this will generate good revenues.

Amar Morya: Okay. Sir the last question, just wanted to know, what was the impact of EBITDA on the currency like what was the benefit which we had seen on EBITDA primarily due to the currency?

Anand Deshpande: Rajesh is looking at it.

Rajesh. Ghonasgi: See we grew by 1.9% overall.

Amar Morya: Okay, 1.9% thanks a lot sir.

Moderator: Thank you so much Mr. Morya. Our next question is from the line of Rahul Jain from Dolat Capital. Thank you and over to you sir.

Rahul Jain: Yes most it has been answered. Just one if you can split the growth of the four growth areas.

Anand Deshpande: Just give me a minute. Let me take next set of questions and we will come back to you in a minute.

Rahul Jain: Yes.

Moderator: Okay thanks a lot. Thank you so much for your patience. Our next question is from the line Ankur Rudra from Ambit Capital. Thank you and over to you sir.

Ankur Rudra: Thanks for taking my questions. The main question that I had was if you could dissect the impact of the demand environment in terms of your verticals and business units. Is there a sort of different impact in different areas? And just part of that question, when say you are seeing shorter deals, is there a typical engagement size in terms of manpower less than 10 people now?
Anand Deshpande  It’s hard for me to say less than 10, because we have seen all kinds of deals right now. So we do have deals which are 10, 20, 30 people. But yes we haven’t seen anything unusual there in terms of the number of people on the deals. But the really large deals are especially taking longer to clear. Now Nitin will give you the numbers for the four business growth areas because that is exactly what the previous question which Rahul had also asked.

Nitin Kulkarni  Our Y-o-Y growth in the technology areas has been 21.5%. So that’s what it’s been on a Y-o-Y basis. And generally these areas are maintaining their share of revenue as part of the total revenues between 37% to 40% so that trend continues to be there.

Ankur Rudra  Yes, so I think the question was also in terms of do you see different greater impact in any one particular part of your business unit versus the other?

Nitin Kulkarni  Yes so, all four areas there is demand but if you look at the next quarter we are seeing a decent pipeline building up on the cloud side. So this kind of stuff keeps on happening.

Ankur Rudra  Okay, so now I just move onto my next question. It was in terms of the exposure to the status on the deal pipeline with your customers which have undergone an M&A. Maybe we can start to work the exposure in terms of revenues from those customers and also have we had the opportunity to so far have developed relationships with the new parents of these customers?

Anand Deshpande  Good news is that they are already our customers. So the new guys who have been acquiring these smaller companies are also our customers. We already have agreements in place with the new customer and the acquirer as well. It’s just that the teams change and we are in touch with them but, we have not been able to connect with the exact person who owns the new relationship because lot of these things just takes 60 to 90 days for the deals to close. Impact wise, I would say these deals are about $2-$3 million deals so the total would be about $3 million to $5 million. But again some of it is not volatile. So let’s say about $2 million would be the things that we are hoping that will clear which are not cleared yet.

Ankur Rudra  So the way to read that is there is no risk of losing the deal altogether. It’s more about waiting to reach out to the right people and get it.

Anand Deshpande  See that’s what we hope but you never know when the new company takes on sometimes some products will get axed. Some other products will remain. We know we will get a meeting with the new team when they really have their team in place. What happens is they make an announcement usually after that announcement it takes between 40 to 65 days for the deal to close. Then the new team comes in. Then they start to sort of assign the right people to that job. Then they make certain decisions as to which products are not going to survive, which ones are
going to survive, how they are going to merge. So typically when this happens, 90 to 120 days can be kind of lost in between trying to just figure out what is to be done.

Ankur Rudra
So, this is on the day of the deal, because it is only closed, I think a few weeks back so it will take another three months may be?

Anand Deshpande
These kinds of things take some time. So that's the situation and the good news is both players are our customers so we will find a way to get in there as well, but money lost is money lost and that's the way it is.

Ankur Rudra
It's good to know that you have relationship. If I can ask a few more questions. Could you maybe elaborate on the long term potential of the recent Dassault and the Force partnerships in terms of both scope and nature of it?

Anand Deshpande
Okay on the SalesForce partnership actually we are looking at a fairly substantial partnership where there are three or four n opportunities, I wouldn’t say deals but business lines that we are trying to negotiate and will launch in the next quarter. And it’s a pretty substantial in the whole scheme of things what we are doing with SalesForce.com. On the Dassault partnership it’s pretty early as we are partnering with them predominantly on the search side and Exalead is the product that they have for search based applications. We are working with them on their deal and working with some other customers. We have signed two projects so far and I think it’s going to be a few million dollar probably single digits this quarter, this year, next year we hope to see that grow up.

Rahul Jain
Sir, last question on the supply side. May be for Rajesh. I might have missed this part in the call, but should the going get tougher? Would you a), re-look at your hiring plans and b), given the unseasonable hikes over the course of the year so far, where should it, be the next and more normal cycle of wage hikes to in terms of time?

Nitin Kulkarni
Yes, so in terms of how we are going to act on man power, I have already told you the numbers for the rest for the fiscal which is about 100 to 120 people net. And that's pretty much as per plan, no major sort of deviations. As far as the wage hikes are concerned, we just gave two wage hikes this calendar year. So we will wait and see how the market moves and how the business moves.

Ankur Rudra
Even in terms of timing, you will wait and watch for that?

Anand Deshpande
Yes absolutely I mean, see as per our current plan, normally when you give a wage hike you say not going to give another one for 12 months. So the normal expected wage hike for people would be next July. But, if the market is good we will give more. If it isn’t we will delay that also.

Ankur Rudra
Thanks. That’s all from my side. Best of luck for the rest of the year.
Anand Deshpande  Thank you.

Anand Deshpande  Thanks I think we don’t have any further questions. I would like to thank you all for taking the time to join this call. As always, if you have any further questions, please write to our investor relations team and Vivek. We have had interactions with most of the other analysts before so don’t hesitate to write and we will provide you all the necessary details and also do call in case someone needs anything specific. I would like to finally wish you all a very happy Diwali and looking forward to talking again in the next call. Thank you very much.

Moderator  Thank you so much. On behalf of Persistent Systems, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(Note: The transcript has been amended for ease of readability.)