Persistent Systems Limited

Analyst Conference Call

Date: January 20, 2011
Time: 05:00pm IST – 06:00pm IST

MODERATORS:
- Dr. Anand Deshpande – Chairman & Managing Director, Persistent Systems Ltd.
- Mr. Rajesh Ghonasgi – Chief Financial Officer, Persistent Systems Ltd.
- Mr. Hari Haran – President, Persistent Systems Inc.
- Mr. Nitin Kulkarni – Chief Operating Officer, Persistent Systems Ltd.
- Mr. Vivek Sadhale – Company Secretary & Head Legal, Persistent Systems Ltd.
- Mr. Hemant Pande – Head Of Planning, Persistent Systems Ltd.
Moderator: Ladies and Gentlemen, good evening and welcome to the Persistent Systems Analyst Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference 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 on the call today Dr. Anand Deshpande, Chairman and Managing Director, Persistent Systems Limited. We also have with him Mr. Hari Haran, President, Persistent Systems Inc., joining us from the US, Mr. Rajesh Ghonasgi, Chief Finance Officer, Mr. Nitin Kulkarni, Chief Operating Officer, Dr. Hemant Pande, Chief Planning Officer, and Mr. Vivek Sadhale, Company Secretary and Head - Legal. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you sir.

Dr. Anand Deshpande: Thank you Vivian and thanks a lot to all of you for joining this call. Let me start by wishing you all a very happy New Year. Before I get started I would like to point out that the presentation that I am referring is already available on our website and can be downloaded from the investor page on our website under December 31, 2010 results. On the financial highlights, our Revenues for quarter ended December 31st was US$ 43.21 million as against 33.96 million year-on-year and US$ 40.51 million QoQ representing a QoQ growth rate of 6.7% and a YoY increase of 27.2%. The same numbers when translated in rupees come to Rs. 1.949 billion as against ₹ 1.583 billion from the previous year. Year on Year increase in the rupee terms is 23.1% and QoQ growth in rupee terms is 4.2%. Over a nine months period the revenues are 123.21 million, which is YoY increase of 36.9% and revenues in rupee terms is ₹ 5613 million representing YoY increase with 31.1%. The EBITDA for nine months is 1202.19 million and PAT is 1066 million indicating a YoY increase of 41.5%. We will discuss these numbers one more time when Rajesh explain the financial details. The other highlights that I would like to share for the quarter is, one, we have appointed Dr. Dinesh Keskar, President of Boeing India as an Independent Director on our board. Dr. Promod Haque who was on our board till recently, retired from the Directorship. We have launched an SEZ unit in Pune; and we have started our operations there. We declared an interim
dividend of Rs. 2 per share and a special onetime dividend of Rs. 2 per share on the occasion of completion of 20 years of the Company aggregating to a total interim dividend of Rs. 4 per share for the financial year 2010-11. We did a mid-term salary raise for employees, which was announced earlier in the month and this is with effect from 1st January 2011. Couple of other highlights; on the sales side, we had booths and presentation at the Dreamforce 2010 Conference, which is salesforce.com’s conference and it was a big event with more than 25,000 attendees. We also had booths at the Consumer Electronic Show in Las Vegas, which happened about three weeks back.

With this let me hand this on to Hari Haran, President, PSI and my colleague calling in from California to give us highlight on the sales side.

Hari Haran: Thank you very much Anand. Good evening ladies and gentlemen, wish you all a very happy New Year. It is a pleasure to announce that Persistent Systems had an exciting third quarter. We continue to see excellent tractions and opportunities in the area of mobility, cloud computing, and collaboration technologies. In these areas we saw good growth particularly we saw good uptake in the mobility area. The proliferation of devices such as tablets, ipads, and different types of smart phones has created opportunities for a number of enterprises and application providers to create and maintain several applications in various platforms such as Apple, Androids, the Nokia platforms, and this has translated into many opportunities for Persistent. We also saw several deals come through our partners, as we had indicated last quarter we had started a concerted effort to work with some of our large ISP partners as a mechanism to increase our reach into the market place and this has succeeded quite well during the quarter. We had excellent participation as Anand indicated in the Dreamforce conference, which was sponsored by salesforce.com and also the CES Conference in Las Vegas where we had substantial amount of new generation gadgets and very good meetings with a number of perspective new customers. During the quarter, we opened about 36 new logos, out of these quite a few are health new logos with sustaining capability for a very long time to come. I am also happy to announce that we
opened new business in South Africa, our first business in South Africa with a very large pharmaceutical company. We opened new business in South America in Brazil with a large gaming company and we opened new business in Japan with a very large automotive company. We have seen very good tractions with our existing customers as well and that business grew quite well this quarter. I would like to say looking at all the activities in the market place we are seeing a good growth in the market and we are happy to announce that Persistent has been successful in capturing this growth during the third quarter. Thank you very much.

Rajesh Ghonasgi: You have the consolidated income statement and the metrics and I will take you through some of the numbers and ratios. Number one, we talked about dollar growth QoQ at 6.7% and rupee growth of 4.2%. If I take you through the financials, the functional classifications: the direct cost shows an increase of 9.8% over the last quarter; however S&M shows a decrease of 17.7% and I will explain this and the third variation of course in our financials is other income, which is a tad lower at 7%. To walk you through these numbers, if you recall in the last conference call, that we had we had talked about the fact that we had a special credit, which was a onetime credit available and that is the effect you are seeing here, the amount that we got gave us a benefit of 2.5% that is not there this quarter because of which our gross margin has gone down to 39.1%. In addition to this there is one more number, which had increased, which is the visa cost because as you may recall in July or August the US passed a special law relating to increase in visa charges and effective from this quarter we are seeing that effect with a higher dollar cost per visa. Coming to the second number the S&M cost, we have reduced from 9.1% to 7.2%, a reduction of 1.9%; however, this is on account of certain closures of bonuses etc., that we have done in this quarter. We had made provisions earlier in the year for certain bonuses and once we closed it we found that we had conservatively provided for higher bonus, which we have reversed, so this saving would not be visible in Q4. It will go back to around 8.5-8.6%. Coming to other income, the numbers are PAT lower primarily because in the last quarter we had transferred one of our properties in Navi Mumbai, which gave us a small gain and that gain is not there this quarter and it would not be there
in the future and that is the reason why there is a small drop as though our returns from our investments is on par with risk-free investments at net of around 6-6.5% net of tax. Coming to some other numbers if I take you through the balance sheet you can see our investments have grown up from around 305 Crore to 328 Crore, we have been generating cash and we expect that until we use it for our CapEx we will accumulate more cash. We have been able to get a better cash equivalent number; the cash equivalent number is lower primarily because we have been more efficient in terms of working capital, not the debtor’s part but improving the creditors in a sense. In addition, the other figures - hedge reserves etc., are visible as per the current MTM on our books, so we have about 5.5 Crores versus 5.85 Crores and this summarizes the picture of the changes happened in the P&L and Balance sheet.

**Moderator:** The first question is from the line of Sujit Parab from Enam Securities. Please go ahead.

**Priya:** This is Priya from Enam Securities. My first question relates to the trend you are seeing on the R&D spends on the independent service software vendor especially in your core critical areas of enterprises mobility, enterprises collaboration, and cloud computing. How do you see this trend in CY’11. The second thing is more on the highlights if you can give us on the pricing scenario, which you are seeing from your clients. The third thing is of course to do with attrition boost, the announcement of the salary hike how has the attrition moved in the first few days of January though it may be a little short time to take a call, and the last question relates to an impressive increase in the business development team from 87-94. I just wanted to collaborate this with sequential decline, which we have seen on the selling and marketing expenses?

**Hari Haran:** So, regarding the trends that we are seeing in the R&D spending in the area of cloud computing, mobility collaboration as well as analytics in the order of the higher spend we are seeing a lot of them happening in the R&D and in price but particularly in the ISP and mobility and in cloud computing in that order.
We are also seeing increased spending in the other two areas Collaboration and Analytics but the highest in Mobility and Cloud and as you look at our pipeline and our customer tractions itself we definitely see through the fiscal year these tractions continuing to be strong so that is the trend that we see from market perspective at least for the foreseeable future for these opportunities to continue to be copious. Back to you Anand.

**Dr. Anand Deshpande:** Okay, on the pricing front the question that you asked, actually this quarter our pricing numbers both on-site and offshore are very good, we see more than 4-5% increase in our yield per person on both on-site and offshore. Some of it has to do with the extra work that we had to do on a couple of projects but overall the rates have gone up quarter-on-quarter. In terms of the attrition numbers, yes it is early but actually in Q3 the attrition was lower than the Q2 attrition even though on the trailing twelve month basis that will not be that visible because of the way the last year’s quarters looked and that is the reason why it seems to have gone up but actually the attrition is lower in Q3 as compared to Q2 and we expect it to be lower in Q4 both because of salary increases and in general that, you know, it is a little lower than it used to be earlier.

**Priya:** Sure. Do you see the trend on pricing sustainable? I mean if the projects are more from discretionary side. Do you see this trend sustainable in CY’11?

**Dr. Anand Deshpande:** See, there are two things here, one is we are seeing that we are getting a small increment in all our projects as and when they are up for renewal, so that does not happen all at the same time but it has happened whenever they come up for renewal and that adds up, so that is definitely happening and we expect that to continue in CY’11 this has started to happen more in the last six months, so for another six months to nine months we will have new contracts or our existing contracts getting renewed at higher price. The second point is that as we had mentioned, we have a focus around these four areas specifically around cloud computing, analytic, mobility, and collaboration and when we are starting to bill in these areas through the expertise and partnerships that we have the contracts that we have signed in these areas
are at rates that are better than they are in general and hence that will also help in getting better pricing benefits.

Priya: Sure. My other question was with respect to the selling and marketing expenses have declined substantially but there is a concurrent increase in the business development team. Was it more towards the fag end of a quarter?

Dr. Anand Deshpande: The decrease is partly because of provisions being adjusted between quarter-on-quarter so that is why it looks like it has decreased. We expect sales and marketing expenses to get steady at about 8.5% and that is what will get reflected by the end of the year.

Priya: What is the quantum of adjustment which has been done, if you could just share?

Rajesh Ghonasgi: We have been providing for our bonus, for sales bonuses and sales commission based on performance expectations, now what has happened is during the course of the quarter we had settled bonuses, paid off bonuses, and we found that our earlier provisions were conservative, and to the extent that they were higher, we had to reverse them that is why we announced that particular reversal is not a permanent reversal, it is a onetime reversal, it would impact us by about 1.2 to 1.3%. So going forward 8.5% give or take a few basis points would be our run rate in terms of sales and marketing to revenue.

Priya: Okay Sure, and just a last question on the effective tax rate for FY'12, if there is any change from what we last interacted?

Rajesh Ghonasgi: See, right now based on the law as it exists we expect that the effective tax rate will be somewhere in the range of 30-30.5%. The final word of course, will be known to us only after the Finance Budget is placed before the parliament on 28th of February, and until then I think we will have to go with this and we will give an update, if there is movement either way.

Priya: Sure, that is helpful.
Vivian: Thank you. The next question is from the line of Mr. Yogesh Agrawal from HSBC, please go ahead.

Yogesh Agrawal: I understand there is lot of focus on Cloud and Mobility in the firm but outside these there is a large part of your business, which is the core business focus on infrastructure, software, and database etc., now notably if I see our infrastructure software had a reasonably good year 2010 and there is so much effort going on in the database innovation R&D. Is it that you guys are now totally not focusing there and that is why that business is not growing because some of the volume growth is not really reflecting growth in the core business?

Dr. Anand Deshpande: - a lot of the work that we do in infrastructure today is in the context of the Cloud and Database work that we do in the context of Analytics, so we just find it easier to use these four terms and try to focus our energy on those four areas and it is important for us to do that because that is the only way or one of the ways of getting better rates and we are also trying to create a differentiated service. So, there is no fundamental change in some sense, it is just a calculation issue to some extent, but overall infrastructure is a big part of what Cloud is all about.

Yogesh Agrawal: So all the investments going on globally in the Databases, are you involved in those or do you think there is an upside for Persistent in that R&D spends?

Dr. Anand Deshpande: Absolutely and what we have been doing is a lot of the spend in the new data areas getting classified around big data, Hadoop and all the other things that are going on are being classified in the Analytics space because that is a little sexier term than just database right now.

Yogesh Agrawal: Okay, so that goes as well for all the extra data in memory everything?

Dr. Anand Deshpande: That is correct, we have activities in all of those areas both in memory side large data, some of the big data activities going on around Hadoop and various relationships around that area and again statistics - predictive analytics, text
analytics, text mining, some pretty cool stuff in all of those area, but that is all getting classified under Analytics now.

Yogesh Agrawal: Do you think the volume growth from there will accelerate going forward; my issue is that the investments have already been happening in 2010 so is that it will come with some lag effect in your volume growth?

Dr. Anand Deshpande: No, we see the growth happening in those areas and I think growth will happen and the spend will continue to happen in those areas as well. I do not have anything specific as such but we are very much in action right now in these areas.

Vivian: Thank you. The next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Anand, just to understand the demand side of the equation, what is the sense you are getting from clients on the spend plans for the New Year. I know last time on the call you did mention that they are planning to spend at least the same amount, so if there are any updates there?

Dr. Anand Deshpande: See, at this time what we have been getting is that Calendar Year ‘11 budgets are better than the spend that they had in Calendar Year ‘10. That assurance we did not have at the beginning of Calendar Year ‘10 in the sense that people planned less in Calendar Year ‘10 and ended up doing more by the end of the year and people in Calendar Year ‘11 are saying that they will maintain similar run rates as what we have currently with them at this time. So, that is an optimistic news and I think what we have observed is that if the market conditions and everything else improve as they seem to be then towards the second half of the calendar year people will increase their spends but the calendar year has just started three weeks back and at this moment people are not going to give us any indication for at least one quarter at this time.

Kunal Tayal: So at least the visibility levels appear to be better?
Dr. Anand Deshpande: Yes, meaning it looks pretty okay, it looks good but again they are not going to revise things, at least for one quarter we would not know any difference.

Kunal Tayal: Sure. Any updates on the plans to increase the contribution from IP based avenues that were your focused area?

Dr. Anand Deshpande: Correct, that will continue to happen. As I mentioned to you, we have a plan of investing about roughly 5% of our resources and activities where we are investing in certain things. There are a couple of good deals in the pipeline that we will be able to announce in the next quarter, we had a few good sales for new IP that we launched last quarter and one of it was also displayed at the Consumer Electronics Show. We expect some variability in terms of quarter-on-quarter basis on royalty numbers and various other things but by and large on the portfolio we expect to end the year between 8 and 8.5% of our earnings coming from IP led revenues at this time.

Kunal Tayal: Any thoughts on campus hiring plans for the next year, you know, is there a number or at least rationally if as a proposition of your total hiring could it be a higher number this year?

Dr. Anand Deshpande: We have a plan of hiring 900 people from the fresh 2011 campus batch.

Kunal Tayal: Have you shared the quantum of salary hikes that you have just announced?

Dr. Anand Deshpande: We have not really explicitly mentioned it but I can tell you it is about 10%.

Moderator: Thank you. The next question is from the line of Abhiram Eleswarapu from BNP Paribas, please go ahead.

Abhiram Eleswarapu: My question is regarding the four areas of growth that you have identified, Cloud computing, Mobility etc. How much of the revenue currently comes from these areas?

Dr. Anand Deshpande: Roughly 40% of our revenues are from these four areas.

Abhiram Eleswarapu: Has it changed over the last two, three quarters?
Dr. Anand Deshpande: It has gone up, it started about 37-38 it is gone to 40, and we expect that number to be near 45% in the next year.

Abhiram Eleswarapu: Just a suggestion from my side would be to disclose these revenues if possible because the whole story is basically on these four growth areas, so it will enable the investors to appreciate the story if you actually disclose them?

Dr. Anand Deshpande: Good point, I will take a note of that and perhaps on the next quarterly number or definitely at the next year’s numbers we will disclose this.

Abhiram Eleswarapu: Thanks a lot. The next question is regarding the wage hikes. Is this a usual pattern for the company to give two wage hikes in a year or is it especially for this year?

Dr. Anand Deshpande: No, it is not a pattern in the company but we found that the market is very buoyant and all that stuff and we have good pipeline, there is business in the pipeline, we did not want to have attrition affect this any further and just felt prudent to not wait for the next year and take a chance six months later but do an interim pay hike at this time and it was more of a surprise factor that we were trying to capture rather than anything else, so I think we have been able to achieve that there was a good buzz that we were able to create internally because of that. Our normal pay hike cycle is April to March and normally the pay hikes get announced towards the end of June with effects from 1st of April.

Abhiram Eleswarapu: Would you be able to quantify the margin impact of movement of wage hike?

Rajesh Ghonasgi: See, on a quarter-to-quarter basis this would impact between 2 to 2.5 percentage points that is on a very direct stable non-moving basis; however, while this happens in Q4, going forward of course we have growth happening and we will have other benefits coming and other levers working, so we will be able to address the impact over the next two to four quarters.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladhar. Please go ahead.
Shashi Bhushan: Thanks. You highlighted about the pricing, you know, the pricing uptake in the current quarter, part of that is driven by pricing negotiation and a part of that because of higher working days or some more work we have done for our client. So is the current rate sustainable in going forward and say in Q4 we will see a marginal decline in the pricing?

Dr. Anand Deshpande: There could be a marginal decline but it will not be a huge decline. I think the on-site rate that you see has little bit of a factor of extra work that had to be done in the last quarter so that might come down a bit. The offshore number should stay there or even go up a bit.

Shashi Bhushan: Sir, our telecom vertical has shown strongest growth when compared with our large peers, so can you please give more colour on the sustainability or demand in this vertical?

Dr. Anand Deshpande: Hari, may be you can add to this question but overall we are seeing good growth across all the segment and telecom also is growing well I think in life sciences we have seen good growth as well, so pipeline on both those areas are looking good. Hari, do you want to add anything specific?

Hari Haran: Sure, thanks Anand. One of the reasons why we saw an uptake in the telecom also is related to the mobility. Because of this proliferation of devices etc., there has been work coming along in terms of application development with some companies in the telecom space be it on the device side or the network side and that is how those numbers are reflected and we will see a correlation from a market perspective, the telecom sector getting impacted in a slightly positive way with the increase in mobility work.

Shashi Bhushan: Okay, and for the current quarter, can you deconstruct the margin change, the decline we have in the current quarter, how far it has affected pricing?

Rajesh Ghonasgi: If I take you through the key ratio and actual ratios Q3 over Q2 I think it will be pretty clear. See gross margin got affected negatively to the extent to 3.1% of which around 2.5% was on account of the onetime benefit we got last quarter and 0.7% was because of travel expenses, which includes visa cost going up.
S&M cost improved just a shade below 2% and there is a very tiny change in G&A. Now, if you look at other income I explained that the other income was PAT lower because we had a small gain, it was about 70 lakhs in the last quarter, which is not there in this quarter; however, the foreign exchange gain is substantial and that substantial is primarily because the rupee was at 45.11 to a dollar on an average for the quarter against 46.16 the last quarter, so there has been a Re. 1 appreciation and that is directly visible in the forex gain so we more or less recovered some of that loss and that is the reason why this movement has happened. It is around 3.1% in gross margin, just shade below 2% in S&M and in absolute terms it is about doubling of forex income on account of the appreciation of the rupee by Re.1 against dollar.

Shashi Bhushan: Sure. Also you highlighted that the margin would get impacted because of the salary hike by around 200-250 basis point in the next quarter and you highlighted some of the margin levers, so what percentage of that cost (do) you believe that will be met out of our levers - because you know improving utilization and some of the marginal levers coming into play?

Rajesh Ghonasgi: Well, in the current quarter we will be able to get some benefit but it would not be very visible because it is going to happen within this quarter. We will be able to improve it as we go along, over the next two to three quarters we will be able to rationalize this cost increase and spread it over a larger revenue base plus of course using utilization and other levers. Coming in this quarter I think there will be an impact and we would not be able to take that impact out completely in this quarter.

Shashi Bhushan: Sir, is there a likelihood that, you know, since we are having a wage hike in January our next wage cycle may not start in April and may get deferred by a quarter?

Dr. Anand Deshpande: We are still considering all of those things but we expect at the end of the year, financial year-end, we expect the net margin to be around 17.8-18%. We have charted out anyway and some of the benefits that we are getting in rates
and all that they are getting consumed by salary hikes that are clearly what are happening.

**Moderator:** Thank you. The next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

**Nitin Mohta:** Thanks for the opportunity. Most of my questions have been answered but I have follow-on the salary hike, I listened to what you said about it. Was it more of a preemptive measure that you are taking and are there data points in the market that you see because of which you have done this, I just wanted to understand that?

**Dr. Anand Deshpande:** No, it did not have much to do with who else was doing it, it was a preemptive measure on the other hand when you are recruiting in the market when people are trying to come in from outside and you have to pay them more or you want to make sure that the internal people are getting comparable salaries because otherwise when you get someone from our side at a higher salary because that is what the market is making you do then you have a risk of increasing attrition because you are hiring someone at higher salary than the existing incumbents, so we felt it was appropriate to just increase the incumbent salary to ensure that this discrepancy does not happen or does not become very large and by and large our ability to retain people and also hire better.

**Nitin Mohta:** Sure. Can I have a follow around the margin outlook, your on-site mix obviously has been improving of late if you look at the quarterly trend, so taking that into account the second salary hike that you have given has all of that been already factored in when you are trying to give a 18% net margin outlook?

**Dr. Anand Deshpande** Yes.

**Moderator:** Thank you. The next question is from the line of Shubhashini Gurumurthy from Ambit Capital, please go ahead.
S. Gurumurthy: Thanks for taking my question. My question is partly related to the top client revenue decline, so could you actually give us some colour on that as to what is going on with this account?

Dr. Anand Deshpande: Actually it is a very simple thing here and let me explain what is happening there. We have a royalty agreement, which is a part of the revenues that we get from the top clients and the royalties in this quarter were less than what they were in the previous quarter, so that is the reason why that looks like a dip on the top one account.

S. Gurumurthy: Okay. The increase in the on-site mix otherwise do you think that is sustainable, I thought there was a specific project, which we were working on due to which on-site mix was going up but is it that, you know, the project has been extended or you have seen more traction on that project?

Dr. Anand Deshpande: The project will continue for some more time so that particular activity will continue for at least another three, four quarters so that looks pretty good. Second thing I would like to point out is that we find that for some of these core areas on which we are making the investment such as cloud, analytics, mobility, and collaborations it is important for us to bring in more consulting kind of deals with a US on-site presence under what we have been calling technology consulting work and we are seeing some of those though in terms of number they are not very large. We are increasing some on-site presence because of that kind of activity.

S. Gurumurthy: Sure. The salary hike that you have announced in this quarter and assuming that you will follow the normal wage hike cycle in April as well I mean do you feel confident that you will be able to get back to the same margin level over the next two to three quarters given that we will have a kind of a double whammy over the next six months?

Dr. Anand Deshpande: Absolutely, I think we are very confident that we will be able to get to similar margin. The other thing you have to notice that by doing 10% increment that we did now we will factor that in when we look at next quarter’s numbers. So, again if we had not done this and if we were doing certain percentage by
doing this 10% we are doing less in terms of net growth over the next quarter anyway.

S. Gurumurthy: Sure, and in terms of basically the offshore price hikes, which we have got, I mean out of the top 10 clients what proportion of the client have agreed to such price hike?

Dr. Anand Deshpande: It is hard for me to answer that question in terms of how many of the top 10 clients. Let me try to give you the following perspective. We started this activity about five to six months back trying to go to every contract that was up for renewal to see how to get an increment on those contracts and so half way into the year now we would say half the contracts have been revised and the other half are yet to go.

S. Gurumurthy: Okay, are these price hikes on the cost of living adjustment or are they like-to-like pricing increases?

Dr. Anand Deshpande: It is a combination of all kind of things, you know, net of 5% is what you can imagine, 4-5% net but it is not that straightforward, we are trying to change what we are offering, trying to do some fixed pricing, trying to define value based pricing in certain cases and trying to see how we get more than just a cost of living increment because these COLA increments on the US side are actually very small.

S. Gurumurthy: Just one last question if I missed it before what is the volume growth we saw in this quarter overall for the business?

Dr. Anand Deshpande: We had about 3.6% total volume growth during this quarter.

S. Gurumurthy: Thanks. That is all from my side. Thanks a lot.

Moderator: Thank you. The question is from the line of Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran: Just one small question can you just comment on the tax outlook. It seems to have gone up a little bit so if you can just give some colour on that. Thank you.
Rajesh Ghonasgi: If you see the tax rate the effective tax rate for the quarter stands at 8.22% versus 7.90% the last quarter. If you see exactly a year before it was 8.01%, so its within the range of around 8% to 9% that we have been talking about. The problem in terms of tax rate is not for this year. We are I think as optimal as we can be since we are STPI Company and we have some SEZ (revenues). Going forward in next year effective April 1, 2011 onwards since the STPI tax holiday will be setting on March 31 our expected tax rate of that point in time based on the current tax law and the amount of profits we generate out of SEZ and the distribution of taxable profit in the US etc., are expected tax rate is likely to be 30% next year. So, currently I would say 8% to 9% is the runrate and it fairly establishes how optimal we are, is only going forward into April that there will be an increase.

Anand Bhaskaran: And just one follow-up question; what percentage your revenues from come from SEZs at the moment?

Rajesh Ghonasgi : See we expect about 5% to 7% of our revenue should come from SEZ next year. Right now they are lower than that it will be about 2% to 3% profits from SEZs.

Anand Bhaskaran: That was very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from Barclays. Please go ahead.

Ankit Agarwal: Hi Sir, I had a couple of questions. I just wanted to know from your new business areas especially mobility and Cloud Computing what is the growth that you have seen quarter-on-quarter from these two areas?

Dr. Anand Deshpande: We may have seen about total 11% growth in terms of quarter-on-quarter growth in all these four areas put together. On the mobility side the growth has been more like 40% or so and on the Cloud Computing side it has been about 7% to 8%.

Ankit Agarwal: Sir. This is dollar growth?
Dr. Anand Deshpande: Yes.

Ankit Agarwal: Sir, are we expecting these growth rates to improve for Cloud, especially I am considering that there is so much of news in the media and there are so many analysts talking that the Cloud is going to see improved growth, I mean our growth rates quarter-on-quarter have been slightly muted in that sense. Do you see this growth figure improving going forward from Clouds?

Dr. Anand Deshpande: Absolutely we are seeing good growth in the Cloud Computing side. We are actually very well positioned in the Cloud Computing area and as we mentioned to you we are already demonstrating Dreamforce, which is a salesforce.com conference and there is a lot of activity there and we are working with all the major Cloud providers at that the moment. So, we are very well positioned in the cloud area and we will see growth, which is fairly substantial, and those we are planning and we have good traction in all these on the Cloud Computing side.

Ankit Agarwal: Sir my second question is on the margin front again. Sorry to harp on it again, when we say the next two to three quarters are going to be normalized margins are we saying that across margins for a FY’12 end will be around 39%?

Rajesh Ghonasgi: See you are talking of gross margins?

Ankit Agarwal: Yes gross margins.

Rajesh Ghonasgi: We would come in the range of 36% to 39%. I am talking for the entire 12 month period on an average for the next financial. So while there will be an impact in this quarter and the next quarter, the next quarter will be better, still we will not be as good as the entire year’s figures for FY’11 and by the time we are through with the next four quarters we would have gained or we would have recovered the downside on count of the hikes.

Ankit Agarwal: Sir, lastly on the IP revenue side, I mean our investments in IP in this particular quarter have sort of reduced as a percentage basis. I mean if there is any
particular reason for this because early in the call it was mentioned that our focus is going to be on IP-led revenue?

**Dr. Anand Deshpande:** Numbers are reasonably flat. The fact is that during the quarter perhaps we have not added as many people on the IP-led revenues as we have across the company which is why the percentage has just gone from 4.5% to 4.1%, but that is a little bit of an adjustment that will keep happening on quarter-on-quarter basis. It is also like we had a good quarter lot of people were required on billing projects so that is also the part of the reason why it happened.

**Ankit Agarwal:** Sir any particular reason why our DSOs have increased on 60-67?

**Dr. Anand Deshpande:** I think by January 5 that number came down to 61 and part of the reason that DSOs were higher because most of our customers are in the US and during the last couple of weeks of December it was very hard to get people to make the payments happen.

**Ankit Agarwal:** That is all for my end. Thanks you for your feedback.

**Moderator:** Thank you. The next question is from the line of Mohit Jain from Alchemy Capital. Please go ahead.

**Anurag:** Hi this is Anurag here. I had a question regarding this quarter’s gross margins performance; if you could again break it down in terms of how much was the one-time write back that happened in Q2 and how much was actual fall in the gross margins?

**Rajesh Ghonasgi:** The variation was negative 3.1% and about 2.5% came from the write back, which was there last quarter but not there this quarter. So, the figure #1 is 2.5. In addition our travel cost for direct travel went up 0.7% and that 0.7% largely involves visa cost because visa cost has gone up. So, it is one of the natural increases that happened after the change in US law about five months ago.

**Anurag:** Sir I was just going through last quarter’s transcript and last quarter we had said that the impact of actuarial variation was close to 1%. Is it the same write back that we are continuing in this quarter?
Rajesh Ghonasgi: Yes we are actually the figure, I gave the range as around 2% give or take a few percentage points as it happens this quarter it has come to 2.5% and there are small variations because we get an actuarial valuation done every quarter there are small discount rate changes. So, there is also impact that we had a fresh evaluation every quarter, so may be about 30 to 40 basis points is always something that could happen.

Anurag: Regarding FY'12 has the management decided on any particular figure on recruitment that we are looking for?

Anand Deshpande: Roughly we are planning right now 900 fresh 2011 graduates to be recruited on campus. So that number I can share with you. We are in active planning in terms of what the next year’s financial numbers would look like and the number of people we hire would be a subject to that but at this moment I am not in a position to disclose the exact numbers at this time.

Anurag: Any declaration on the outlook, because it still remains quite suppressed despite a good revenue growth in the quarter?

Dr. Anand Deshpande: Actually I think the utilizations rates in our opinion are pretty good at the moment.

Anurag: I was just comparing with them what they were two to three quarters back?

Dr. Anand Deshpande: Yes if we look at the last quarter the inflation has gone up quite well and we have also added a lot of people. We have cranked up our existing engine as a result of which, you know, and then we had pressures behind us in the last two quarters the result of which is the impact that we have shown you in the utilization but point is that this is more to cater for future business that is why it has helped us address the growth in Q3 and it will happen in Q4 as well.

Anurag: Thanks, and all the best.

Moderator: Thank you. The next question is from the line of Haripreet Batra from Kim Eng Securities. Please go ahead.
Haripreet Batra: It seems there has been some EBITDA margin decline and all in infrastructure system’s segment. Will you be able to throw some light on what is happening and what can we expect going forward?

Dr. Anand Deshpande: I think it is not an EBITDA margins thing I think we have been reporting in the past under three categories, Telecom, Infrastructure and Services and also in terms of Life Sciences, their numbers on all the others have gone up and more and more of the business is being moved into Cloud and Analytics, so the Infrastructure and Services business looks like it is flat. Beyond that there was not much that I would read into it. In fact a lot of the Infrastructure and Services that we do is around building databases, building Cloud Computing environments and things of that kind that continues to be where it is and that is the way there.

Haripreet Batra: A couple of book keeping questions; I wanted to understand what is our hedge position as of now?

Dr. Anand Deshpande: So, we have a forward cover of roughly $80 million for next 12 months at an average of Rs.47.32 per dollar.

Haripreet Batra: Pune SEZ that we have bought or is it operational?

Dr. Anand Deshpande: Yes, it is operational. It is at Blue Ridge, there is a setup by Paranjape Schemes, called Blue Ridge, which is in Hinjewadi and that is where it is operational.

Haripreet Batra: So, how much capacity does this have?

Dr. Anand Deshpande: It has a capacity for 450 people right now and it is a rented premise, so we can add more if we need to.

Haripreet Batra: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of the Deepesh Mehta from SBI Cap Securities. Please go ahead.
Deepesh Mehta: Question again on margin, we have already announced mid-term salary hike 10% and we have salary cycle of April maybe we can delay it by quarter or so, so what will be the margin outlook for FY’11, if I see in EBITDA terms. Second question is about rent cost - it is showing some increase this quarter. Is there any specific reason for the rent we pay for the premises and all those supplies?

Dr. Anand Deshpande: That is the SEZ and other premises that we are renting in Hyderabad since there has been more growth and in Pune SEZ has come online, the rent has gone up.

Deepesh Mehta: So, that is likely to stay at the current level?

Dr. Anand Deshpande: It will stay there, may be go up a bit in the next quarter depending on how much we use in the Pune SEZ.

Deepesh Mehta: Last question is about guidance, we maintain our guidance or we have any forward-looking.

Dr. Anand Deshpande: I will share that in a minute.

Rajesh Ghonasi: Let me give the EBITDA answer. We are at around 21.9% in EBITDA terms and this is not affected by the pay hike as we go ahead we will be at around 17% to 18% EBITDA, 17.5% is more likely in terms of EBITDA for the next quarter and going forward we will slowly be able to come out of it. We expect it to be around 17.5% to 18% even in Q1. Q2, we will be able to scale up to 18 and improve as freshers intake improves our pyramid and we improve our utilization with scale happening over the next three to four quarters.

Dr. Anand Deshpande: Now regarding your guidance question here is the situation. We have done already $123 million in the first nine months. This quarter was $43 million and something more and we expect similar growth rates as we had done last year, so with one quarter to go it is clearly like we are in the 167 to 170 range at the moment. Guidance was $155 million, so clearly that is improvement.
Deepesh Mehta: Again on margin because earlier if I see last four to five years history, we used to operate at much higher EBITDA level and going forward many for a year or so the phenomena is okay, but where we expect our EBITDA to stabilize for next three to five years?

Dr. Anand Deshpande: Three to five years is a long-term, but we expect it, see our objective is to retain it at current levels in terms of the forward numbers and there are two or three factors here. One is clearly costs are going to keep going up and there is unfortunately the way life is. Now we have to make sure that we earn as much or more to ensure that we maintain the ratios. Now to do that we are thinking of few ideas including how we think our IP-led initiatives and other things that we are trying to do in terms of specializing in some of the specific areas will allow us to get better yield per person and better utilization numbers, which will help us in retaining the margins that we have right now. So that is the challenge that we have for in general and that is the challenge across the industry and our focus is to creating these kinds of differentiated services. We will be able to get sustained improvements in our top line to match the expenses that are going to go up.

Deepesh Mehta: We maintain our IP-led revenue guidance of (getting) close to 20 (%) next three to five years?

Dr. Anand Deshpande: Yes.

Deepesh Mehta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: What are our initial trends in terms of the kind of road shows and seminars we are attending in terms of when we see our initial initiative efforts to get monetized meaningfully? I mean I really appreciate when we say our Mobility revenue grew by 40%. I mean that is what the differential in terms of (being) ahead-of-the-curve advantage we have. When we see it replicating in the other three next generation elements?
Dr. Anand Deshpande: Again, it is hard for me to give you exact numbers. On the Cloud Computing side, we have seen good growth in the last year we had a very good show at this salesforce conference, which is a partner of ours. We have been doing a lot of work with them. We also launched a couple of tools that are nice utilities that help us to improve our offering to our customers in the Cloud Computing area. All these things take a little bit of time in terms of how they have to be sold and it is hard to say you know when we will see that growth, but I think quarter-on-quarter growth on all these areas is better than the company’s growth overall and that is an important thing and the other important thing to note is that in these four areas, we are able to demand premium on pricing, which is part of a reason why we are trying to differentiate all these coming.

Rahul Jain: Apart from that can we know what are the total numbers of visas we have?

Dr. Anand Deshpande: Let me find out. We will try to get that answer to you before the call gets over.

Rahul Jain: Also if we can get the current utilization in terms of the visas as well?

Dr. Anand Deshpande: We will try to get that number hopefully within the next few minutes and get you the data. Otherwise we will just send it to you by email. Vivek has made a note of it.

Rahul Jain: Apart from that what has been the gross adds or what has been the quarterly attrition?

Dr. Anand Deshpande: See the trailing 12 months attrition as we are reporting is about 21% and that attrition again looks more than what it was in the previous quarter, but actually during the quarter the attrition was lower than what we had in the previous quarter Q2. In terms of gross adds the total additions are about 179 people that were added net. Net addition of 179 people.

Rahul Jain: So if we break the quarter into October, November, December, so are we seeing the trend cool off?
Dr. Anand Deshpande: Yes, let me say the following. We had highest attrition in terms of number of people leaving was in the month of August and September. October was high, November and December was lower than that, so what we saw in quarter July, August, September was more than the attrition we had in October, November, December, but still these numbers are still high. We would like them to be much lower, but see we have the best of people who are in great demand. They are working in cutting edge technology, so it is a problem that we will be vulnerable to.

Rahul Jain: Lastly if I just look at what we have guided a year back sort of things are we are definitely going to beat the revenue guidance well ahead and in terms of the absolute profit, we may just achieve or may little overachieve it, so the two does not fall in the line? Where do we see we lag in terms of the profitability, of course the head wins in the terms of CapEx? Apart from that where do we think we can reconcile?

Dr. Anand Deshpande: In general, salary hikes have been high attrition also as an expense to involve to it, essentially if you look at our employee related expenses as compared to the budget they are higher than what we had anticipated and overall we want to retain our 18%, but not do too much more than that.

Rahul Jain: In that sense when we see a lower headwind in terms of the possibly lower cost or may be the lower attrition rate and higher share of next generation isolate sort of revenue, we may see some tail win coming in may be next year?

Dr. Anand Deshpande: That is correct. But you know I really do not expect costs to go down. I expect at least for another two to three quarters basically next year cycle the salary hikes are going to happen.

Rahul Jain: Right. Thanks. That is it from my side.

Moderator: The next question that is from the line of Sandip Agarwal from Antique Stock Broking. Please go ahead.
Sandip Agarwal: I have a question for Anand. If I see all the numbers it looks like there are lot of positives during the quarter. If you see the onsite billing rate, offsite billing rate, if you see the utilization levels, so all the numbers are very encouraging, but we feel that all the hard work have just been taken away by the salary hike during the quarter, if I am not wrong, so just one question which I want to ask you is that if it is more from industry perspective how do you foresee the supply situation going forward. Do you think that there will be an end to this kind of attrition rate, which almost not only Persistent but across the industry everyone is suffering through, so do you see any end to this kind of attrition levels and if yes then by when we can expect it cool down and also another question, what kind of hike you expect to give in next year. Will you give another interim pay hike in next couple of quarters or quarter and also how many people you have added on a gross basis during the quarter, so that is all?

Dr. Anand Deshpande: So let me try to answer your question in parts, so in terms of net addition, the net addition has been 1079 people, total gross addition is about 400-450 plus in that range. In terms of the salary hike number actually that has not got factored in this quarter, it will get factored in the next quarter. So we will see the impact of salary hike in the Q4 numbers not so much in the Q3 numbers and the other point regarding attrition and all stuff, I think these we have to learn to deal with it. I do not see that going down by a huge number. I am sure it will go down by some. But you know, it is an exciting market, we have people working in new areas and when you have good people who are working in exciting areas and everyone wants to do those kinds of things or people are going to be in demand, it is tricky to maintain low attrition rates. We all would love to have lower attrition rates, but let us be realistic here.

Sandip Agarwal: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Krishna Mahale from Keynote Capital. Please go ahead.
Krishna Mahale: I just wanted to know about your analytics spend, I mean spend that is coming to you, if you could break down in terms of industries as we know from which industries getting the analytics?

Dr. Anand Deshpande: Let me comment on this analytic side. Most of our business comes from product companies, so most of the customers you work with are building products in this area that having being said, let me try to distribute that into what kinds of things we are doing and what is part in the market at the moment, so we have been working quite a bit on text analytics and unstructured data, so people taking up data from different kinds of unstructured text and trying to create structure and analytics on it. I cannot name the company, but we released a fairly important product for a company in December ‘10 that looks like text analytics and can do sentiment analysis for very large amounts of data to find out how like Twitter and Facebook and how do they react to various kinds of events and activities, so that is one kind of an area where we are seeing a lot of action. Another area where we are seeing a lot of action is big data, which is typically when you have petabytes of data or several terabytes of data there are new algorithms that have come and which are being classified as big data algorithms specifically around things like Hadoop and MapReduce and we are seeing good traction in that kind of area as well as of building out and implementing algorithms around that area and finally the real bread and butter business of reporting and search things using platform such as Cognos, Microstrategy business objects are ongoing things and we see several of our ISV customers deploying products using those kinds of technology.

Krishna Mahale: Could you tell me the kind of revenue analytics share right now?

Dr. Anand Deshpande: The revenue share analytics has in the company is roughly 10% to 11%.

Krishna Mahale: It has been growing well?

Dr. Anand Deshpande: It is growing little bit better than company averages are compared. I do not have the exact number to give you an exact quarter-on-quarter number, but it is growing at about 6%-7%, 8%.
Krishna Mahale: I have one more question regarding your Cloud services, where exactly are you providing Cloud services I mean the ISV side or if you could give me a break up of those things?

Dr. Anand Deshpande: Lot of our business again comes from the ISV side, so if you were to name the top 8 or 10 Cloud providers today, we would be working with most of them at the moment and helping them build out the Clouds that have been sold by them in the market. The second strategy that we have with some of them and Salesforce is an example where we are partners of theirs and we go together with them to customers that want to migrate to this kind of platform. We are seeing good traction on the sell-with side on the Cloud Computing area.

Krishna Mahale: As far as products are concerned, if you could tell me how much is in the provisioning and management side? The spend that you get.

Dr. Anand Deshpande: It is hard for me to give you an exact number there may be easier, if you can visit us then we can of course show you what we are doing in that area.

Krishna Mahale: So right now it is only migration and consulting that is what you are saying?

Dr. Anand Deshpande: See as I mentioned to you most of our business comes from working with ISVs and building the products for that. When people are selling products in the Cloud some of the big ones have been build by us.

Krishna Mahale: One more question on this tax rate, when it will get down to SEZ levels by which year?

Rajesh Ghonasgi: What you mean is that in what will we be able to reduce the tax rate?

Krishna Mahale: Which level it will stabilize. That is my question.

Rajesh Ghonasgi: See actually stability will happen three or four years down the line because #1 is we have the law the current direct tax bill which is in the Parliament envisages a sunset only by March 2014, which also means that future revenues in that unit will still qualify for the statutory 15 years. We expect it in
three to four years, it will stabilize somewhere on the early to mid 20s. The exact number cannot be given, but simulation shows that is what is feasible based on the growth in SEZ revenues, the profits the on SEZ and of course the profits which will be generating outside the SEZ.

Krishna Mahale: Sir. Thank you and congrats for the great quarter.

Moderator: Thank you. The next question is from the line of Nirav Dalal from Sharekhan. Please go ahead.

Nirav Dalal: I just have a bookkeeping question. I just want to know what was the initiative contribution for the quarter?

Dr. Anand Deshpande: These four initiatives together contribute to roughly 40% of our revenues.

Nirav Dalal: Because you have mentioned them for FY’12 it will be 45% that is what you have mentioned earlier right?

Dr. Anand Deshpande: Correct. During this quarter, they are at about 40% as would be expected, we expect that the growth rates on these areas will be higher next year, to the rest of the growth rate, so the proportion of these areas will grow next year, so that is why I am suggesting the next years number we think, at the end of the year 45% of our business would come from these four areas, that is the minimum.

Nirav Dalal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Niral Dalal from Almondz Global Securities. Please go ahead.

Niral Dalal: Thanks for taking my question. Could you comment on the European geography I notice that European revenues have been declining for the past couples of quarters, so some colour on that?

Dr. Anand Deshpande: You are right. I think by and large we have not been doing a whole lot in Europe, we do not have a big sales team there and we have a small number of
people looking at European geography, so it is pretty flat at the moment, but in the scheme of things we are seeing good traction in the US, all our US customers are active so when we have to decide on where to invest the money it is very clear that we should put in the money in US right now because we are seeing like of traction. So we should be doing more in Europe, but unfortunately that is where it is.

Niral Dalal: Out of the 36 new client additions how many would have been from Europe this quarter?

Dr. Anand Deshpande: There is no new customer from Europe this quarter.

Niral Dalal: So that segment will still remain sluggish is it?

Dr. Anand Deshpande: No I do not think the segment will remain slugging per se, but we are focusing the investments more in North America, but they are going to increase our attention in Europe so hopefully that activity will pick up, but we are saying we do not have to leave plenty of opportunities that are coming in other geographies particularly US and also we are seeing in Japan.

Niral Dalal: Thanks.

Moderator: Thank you. The next question is from the line of Jay Kumar Doshi from Equirus Securities. Please go ahead.

Jay Kumar Doshi: If I look at recent news and IBM results or surveys all points out to one thing, which is going to show really good scenario from expanding in US particularly you know lot of product revenues has been definitely so ISV spending is good and again we look at our business the presence that we have in Cloud, mobility are again areas from technology side which are attracting lot of investment so you know some total all this it looks like FY ’12 could probably be a better year or at least you know in terms of dollar and dollar and billion growth comparable to FY ’11 just want to know your thoughts and again with respect to ISVs, what is propensity they have for working independent OPD
vendors like us versus captives or may be others or other IT services from a strategic perspective?

**Dr. Anand Deshpande:** I think Jay, you know the answers to both those questions right. You know, here we expect next year to be good, we are working our best to make that happen. Clearly we will have to match with the growth rates that we did this year for the next year as well so yes. We will able to give you more precise numbers on the next call. We would have those approved by the board by that time. Regarding your other question about do people like working with OPD companies as compared to doing their own captive stuff the answer if they had a choice they could do everything inside the captive, they may might but by and large there are enough businesses for which OPD companies have better partners than doing it internally inside the captive and we see growth across the industry where the captives are not necessarily growing as fast as some of the other companies, captives have their own set of challenges and is not that easy to run a captive and grow it so we are not that hidden by them at the movement.

**Jay Kumar Doshi:** Thank you so much and all the best for the next quarter..

**Moderator:** Thank you. The next question is from the line of Tushar Javkar from Dalmia Securities. Please go ahead.

**Tushar Javkar:** My question was on MAT front. I heard that the company received some MAT credit benefit during the reporting quarter so can you brief a bit on this?

**Rajesh Ghonasgi:** We have not got anything like a MAT credit benefit. I will just explain how the MAT gets accounted. MAT rate is higher than the tax rate so our impression would be how could the effective tax rate by a sub-MAT rate? The amount that we pay as MAT is available for credit in future years. Going forward in the next year when the tax rate goes to normal tax rate and the tax benefits sunsets out, we will be able to get a credit so in that sense the amount of MAT that we pay sits in our balance sheet as advance tax which is reflected in the deferred tax assets entry that you can see. As and when credit is passed, or used up we pass it from that account to the tax charge account so you will see
that in the future also despite the fact that we might not have paid a tax because of MAT credit being used or tax rate will reflect the real effective tax rate, so in that sense currently our real effective tax rate is 8%. The amount of the tax we pay is higher than that and the impact of that difference will be visible in the next few years as we use MAT credit.

Tushar Javkar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Sir just one question; just want to understand attrition from an OPD company perspective, if you can share some perspectives from exit interviews is that higher possibility of exit attrition going to competitors or even to clients?

Dr. Anand Deshpande: See the captives are one of the big sources for our attrition and again mobility and some of these areas when you have skills with people who understand Android or maybe iPhone kind of stuff they are in demand so it is a combination of all those things and lot of the attrition is also focused in certain areas and specific kinds of skills.

Jigar Walia: Is it possible for you to give a split on approximate split between attrition in onsite and offshore, it is more on onsite generally.

Dr. Anand Deshpande: No, not onsite, most of the attrition is all offshore.

Jigar Walia: That was it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Karan Taurani from Pinc Research. Please go ahead.

Karan Taurani: If you could just remember last quarter we had $1.5 million revenue, which was to do with delay in decision-making by one of the client, suppose if it comes this quarter has it come this quarter?
Dr. Anand Deshpande: Yes, essentially let me explain what it was. When we explained $1.5 million so we have one particular customer for whom we did a certain amount of revenue in Q1. When you look at that number in terms of Q2 numbers it was $1.5 million less than what we did Q1. In Q3 that number has been almost restored and I wish there we did nearly what we did in Q1 but not quite that much but I think overall we are pretty much on track on that particular account.

Karan Taurani: But in this quarter there is some portion to be recovered right?

Dr. Anand Deshpande: No that business is lost from last quarter because the contract did not get awarded to us; they delayed it and it was a T&M project, just came in this quarter and that customer is back to this same numbers we had in Q1.

Karan Taurani: Thank you so much.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Antique Stock Broking. Please go ahead.

Sandip Agarwal: One question on the volume. What was the volume during the quarter and second question sir, since you have said the salary impact will come from next quarter so what the primary reason due to which margins have gone down during this quarter?

Rajesh Ghonasgi: The volume growth was 3.56% this quarter stripping out the improvement in the rates. Now your second question was in relation to if the pay hike was in this quarter why did the margins go down and I had said that but I will just explain it again. #1, is in the last quarter Q2 the current fiscal we had the benefit of credit on account of retiral and gratuity valuation because of an increase in interest rate and reduction in discount rates the total liability reduced and hence there was differential entry, which led to a reduction in salary cost and we have explained in last conference call that this was a one-time change primarily on the account of change in the external environment and that has not been reflected again in this quarter so, #1 is that the reason because of which our gross margin has gone up by 2.5% plus there is
another 0.6%-0.7% impact which is on account of visa increase. This visa cost increase was on account of that change in law that happened in July or August where the cost of visas were increased by nearly twice so today that has reflected in direct travel cost and that is the other reason why the margins have gone down. That is about 3.1 % point reduction in gross margin. Of course we had a reduction in S&M, which again is the one time impact this quarter, and in net reduction is 1.1% at PBIT level.

Sandip Agarwal: Also, like volume growth was 3.56, so then what was the contribution of rate improvement?

Dr. Anand Deshpande: It is about 3.1%, if I take in two parts out and I have created a rate variance against volume variance around 3.1% would be the rate variance which means that rate increased our revenue, out of the 6.7% growth, 3.1% was on account of rate and the balance was account of volume.

Sandip Agarwal: What was the currency headwind?

Rajesh Ghonasgi: Currency headwind has been about 2.4% points so you see we had an average rupee dollar of 45.11 versus 46.13 in the earlier quarter that is about 2.4% points head win, but we have recovered a major part of it because we also had fairly effective hedges. We have got about 3.6 Crores worth of forex gain, which overrode this 2.4% loss.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand over the conference to the Dr. Anand Deshpande for closing comments.

Dr. Anand Deshpande: I would like to thank all the participants who joined us in the call and by all means if you have any further questions please do not hesitate to send us e-mail and we will do our best to answer them. Thank you very much and wish you all a very good evening.

Moderator: Thank you Dr. Deshpande and gentlemen of the management. Ladies and gentlemen on behalf of the Persistent Systems that concludes this conference. Thank you for joining us you may now disconnect your line. Thank you.