Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q2 FY17 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Mritunjay Singh
Executive Director & President - Services

Mr. Sudhir Kulkarni
President - Digital

Mr. Atul Khadilkar
President – Corporate Operations

Mr. Sunil Sapre
Chief Financial Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and Gentlemen, good day and welcome to Persistent Systems Earnings Conference Call for the second quarter and half year ended September 30th 2016.

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

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Anand Deshpande, thank you and over to you sir.

Anand Deshpande: Thank you, Syed. Good evening all of you and it is a pleasure to be here at the conclusion of the second quarter FY17 and the first half of the financial year. As being shared, I am going to very briefly share with you the highlights from the quarter. After I have done my initial overview of the highlights, I am going to invite Sudhir Kulkarni to join in and share a bit about what he observed during the quarter on the digital side of the business. After him, Mritunjay Singh will talk about the services part of the business. We will have Sunil Sapre talk about the financial part and then I will conclude with set of closure comments in terms of what is missing. After these initial comments, we will open it up for Q&A. So, it is my pleasure to announce that after the board meeting, we have announced our quarterly results.

So, the revenue for the quarter FQ2 FY17 was US $105.18 million which was a Q-o-Q growth of 0.4% and a Y-o-Y growth of 26.8%. Revenue in rupee terms was Rs. 7040.19 million which is a Q-o-Q growth of 0.3% and a Y-o-Y growth of 29.7%. The EBITDA grew by 4.8%, the PAT grew by 0.3% Q-on-Q and Y-o-Y of 2.3% and the PAT for the quarter was Indian Rs. 734 million. When you look at it from half year point of view, the revenue for the half year was US $209.94 million or Indian Rs. 14,058 million and the profit in the first half has been Indian Rs. 1,468 million. The year-on-year revenue growth in US dollar terms is 29.9% and in Indian rupee terms, it has been 34.8%.

I am going to share a few of the business highlights. We had a launch of our Multilingual Intelligent Search and Analytic System for Uttar Pradesh Legislative Assembly which was inaugurated by Shri. Akhilesh Yadav. We hosted the 42nd International conference on VLDB, Very Large Databases in Delhi from 5th to 9th September. This is a fairly big event. We had more than 600 participants from 39 countries. The last time this conference was held in India was in Mumbai in 1996. In conjunction with this event, we hosted Digital India event which was inaugurated by the Honourable Union Minister for Law and Justice and Information Technology, Shri. Ravi Shankar Prasad. We have extended the leadership team of the company during this quarter and Jacqueline White joined us as Chief Customer

Officer and Dean Hamilton has joined as SVP and GM for the Accelerite's IoT Service Enablement Business.

In terms of awards and recognitions, this quarter was very important and good. We were recognized at the Oracle Excellence Award 2016 as the specialized partner for security. We were also named by Salesforce as a partner to implement and extend their newly launched telehealth capabilities in health cloud. This puts us in a very strong position as a partner for Salesforce by the healthcare and the healthcare related domains. We were for the first time in Consulting Magazine's Fastest Growing Firms based on the growing presence in the enterprise segment. The Zinnov 2016 - IoT Technology Services report, Persistent is included in the leadership zone for Software Platform Engineering and Management and for Engineering Analytics and Decision Sciences. We were recognized by the Association for the Talent Development in 2016 for the BEST Awards which is for demonstrating enterprise-wide success through talent development. I am also pleased to announce that I was appointed as a part-time member of the UID Authority of India in September.

Some of the key events that we have shared in the press release include building new digital experiences for HR and vendor on-boarding for a multibillion dollar global multinational in the medical device and pharmaceutical area, development of an application and API architecture for actionable insights and to bring speed to digital in global mass media corporation. A digital payment solution using API based framework for a US healthcare technology provider and then strategic partnership with a US based leader in financial software and services positions Persistent amongst its top 3 strategic partners.

With this brief introduction, I am going to hand this over to Sudhir Kulkarni to share with us his updates on the digital side of the business.

Sudhir Kulkarni: Thank you very much Anand for the opportunity to address the investors. Good morning and good evening wherever you are across the world. It has been 6 months since we launched the digital unit and embarked on a strategy to build solutions that enabled enterprises to build digital experiences at speed. Along the way, we learned a whole lot about the market and I have to say learned a lot about ourselves as well. I want to share some of my team's excitement over the last 3 months as we approached customers in healthcare and financial services with Vega, our digital experiences platform to demonstrate speed in building digital experiences for customers, employees and other stakeholders at the enterprises that we are working with.

The revenue over the same quarter last year was over 60% up and if a couple of large deals we pursued last quarter had moved to the next, quarter-on-quarter growth would have been much better than the 7% that we had in the digital business this quarter. The quarter was also great from a set of large new customers that we have acquired in the digital unit which included a financial services company with over $750 billion in assets under management, $70 billion of pharma and medical devices maker, a large online real-estate company owned by a media conglomerate and a large $80 billion home improvement retailer. We won awards from Oracle as Anand mentioned as partner of the year for security in North America and also from Appian which was the previous quarter as partner of the year Americas. Now, all these are indicative of the kind of digital transformation message that we are taking to customers of these partners. While those accolades from partners are good, what encourage is me more is to see that our digital transformation message is resonating worldwide. We also won a bank deal in Israel and a significant deal in Australia with a household electronics manufacturer that is exploring adoption of IoT technologies to further their business.

Some of the existing customers that we won in the previous quarters through our relationships with Salesforce, Appian and Oracle etc. are upping the ante on digital and we are building some significant size digital programs for them moving from a point project engagement to a digital program engagement with them. A classic case in point, we are building a two-way video solution for Telehealth for one of our large customers. Customers are also increasingly adopting an approach to building digital solutions using what we are now referring to as software 4.0 approach. For example, we made Hackathons central to our methodology like the recently concluded Hackathon we arranged for Mount Sinai hospitals in New York for uncovering and addressing new areas in healthcare with modern technology. We continue to gain traction with customers like Hackensack University Medical System and other health systems and research organizations in the US.

The outlook for the next two quarters is pretty good for expanding the digital programs footprint launched at major customers is also for winning some new ones that are in the pipeline. There are some significant steps we have taken to structure our sales, re-sales and product organizations for maximizing the opportunity to build digital solutions and programs in the 2 verticals that we have chosen to focus on namely healthcare and financial services. We launched major long-term initiatives to set us up as a leader in digital transformation and I think the success of those will be proven in the next couple of quarters.

We signed a partnership with Dell Boomi to make our Vega digital experiences platform stronger in its ability to integrate across on premise and cloud based applications. We are also in the process of announcing some other partnerships to round out the components that we need across the data, API, and experiences stack for digital that we have been talking about.

In the end, let me reiterate what I said last quarter. The focus for digital is to build solutions to drive transformation in enterprises at speed. Customers are resonating with this message consistently. My team is focused on building solutions and converting this resonance into tangible and sizeable digital programs and revenue from such customers.

Back to Anand.

Anand Deshpande: Let me hand it to Mritunjay, who will share a bit about the view of his services business.

Mritunjay Singh: Thank you, Anand. Good evening everyone. I would like to highlight little bit about the market that we cover. We essentially service two kind of companies; one which are what we call pre-cloud, preinternet kind of companies and they are trying to move into a digital world and also we work with companies which are native digital born into the cloud kind of companies. Around 10% of our revenue comes from our start-up which is a deliberate strategy, we take this start-up to our enterprise ecosystem so that we can bring innovation to enterprises. We have done some really exciting work in last quarters, one of them which Anand just talked about inauguration of the intelligent search in local languages in UP legislative assembly. We are taking that to our broader market and we are having discussions with other states in India. We also have been working with us some very interesting enterprise customers. Just wanted to highlight that what is known as digital in the typically industry includes interactive, mobility, analytics, cloud and security. We do a lot of work in that area as part of the services growth.

A lot of our customers, banks which are trying to for example change their consumer lending platform. There is a company we are working with a card platform, they are creating an event based card platform which can transform how their associates can handle customer interactions when they originate a call or originate a transaction through any of these channels. So lot of this work that we do encompasses and used a lot of newer technology and our portfolio includes a lot of this work**.** I had talked about earlier about focussing on account mining and in keeping with that strategy, we have decided to prune some of the accounts and customers who are either not strategic or not big enough for us. So we have cut down a little bit, impact of that has been roughly around 3% on the top line for the unit and as you see overall, the unit has de-grown by 1.4% that includes the impact of some of these accounts that we have shut down.

The top 20 accounts that we have been focussing on have grown healthily and we will continue to do so. I can say one thing that the services unit we see the bottom of where we expect it to be in terms of top line impact. In third quarter which is traditionally because of lot of time and material etc., we have seen a lot of leaves and holidays and furloughs in this quarter, despite all of these, we expect third quarter to be better than quarter 2. We see a healthy pipeline. We are doing a multiple discussion. Our large deal pipeline is fairly healthy. We are doing a discussion with lot of our customers and prospects about in expanding the work we do with them. So we look forward to having a better second half and look forward to building top 20 accounts and accelerated growth in that.

With that, I will hand it back to Anand.

Anand Deshpande: Let me now invite Sunil to give you a financial overview of the quarter's performance.

Sunil Sapre: Thank you, Anand and good evening to all of you. While Anand and Sudhir and Mritunjay have shared the business updates, let me share some information on margin movement, CAPEX and liquidity position as on 30th September.

The revenue for the quarter at 105.18 million had a sequential quarter growth of 0.4% and 26.8% Y-o-Y and in INR terms, it was 7,040 million with a growth of 0.3% quarter-on-quarter, 29.7% Y-o-Y. The growth of linear revenue was driven by 1.2% increase in volume and dip of 0.3% in average blended billing rate. The offshore linear revenue grew by 1.1% quarter-on-quarter, driven by volume growth of 2% and a dip in billing rate of 0.9% and the onsite linear revenue grew by 0.5%, mainly due to increase in billing rate by 4.3% while the volume declined by 3.7%.

Now about the margin movements, the EBITDA margin was 15.7% for the quarter as compared to 15.1% for the preceding quarter. This quarter we had pay hike which was on an average 6% for offshore and about 3% for onsite. The overall impact of the pay hike was about 250 basis points on the margin. Reduced visa cost which is a feature of Q1 as you know helped to recover margin by about 80 basis points and operational efficiency by tighter control over resource mix and optimization of IP led person months improved margin by about 100 basis points.

During the quarter, we reviewed the leave availment trend and based on the same, the estimate of expected short term leave availment was revised. This change in estimates resulted in one time lower charge towards expenses for leave encashment on account of accumulated compensated absences and the impact of the same was Rs. 104 million which helped the margin by about 150 basis points. Though sales and marketing cost was higher due to few senior level hires during the quarter and certain spend on marking events, there was a decline in G&A cost mainly due to one-time setup cost for the newly acquired business included in the previous quarter. There was a provision for doubtful debts which accounted for 0.8% as compared to 0.3% in the previous quarter. This provision was higher mainly due to collection issues faced in a couple of customer accounts where they are in the process of raising financing.

The overall SG&A cost for the quarter was 19.8% as against 19.6% impacting margin by 20 basis points. The blended utilization for linear business was 74.2%, lower mainly due to reduced offshore utilization because of the freshers that get into the system after training. Depreciation and amortization was at 5.2% as against 4.9% in the previous quarter. The EBIT was 10.5% as against 10.2% in the preceding quarter. The treasury income came in at 203 million as against Rs. 172 million in the previous quarter and exchange gain of Rs. 41 million was lower than the previous quarter due to rupee appreciation. With this, the PBT was Rs. 984 million at 14% of revenue as compared to 968 million at 13.8% in the previous quarter. The ETR for the quarter was 25.3% and PAT for the quarter was Rs. 735 million at 10.4% of revenue which was higher by 0.3% on Q-o-Q basis and 2.3% on Y-o-Y basis.

The operational CAPEX for the quarter was Rs. 156 million, cash and investment stood at Rs. 8,454 million at the end of September as compared to Rs. 7,765 million at the end of June. The value of forward contracts that we hold at the end of the quarter was 106 million with the average forward rate of Rs. 70.80 per dollar.

Thanks all and hand it back to Anand.

Anand Deshpande: Thanks Sunil, Mritunjay and Sudhir for your overview of the business. In terms of just to conclude here, I would say this was an in-line quarter. We were definitely expecting a better growth on the digital part of our business, but I think most of that was on IP led revenues in the digital business and we hope that we will be able to close those deals during this quarter.

Overall, if you look at our numbers for this first half and mainly for this quarter, you will see that the IP has fluctuated and the IP growth during this quarter has been lower than what it has been in the previous quarter which caused the growth rate to be slower, but this is an anticipated activity because of the way IP is getting sold in one of our key customers where most of our IP revenue is coming from. This is calendar Q3 for them, which is a slow IP quarter. We expect better IP growth for Q4. So overall, we think that while the numbers are slower than where we would like to see them, I still think that on an overall first half and second half basis, we are tracking well to the plan that we had set out at the beginning of the year.

In terms of the Accelerite business also, things seem to be on track and we are quite okay in terms of where we are in the context of our numbers. We have said this in the past that the industry is going through a transition, effort required for the same work is going down. This is shifting the business in different areas and we have anticipated this problem and some of the work that we have been doing in the last 2 years has helped us increase our IP component in our business quite significantly. So it is nearly 28% this quarter but in sort of we are at about 30% overall in terms of the IP revenues while this creates a different mix for us and potentially provides us better stability in the market because of the change in business models, this is going to create some different kind of volatility to be tracked on our quarter-on-quarter basis and we think that it is best to look at us on an year-on-year basis rather than look at every single quarter as the IP fluctuations will have an impact on our totals.

With this introduction, I am going to stop here and of course I am sure you all have questions, which we shall take for the next 40 minutes or so and if there are any questions that we are not able to answer today, we will be happy to take them over e-mail or otherwise. We are going to go through the list and call out names for questions, but if you want to ask a question on twitter, please feel free to do so and we will be tracking the twitter feed as well. We will not only answer that question back on twitter, but also take that question in this call if it is appropriate.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please proceed.

Sandeep Agarwal: I have a question for Anand. Anand, although there is some clarification which has been issued that our change in strategy in the services side for clients has probably led to some impact on the growth front, but I just wanted to understand one thing from you which you have been highlighting quite early and I believe that it is the right thing to do and you people have been highlighting that there is a transformation which is happening in the ISV side which will impact business. My question is that what do you think, how much of that pain is behind us and have we reached the point where our enterprise and IP led business can start overtaking it in a significant way that we start seeing actually good incremental growth number, I am not asking you any guidance or something but your sense that pain is broadly over or not so that will be the question number one? Question number two followed by which I have from the previous one only. Anand, do you think that we can get severely impacted as a sector on the SaaS side because if you see SaaS, the businesses which could get impacted is may be Salesforce or Workday and may be some small parts of the IP, so do you really think there could be further significant cuts in this SaaS side because of cloud and if yes, will we also continue to get impacted indirectly in some way. Thanks.

Anand Deshpande: Okay, I am not sure on the second question that clearly but, yes it was happening. SaaS is the business model in terms of how people charge for work, but SaaS is possible because you are able to move into the cloud and you are able to do multi-tenancy that is why SaaS works really well. So in some sense, we look at SaaS and cloud being the same phenomena where people are moving to the cloud, they are billing as a software as a service and this whole new paradigm of how people are building software and deploying software has made it far more efficient to build and deploy software very effectively which means that you need fewer people to do the same work. Work has not gone down, the number of people required for the job has gone down and this trend, I think we have seen that in the ISV market for the last few years. I expect this trend to continue in the enterprise market as well as people start moving more and more of their workload to the cloud. So are we done with this thing? The answer is no. This is going to continue for some more time or it is going to continue for at least several years is my opinion. That said, what have we done to avoid ourselves from being in a bad situation, so we have done a few things on the services side. One is we have definitely enhanced the relationship portfolio of our company, decided on picked on few companies about 20-30 accounts where we wanted to have deep relationships and irrespective of whatever happens in terms of their strategy, we will be part of their growth plans. So that is really what we are trying to set ourselves up. The second we are trying to look at next generation of ISVs who are growing and are doing well and we are trying to make sure we are hitting enough of those kinds of ISVs so that when the market starts to pick up for them, we are part of the adequate system. That is really our strategy on that, that said, we are not restricting ourselves to that, we have decided that our strengths in the ISV market is very relevant for enterprises. Our digital strategy is based on leveraging our ISV ecosystem to build out next generation digital products for the enterprise and also to ensure that all our business is not effort based. We have been systematically moving our business to the IP revenue side and about 30% of our revenue comes from IP related business and not just on effort related business. So while the effort is shrinking, we have made sure that we are not billing only on effort, but we have adequate business based on IP. So that really is the strategy that we are following. We believe that this pain in terms of shrinkage of efforts is going to continue for quite some time and it is going to flow into the enterprise market as well and not just be restricted to ISVs**.** So this is really the reality of what we see and I think it's time all of us accept the reality and find a way to deal with it rather than avoid it. So that's where we are at the moment.

Moderator: Thank you very much. The next question is from the line of Nishit Rathi from CWC Advisors. Please proceed.

Nishit Rathi: I just had a question for Sudhir that when you comment that few of the deals were actually kind of deferred to the next quarter, so just had a 2 part question to that. First that was it just a timing of when the deal gets signed and executed which got deferred to the next quarter or is it just a delay in decision making also on them and secondly, hypothetically they would have closed, how far ahead or how stronger would have been the growth in the digital segment for us? Thank you.

Sudhir Kulkarni: Good question. So first of all, some of those are timing based decisions which would get moved into this quarter but in terms of impact, these are all seeding type of deals which start with a certain amount of engagement which is as I have mentioned before, we have been moving from a project based engagement to a program based engagement so the project will probably be small to start with, but then the program can be substantial and significant and some of these are IP based deals as Anand mentioned and if they are IP based deals, they add significantly to our bottom-line. So I cannot make a comment on exactly what would it have contributed, we do not know how much value they would have generated through the quarter but that is the nature of those engagements.

Moderator: Thank you very much. We will take the next question from the line of Ganesh Shetty, who is an Individual Investor. Please proceed.

Ganesh Shetty: As far as our India business is concerned, we have got one deal from UP government and how do you see the margin picture over there and the collection of money from the government organization is really difficult for some of the organizations, so are we comfortable with the payment position over there and overall digital India, how we can contribute and how we are positioned in entire business era, can you please highlight on these sir?

Anand Deshpande: I think excellent question, I am going to give you very quick short summary and then hand it on to Mritunjay who has been mostly working on this part of the business. So I must say that on this particular deal that we have, we have collected most of the money and we will be able to collect most of the rest of the money as well. This deal has two components to it. There is an IP component and SI type component. The IP component is clearly profitable and at margins which are IP like margins and we think we can leverage this IP business to Vidhan Sabha and other places where multi-language search is required. So I think that is a good asset that we have built on. The third thing, I would like to point out is that the SI business of course is not as profitable but our strategy at the moment is to keep the SI business in control to be a fairly small fraction of our total business so that it does not affect our profitability on an overall basis. And the last comment on the digital India and all of those things, I think we all believe and we think that the government should invest in these kinds of programs, clearly we are a very small player in this market but we hope that these small wins will help us build credibility and potentially, have an opportunity to for us to go after some of the larger businesses deals that might happen in the digital India space. Again the intention here is to not change the business mix dramatically, but to stay engaged and hope that if the market changes as it changes, we are still a player in that market rather than be completely off that market. We have Mritunjay to give you more commentary on it.

Mritunjay Singh: Thanks Anand, like you described this is not multiple data points for us to comment whether the collection is good or bad in India as a market government but this specific transaction we were able to collect money, we were able to deploy these on time which was inaugurated by the Chief Minister. So definitely the experience of this one particular transaction was very good and we expect to do similar transactions in India. We will limit the exposure, we don't want to build the large portfolio at this point in time and that is why we are doing only repeatable things. So we are taking some repeatable solutions that we can sell across, so we understand what we are doing and we can limit our exposure to such kind of things. The last comment is the environment is definitely changing in India, no commentary from across the industry is very different than our experience. But I think based on whatever we have seen, the environment is changing, we will keep and watch, we are trying to engage and if there is an opportunity, we would like to take advantage on that.

Moderator: Thank you very much. Our next question is from the line of Mohit Jain from Anand Rathi. Please proceed.

Mohit Jain: First one is for Mritunjay, so you mentioned something on the revenue which you let go in the second quarter, so can you quantify how much was the amount?

Mritunjay Singh: Yes, thanks Mohit. I mentioned 3%.

Mohit Jain: 3% of the services revenue?

Mritunjay Singh: Yes, 3% of the services revenue.

Mohit Jain: And if there any such thing coming up for the third quarter as well?

Mritunjay Singh: No, I think we have done with that. Now whatever we need to do will happen. See like Anand described, there is going to be a churn because of the technology shift right? I mean the effort required to do certain work is reducing and lot of our portfolio companies are not necessarily born in the cloud companies and they are trying to move to that, but that is part of the business. We are not anticipating any of that to impact our revenue in terms of decline on a quarter-to-quarter basis. We will manage that and there could be a shrinkage but we will be able to manage that.

Mohit Jain: Okay and second was on the IBM IoT, was there like a short fall in this particular quarter you alluded to the fact that IP led revenues were little lower on seasonality, but on your expectation of the annual number 50-55 million, how far are we from there?

Anand Deshpande: So we had set a number of $50 million and we still standby it. Right now, this is Q3 for them in the context of their calendar Q3 and financial year Q3 which is has European holidays and whole bunch of things and they always have a lower numbers in this quarter. So it is on track, it is on target and nothing has changed as such and we think we have to just wait and watch for Q4 which would be the determining quarter on where the year ends up.

Mohit Jain: Last is for Sunil, Sunil should we expect margins to finally trend up or down in the second half because you earlier had guided for 200 bps decline on a full year basis?

Sunil Sapre: Yes, so on the margin side, you would have seen improvements in some of the areas which we will continue and intensify. We had some higher provision in bad debts which is another area to improve margins and overall as Anand mentioned about the next quarter being the strong quarter for IP revenues, we should have uptick from that as well**.**

Anand Deshpande: I would reinforce that Mohit, I think we have enough opportunities to improve margins. There are certain investments that would be appropriate in terms of sales and marketing. I think sales and marketing cost for companies like us on a broad level should go up and will go up over a period and that will happen gradually but IP and the way the IP revenues have set up should give us better margins on the H2 basis as compared to H1.

Mohit Jain: And there was this accounting change midway during the year could have been done at the end of the year, so is there a change in the assumptions that you guys have worked out with or was there any specific reason for doing that in the second quarter?

Sunil Sapre: Yes, see on the leave data, essentially requirement is to have more, you can say at least 2 to 3 years data when the actuary values these assumptions and typically at the end of the year, the time available was not adequate, so we have to wait it out for a quarter to do that.

Moderator: Thank you very much. The next question is from the line of Priya Rohira from Axis Capital. Please proceed.

Priya Rohira: My first question relates to the EDT business, just wanted to understand how has the nature of deals been changing for us, you did mention about moving from a project based engagement to a program based engagement, but absolute quantification or the size of the clientele we are catering to could help, second thing is in terms of investments, Anand you think, you mentioned about S&M investments, can you highlight a little bit more deeper in terms of the type of hiring you would be going ahead with, given the fact that Q2 also had a decent sort of hiring on the senior management talent and third would be in terms of the ecosystem ventures you would want to more pursue in terms of more engagements going forward.

Anand Deshpande: Let me ask Sudhir comment on the first part of the question and I will come back to you on the hiring as well and I am not sure I understand what you mean by the ecosystem part but….

Priya Rohira: Was more in terms of the investments that Sudhir mentioned, I mean he did mention about the initiatives in the platform and the ecosystem partners. So I was trying to dig more deeper into that.

Sudhir Kulkarni: Sure, so good question. First of all, when we say a project to program, essentially we have been partnering with companies like Salesforce.com and with Appian and Oracle etc. and if you look at this stack of digital transformation stacks that we have put out there as far as our platform is concerned, the Vega platform, there are some other components that are kind of essential components that we would be adding and those are the partnerships that I talked about. So the projects that we enter into with these partner led sort of initiatives end up being specialized projects for doing work flow management or for putting together a sales cloud or a marketing cloud or a services cloud kind of engagement. Once we get in there, we start engaging with the customer in terms of what their digital program is like and as we have said before and I have been emphasizing this, technology spend has to be fold between what IT modernization spend is and digital transformation spend is and increasingly, we are realizing that the CEOs and others line of business, CXOs are realizing that vision and once they realize that vision and re-educate them and evangelize this concept and we present our platforms and take point of view, they start looking at it and engaging with us in a larger program. So typically the initial deal sizes are between $200 to 250K to start with but then the programs can end up being in millions of dollars, I mean, it is definitely more than a million dollars. This is I am talking about in annual kind of engagement size. So we are starting to see that already and I think the 2 segments that we are focussed on will prove that these are the right markets, healthcare and financial services and there is a lot of fintech companies that are also looking at monetizing some of the assets that they have built or some of the enterprises that looking at monetizing the data they have built and we are engaged in trying to get them to take those and build experiences out of them by abstracting some of that data, some of the capabilities that they have in their internal systems or record. So those are the kind of things that we are tying up with. So there are some large players in the game like Google Cloud Platform, MuleSoft and others that we are talking to, to try and see if we can increase our portfolio of components that are next three for the digital stack. I hope that answers the question.

Priya Rohira: Is it possible to quantify, you would have seen yourself how the average deal sizes would have change over the past 8 quarters or past 4 quarters?

Sudhir Kulkarni: Well, I do not know that I can quantify this. I think it is from our perspective, these are initial forays into these programs. If I were to look at some of the larger companies like an Accenture or a Deloitte, they keep announcing all these huge deals and if you look at the fine prints, some of them have classified digital in different ways. So there is a likelihood of sort of being misled as an investor to say all these are digital deals and if you look at the fine print, they are not really the way we are describing digital.

Anand Deshpande: So, Priya the question regarding investments and sales. So as you noticed, we have added two new people to our leadership team Jacqueline White who has experience of working with Accenture and SAP and then Dean Hamilton who has actually run fairly large companies on his own on the Accelerite portfolio and as you see going through turbulent times that we look forward is going to be about having the right leadership team and having the right people who can take the company to the next level. As the business is shifting, we think we will have to add different kinds of leadership, invest in marketing, do some more of that and look at more customer facing executives who have a better understanding of the enterprise market. So anticipate some of that shift is not going to happen all of a sudden, we would do it gradually but you will a see a steady change in the way our sales leadership is set up over the next year or so.

Moderator: Thank you very much. The next question is from the line of Mayur Parkeria from Wealth Managers. Please proceed.

Mayur Parkeria: So my first question is regarding the EBITDA decline that we have seen, the guidance was around 200 to 250 bps. So we were referring to FY16 decline or we were referring to from FY15 decline?

Anand Deshpande: So that 2% we had said was in the context of an estimate that we had, I think we still are in the zone right now, but it is hard to say exactly what that will be by the end of the year. But the idea was that whatever our profit margin was for the last year to this year. Because of IBM alone, there is going to be a 2% decline, that was what we had said when we announce that particular deal.

Mayur Parkeria: And sir in large clients category where we have around 15 clients, how many of them would be there in EDT segment?

Anand Deshpande: I do not think we are classifying it like that. Most of these clients are from the services side. Let me see, if we can give you how many EDT clients are in the more than 3 million or 1 million. So that would not be the right way to look at these at the moment. Most of these are services customers where we have had long term relationships. Most of the EDT customers are as I said mostly projects and other activities where we are trying to convert them to program. I will tell you exactly how many there are which are more than 3 million but that number is likely to be small at this moment.

Mayur Parkeria: Sir there is we have a banking and financial client in US who is facing some problems around this time. So do we think that will impact us?

Anand Deshpande: No, again, it is a big company so I do not expect them to shut down their technology business. So I do not expect immediately anything on the ground when we are working with the teams on the technology side, at least we have seen no change in their behaviour. I just wanted to take a moment and read out a question we have seen on twitter, so what is the visibility about business from IBM for next year, can we expect same or what growth do we expect? So here is the story right. So, we have as I said to you prior to this deal, when we announced the deal was that we are expecting roughly $50 million worth of revenue because of the deal. Most of that is going to come from revenue share agreement that we have. Now there is also another line of business that we have set ourselves up and if you look at the activity level on that, that is the IoT sell with the business. So we have set ourselves up as a partner, we have a re-selling agreement with IBM as well and we are selling IoT services to IBM customers jointly with IBM. Now that is going to be our revenue engine for growth on the IoT side for the next year or so and how well that we will do we will be able to say that more crisply in the next quarter and the reason I say that is because there are three events in the next 4 to 5 weeks that we are participating in where we will get a sense of what is going on. So this week we are active at the IBM World of Watson event which is in Las Vegas. At the end of the week, there is an event call TRIMax which is the TRIRIGA, Maximo conference in Arlington, Virginia. Both of these places, we are standing close to IBM as a partner and we will be talking about some of the work that is going on in this area and then the last one which is a fairly large event for us is the IBM ICE conference which is happening in long beach in the November timeframe where we have going to talk about how we can help with the CCLM customers. So this is our first opportunity in some sense to directly meet customers as Persistent after this deal has been done. So far we have been doing this and this is the first set of conferences that IBM has where the deal has been announced and we have been working closely with these customers. So we expect this opportunity to see some action in the next few weeks on this particular one. We should also have some more to say on this after this one. Unfortunately, the twitter feed names a customer so we are going to be discrete about how we answer that on twitter. Let's take the next question from the line.

Moderator: Thank you sir. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please proceed.

Dipesh Mehta: Sir, I have couple of questions. First is about the onsite pricing uptick, can you help us understand what is driving onsite pricing significant uptick**.** Second is about digital, can you provide some more additional detail about the 2 focus area which we have highlighted healthcare and financial services, which specific area we are touching upon there and any colour about mix in between these 2 verticals about digital and strategy there about and on digital only, what would be the recurring stream because I think you suggested from engagement related thing, we are moving from project to programs. So what would be the recurring stream if you can help us understand?

Anand Deshpande: So one basic thing okay, why the onsite rates gone up, the onsite rates have gone up because of the shift in the revenue mix or the mix of business that we are doing. So lot of the onsite numbers that have gone up have gone up because of the digital program. We have increased the percentage of the total coming in from digital program where we are able to charge a premium as compared to the traditional services side of the business. So the reason that onsite rate looks like it has gone up is because we are actually charging for different kinds of goods, different kinds of services are being offered which are on digital, which are at premium services. That is the reason why that is happening. So it is a healthy growth in terms of the rate that you are looking at in that context. Now, in terms of sort of going to this, clearly as you all are aware we have had partnerships with partners like Salesforce, Appian, Apigee, Attivio and all of these and the most of these sell with partnerships in the past have been project-centric. So we do projects for their company on behalf of our partner and then usually that would end that project. So with our digital transformation story and enterprise digital, what we have done is we are trying to convert every project that we are getting into to be not be a project but be a program which would give you long term sustainable growth on the account. Now we do we expect that these accounts will be sold in a model where there will be some IP components and managed services component and some sort of revenue share or some kind of modular sales strategy where you will buy certain units from us. We are trying our best to make sure that the digital business is not based on effort alone because then that is the shrinking business. So the whole objective of the digital business is to convert our revenue per hour business to creating pre-packaged artifacts and be able to charge for work rather than being able to charge for effort and this is a deliberate plan that is going on. So you will see that reflecting in the way we are selling in the next few quarters.

Dipesh Mehta: So last about focus vertical…

Anand Deshpande: So the vertical focus is kind of being around for a whole. So we are focusing on healthcare and financial services. In the context of digital, we also have a focus around industrial IoT that is coming in from the work we are doing with IBM. On the healthcare side, we are focused predominantly on the provider side of the business. So these are hospitals and other people who are doing patient engagement type work. Lot of this work is coming in from our partnerships with people like Salesforce. In the last quarter because of the Salesforce functions and otherwise we have created some very nice videos and marketing material on our website that talks about the work we are doing in the healthcare side. I would encourage you to take a look at it.

Moderator: Thank you. Our next question is from the line of Abhishek Kumar from JM Financial. Please proceed.

Abhishek Kumar: My first question is on margins. Was there any bearing of the current ongoing restructuring in the services business on our cost structure. I can see that the onsite revenue has come down, there was lower travel cost as well as some of the employee restructuring that you talked about. So was it deliberate, just wanted to understand how sustainable this would be?

Anand Deshpande: So there is a deliberate plan going on to improve the efficiency of the business, there is no doubt about that. That said, I think we are trying to focus on the basic things on the services side of the business which is how do I improve the yield, utilization, pyramid, margins, all those kinds of things and especially onsite margins. On the digital side, the growth, the whole objective is to see how we charge more because we are selling different kinds of services and overall improve the yields. So even the utilization may be lower than what it is on the services side. Overall yield across the company needs to go up and there is a deliberate attempt to do that and I think if the IP and the yield per person actually go up, that will improve the margin and that will be the premise on which we are operating on. That said, there are two margin decelerators that will continue to happen. One is this new world we will have to invest a bit ahead of the customers and the second thing is that sales and marketing cost cannot be cut down very dramatically because the way the market is moving. It is necessary that we are selling aggressively. So marketing, sales and investment, those three are going to keep continuing, we will have to balance that and I think there is a lot of opportunity in improving the yield per person by being able to charge for different kinds of things. So it is the deliberate plan and I think you will see continued improvement in margins if we are able to sustain on this plan.

Abhishek Kumar: Next question is on services. Mritunjay, you mentioned there could be some headwinds of this client pruning next quarter also which you might be able to manage, but on a steady state business, how should we look at the growth in services business. Can we expect this to grow in line with the IT services industry or do you think that would be little conservative?

Mritunjay Singh: What I meant was quarter-on-quarter revenue and trying to make sure that we are not dipping like we have done in this quarter. Giving a guidance in terms of whether it is going to be in line of IT services because we are not in that kind of a business, so I cannot peg it to IT services. But if you look at our strategy of focusing on key clients, we have lot of clients in that revenue that we report. So if we focus on that and we have already seen a yield of higher growth in the key clients. So we think it will improve. Difficult to put a number saying what that number will be, but we are confident that it will improve and I can say that with a confidence that we have seen the bottom in the services business and we should see an improvement from here onwards.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please proceed.

Sunil Kothari: Sir, I have two questions. One is for Sunil. This is regarding amortization which has gone up half yearly from say 19 crores to 42 crores, so some clarity on this and second is for Mr. Deshpande, sir broadly since long we are growing our revenue and top line 20%, but our EBITDA was growing at may be 12%-14% and our bottom-line is less than 10%. So when you see this trend changing? I am not asking about this quarter or may be next half also, but when you see our revenue growing 10%, EBITDA growing at 12 and bottom-line growing at 14%, broadly can this trend reverse which is since long the bottom-line growth is very less or may be negative compared to our effort.

Anand Deshpande: I think our market is shifting right. So you cannot run the same numbers that were running 5 years back. I think the best opportunity for us in terms of improving our margin would depend on our ability to sell IP at large numbers. So if you are able to get profitable IP, that is the only way to make that happen. On T&M business, it would not be possible to grow the margins.

Sunil Kothari: Amortization figure for half year is 42 crores compared to last year's first half 19 crores amortization?

Sunil Sapre: So actually if you see the amortization, the acquisitions that we have made over period of time, the quarter-on-quarter increase in amortization number. So instead of comparing just last year's first quarter, second quarter, you should compare quarter-on-quarter. This was 4.9% in the earlier quarter, today it is at 5.2% and it will remain in this range.

Moderator: Thank you. We will take next question from the line of Mr. Ashish Chopra from Motilal Oswal Securities. Please proceed.

Ashish Chopra: Just a couple of quick ones from my side. Anand, would it be possible for you to share the percentage of revenues from digital that currently comes from you charging not on a effort basis, but on the basis of the amount of work delivered and secondly just very quickly to Mritunjay, Mritunjay you mentioned that the services business probably should potentially bottom out in the second quarter whereas the pruning exercise which had started only in the last quarter, so if you could clarify whether you would be through with the pruning exercise very quickly by 3Q or would you be growing the business by offsetting the continued pruning that may still last for a while. Thanks.

Mritunjay Singh: Most of the pruning is pretty much done in Q2. May be there will be like 1 or 2 smallish that we can do, but most of it is done. As I said, we are balancing a portfolio in terms of certain of our customers are moving from a particular technology stack to a different technology stack, but we are confident that with the focus on the existing accounts and relationship will be able to grow the business and we will not have any impact.

Anand Deshpande: And on the question that you have which is what percentage of our business is coming in from these kinds of deals, it is kind of hard to give you an exact number, but I would say that half of the new businesses that we are working on are of this kind at the moment. So the new businesses that we are selling at the moment, the growth that we are seeing on the digital side, about half of it is coming from situations where we are selling platforms on managed service and also some units that you buy for buying digital services and we should be able to show you a more detailed plan on how we are doing this and clearly that is the objective and hopefully we get to a point where most of our business on the digital side is not linked to headcount, but linked to some outcome. It would not be all outcome as revenue share, but it will be lot to do with some IP, we will sell some managed service to go with it and some other things where it is not interviews and head count based billing, but we are signing up for some pre-set goals and objectives. So for example if you look at on the IBM side, we have an offering that says we will connect our devices in 30 days to a certain price point and lot of these things will evolve as better offerings. So we have another one which is call the flywheel offering that we are selling where we are saying of $150,000, 3 months, we will integrate the whole bunch of new devices, new data sources and give you certain number of end sites. So again lot of these kinds of deals are where we are trying to position ourselves in terms of an outcome of what we deliver saying yes, what you will get pre-package rather than head count. I think we are pretty much at the end of the hour. So I am going to stop here and brief on this one, but Ashish, we will be happy to show you what we are thinking about and how we are trying to sell.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Dr. Deshpande for closing comments. Over to you sir.

Anand Deshpande: I would like to thank all of you for participating in this conference and we are in the Diwali season, so I would like to wish all the investors and all of you attending the conference a very happy and healthy Diwali, may you have peace and rest and let us all have a good next year. Thank you.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Persistent Systems Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.