Persistent Systems

Analyst Call

Persistent Systems Limited - Analyst Conference Call

Q3 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. Jitendra Gokhale
President – Alliance

Mr. Sunil Sapre
Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning 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 third Quarter-ended December 31st 2017. 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. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. We have with us today on the call Anand Deshpande – Chairman and Managing Director, Persistent Systems. We also have with him Sudhir Kulkarni – President, Digital, joining from the US; Mritunjay Singh – Executive Director and President (Services); Jitendra Gokhale – President (Alliance); Sunil Sapre – Chief Financial Officer and Mukesh Agarwal – Chief Planning Officer and Amit Atre – Company Secretary. I would now like to hand the conference over to Dr. Anand Deshpande Thank you and over to you, Dr. Deshpande.

Dr. Anand Deshpande: Thank you, Aman. I would like to welcome all the participants to this investor call. Since this is the first time we are meeting in 2017, let me wish all of you A Very Happy New Year.

I am really delighted to share with you results from last quarter and we had a board meeting on Friday and Saturday.

Our Financial Numbers: The revenue for Q3 FY17 was $110.03 million which was 4.6% quarter-on-quarter growth and 22.7% year-on-year growth. When you look at it in terms of Indian rupees, we did Rs. 7,455.35 million, which is a 5.9% quarter-on-quarter growth and 25.9% YoY growth. The profit after tax was Rs.818 million which was 11.4% QoQ growth and YoY growth of 5.7%.

I am also delighted to share that the Board declared an interim dividend of Rs.6 per share. This dividend last year in the corresponding quarter was Rs.5 per share.

I would like to report that Rajesh Ramchandani has joined Accelerite as General Manager for Cloud Services in November and also Anant Jhingran who was on our board for last 5-years has decided to move off the board as an independent director from November 3rd. These are the two other announcements that we had.

In terms of the Business Highlights, we were recognized as Salesforce Platinum Consulting Partner which is a reflection of our growing strength in the Salesforce ecosystem.

We were named by IBM as the Worldwide Watson Internet of Things Innovative Business Partner of the Year at the IBM World of Watson Conference in 2016.

We have been working on a project with the Biocomplexity Institute of Virginia Tech and I am delighted to share that they won the Constellation Research Super Nova Award for 'Data to Decisions' Category and we have a very nice case study and a video on this effort on our website which I encourage you to take a look at.

We were cited as a leader amongst the BPM Service Provider in the Forrester Wave for BPM Service Providers in the Q4 2016 Report.

Zinnov positioned us as a leader in the Product Engineering Services for the Category Enterprise Software and Consumer Software.

We are in the process of organizing very large Hackathon called Smart India Hackathon 2017 towards the end of March which we expect participation from 6,700 technical institutions and 25 government departments across India. This of course is on the website and we will talk about this little later in the conference.

What I would like to do next is I am going to request Munjay to talk about his Services BU, we will get Sudhir to talk a bit about the business that is going on in the Digital side and I am going to invite Sunil to share a little bit of details on the highlights of the financial numbers that we had for the quarter and I am going to close with other open items that I think maybe questions that you have and also the questions we have received from some of you during the day.

I would also like to remind you that we are tracking Twitter and if any one has any questions on Twitter, please tweet like always and our handle is @persistentsys. So if you have anything you would like us to respond, you are not able to get through the list, you can send it to us on Twitter.

Let me now invite Munjay to talk about the Services business.

Mritunjay Singh: Thanks, Anand. Good evening, everybody and I Wish You a Great Year. Wanted to talk about Services, if you see from a numbers perspective, we have done less by 1.6%. Share a couple of reasons:

Since this is a linear business the leaves and holidays during the quarter impact this. So we had a little bit of more than anticipated impact of leaves, holidays and furloughs, also some sudden ramp-down in one of the ISV clients that has impacted us. So we think that there has been a kind of bottoming out that we have been talking about, I think in Q3 we have achieved that. There has been a little bit of trimming as well we have done, even though it was not significant last quarter, but we have taken this opportunity to kind of trim some of the smallish accounts. The top-10 accounts have been showing good traction and we have been building that and they are the ones we are seeing some of the growth that we are seeing. So overall I think we are very happy with the performance and going forward I think we should see some growth in this unit. With this I will hand it back to Anand.

Sudhir Kulkarni: Thanks, Anand. Good Evening or Morning everyone wherever you are in the world. It is a new beginning here in the US with Trump in the White House. Some argue it is good or bad but I assure I come bearing some good news for you having clocked our best quarter yet in Digital and have many good things to report about and celebrate, Anand covered a few of those already in his address.

Digital growth continues to power on with high quarter-on-quarter and year-on-year growth. But what I am excited about is two things that stood out this quarter – One, we signed some tremendous companies as new logos, new customers. Our initial projects with them have started becoming a fulcrum for us to build out larger digital programs with them and this is what is exciting. Some of these digital platform customers include an acclaimed financial services group in the Middle East; a large US-based collectibles major, a US-based healthcare company; and US-based financial services payments processes company. Last quarter, I told you about how customers are increasingly adopting an approach to become software-driven businesses using what we are calling as a "Software 4.0" approach ensuring continuous transformation by design and that is the key, because this quarter we successfully took on our Digital point of view to customers who embarked on their journeys to become software-driven businesses. I would also announce signing up the Dell Boomi Partnership and that we were in the process of announcing some others to round out the components needed across the Data, API and experiences stacked for Digital. We have done exactly that and signed up with Google Cloud platform and with NewSoft which are critical to our success in building digital platforms for our customers. This alongside our existing strong partner ecosystem of Salesforce, Appian and Oracle round out our offerings and powers solutions that we are bringing to the market. We also ramped up our marketing activities which produce some great traction for us which will lead to good growth in the future. I expect that with the large lead flow through partnerships and bigger digital programs with key customers, we will have a great growth trajectory in the future.

I want to talk about some recognitions here – Anand alluded to them. One was becoming a platinum partner for Salesforce. Now, this is very critical to the growth in our business, because growth within the Salesforce ecosystem continues to be strong, increasingly these are growing into digital programs for us. We are not implementing just Salesforce Cloud, Sales Cloud, Service Cloud Marketing Cloud, Health Cloud implementer alone which is what most of the other partners of Salesforce do. We are helping customers to do more, example, at a large hospital, we are working APIs and data integration layers below the Salesforce Cloud enabling them to derive massive value from their legacy IT systems and power their experiences with insights from multiple data sources. This is essentially the basis of our digital transformation point of view, leveraging our expertise and tool kit built by us over the last few quarters. Our focus on building a portfolio of such digital IP has started yielding results. We have some key deals this quarter where we have actually led with our IP, leading to digital programs at these customers. As a company, we continue to invest in the digital business significantly because we are seeing great opportunities. The focus is on growing this business significantly with which sales and marketing backing it up and also building digital solutions that can be repeatedly sold across many customers. Back to Anand.

Dr. Anand Deshpande: Let me now invite Sunil to give you a little bit of an overview on the financial numbers please.

Sunil Sapre: Thank you, Anand and Good Evening, all of you. While Anand has shared Business updates and Market outlook followed by Munjay and Sudhir, let me share some information about margins, CAPEX, liquidity, and hedge position as of 31st December, 2016. The revenue came in at 110.03 million recording a dollar growth of 4.6% quarter-on-quarter and 22.7% YoY, mainly driven by growth in IP-led revenue which grew by 6.9% and 73% on YoY basis. Revenue in rupee terms was 7455 million with the growth of 5.9% quarter-on-quarter and 25.9% YoY. The growth of linear revenue was 3.7% which was driven by 3.9% increase in volume and a dip of 0.2% in average blended billing rate. The offshore linear revenue grew by 2.5% QoQ, driven by volume growth of 3.2% and a dip of 0.7% in the billing rate. The onsite linear revenue grew by 5.8%, mainly due to increase in volume by 8.5% and a dip in billing rate by 2.5%, mainly due to the holiday season affecting some of the number of billing days.

About the margins, the EBITDA margin was 15.9% as against 15.7% in the previous quarter and was 15.6% for the nine months' period.

Now, a few items which impacted the margin for the quarter are:

On the positive side, we had improvement in utilization of about 4.5%, utilization went up from 74.2% to 78.9%. We had a currency depreciation which helped the margin. We had on the negative side lesser number of billing days as Munjay mentioned which mainly affects some of the business and services units, that impacted the margin, but this was more than offset by better profitability in the IP business which had higher revenue with lower headcount.

On another couple of negatives that were there was a small increase in the doubtful debt provision and we had a one-time credit of leave valuation last quarter which is not there this quarter. On the doubtful debt provision, I would like to comment that the provision in the previous quarter and this quarter has arisen due to two customer accounts which have been fully provided for.

Coming to G&A expenses:

The increase is partly due to facility cost for overseas locations and partly due to increase in professional fees and this has been offset by the S&M expenses getting spread over higher revenue and it has compensated for the increase in G&A cost. Depreciation and amortization was at the same level as previous quarter at 5.2% of revenue. The EBIT was 10.7% as against 10.5% in the preceding quarter. Treasury income was Rs.143 million as against Rs.203 million in the previous quarter, mainly due to the bond rally which was exceptional in the last quarter. The exchange gain at Rs.174 million was higher than the previous quarter due to rupee depreciation. With this the PBT was at 1118 million at 15% of revenue as compared to 984 million at 14% in the previous quarter. The ETR for the quarter was 26.7% and for the nine months' period it stands at 25.5%. PAT for the quarter was Rs.819 million at 11% of revenue and PAT is higher by 11.4% on QoQ basis and 5.7% on YoY basis.

As Anand mentioned, we have an interim dividend of Rs.6 per share declared as against Rs.5 for similar period last year.

The operational CAPEX for the quarter was Rs.115 million. Cash and investments amounted to Rs.8,967 million as at 31st December as compared to Rs.8,454 as at 30th September. The value of forward contracts outstanding at the quarter end was Rs.119 million at an average forward rate of Rs.70.82 per dollar.

Thank you all and I hand it back to Anand.

Dr. Anand Deshpande: Thank you, Sunil. So let me just to close out before we take the questions, I would like to make a few comments and observations. This was a really good quarter because all the major initiatives that we have talked about, we could demonstrate growth in all four or five of them. So clearly when we did the reorg at the beginning of this financial year, we had focused on services to deliver on key accounts and we had some very good response on that. On the Digital side, we had a good growth of 16.7% quarter-on-quarter, so the Digital business now constitutes almost 16.7% of our business and growing at a reasonable rate. The IBM business on the alliance was 30.6% and on quarter-on-quarter basis it grew 8.3%. The Accelerite business also had a healthy 8.6% contribution on 4.3% quarter-on-quarter growth. So all of those numbers where we are trying to focus had good growth during this quarter. This is equally important because this particular quarter one has to factor in leaves and holiday, and despite those being part of it, we had pretty good growth during the quarter.

I would also like to point out that the utilization numbers that we had during this quarter were really good, we are quite happy to see that we were able to get nearly 78.9% on the blended utilization and the offshore utilization was 77.6% which was a good growth in the utilization numbers which were significantly lower in the previous quarter.

Since we have had many discussions on this topic in the past, I would like to point out specifically on the IBM IoT Deal. So I would like to say that when we did this deal about almost 10-months back and when we talked about it last February we had many reservations and many people had many issues and discussions on it. Having been part of it for the last nine months, I must say that we are very pleased at where we are at this time. One, I would like to point out is that we were able to take the entire team on board and the team delivered phenomenally well to the extent that the business that we are part of grew significantly in this year as compared to the previous year and overall, we were able to get some very good customer traction which will help us in generating revenues for next year. So the business of continuous engineering is very robust and we have seen good growth and good market positioning in that market for the products that we are working on.

In terms of absolute numbers, we still have some gaps in collecting data from IBM yet because of the way their quarter ended only and their final numbers are only out on Friday, but we are quite pleased with the position that we are in at this moment. Many of the discussions that we are having right now with customers both on the CE product and also on the IoT product are very exciting and we really look forward to much better business from our point of view for calendar '18 with IBM on this product.

So with this, I am going to stop here and open the floor for questions and if you have any questions, then we will answer them one-by-one.

Moderator: Thank you. 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 go ahead.

Sandeep Agarwal: Anand, I have a couple of questions like what we hear commentary on the services side, it looks like things will look better from here and this has particularly been issue for us sometime because of obviously the ISV struggling. Digital 17% which is expected to do better and alliance also what I understand from the commentaries will look good. So, are we saying that now going forward 50%-55% of the business is something which can post very good growth and the services business which is now 44% of the business may grow at even slightly lower than the Indian IT export industry average growth rate. So, that is point number one. Point number two, I just wanted to understand more about the IBM Watson deal because in the past you people have a little tight lipped on that because the deal being underway. So, can you throw some light why IBM? And I see, we have got some award also. So, what kind of role we are playing exactly in this deal and where do you see this opportunity? How do you define platform? Is it only a development platform or something else?

Dr. Anand Deshpande: Okay. I think two very good questions Sandeep. So, on the IBM side, let me first give you a quick overview on what is happening. Let me step back and give you a whole story on what we did and what is going on? So, one of the things that we had done was we transferred a set of employees who are part of the IBM business to Persistent and we added some of our members to that product. To take the continuous engineering roadmap and significantly accelerate growth on the roadmap so that the customers who are using these products specifically, in the context of IoT we will find this continuous engineering product to be a valuable product for them. And we will have a long-term future and it is not just an end-of-life product. I am really happy to say that few things that we did really helped make that happen. One is that, we were able to retain the team and we were able to get the team to work on all the projects with no disruption to customers or any of the other activities. So, the transfer was extremely seamless and we really worked that out very well. The team delivered on the requirements that they had. There was a backlog of requirements which we were able to complete and many of the issues that were pending, we were able to sort them out. I am glad to state that the continuous engineering product as it looks now is in a far more stable and a much better position in the market as a leader than it has ever been in the past. So, we are very excited about the kinds of customers and the long-term relationships that customers are trying to sign up on these products. And these customers are extremely large companies in the engineering-oriented industries which is where IoT and industrial IoT is going to happen. So, that has been one big part of the business. And whatever IBM sells in that market, a percentage of that comes to us. So, that is one part of the business that we have on the IBM-IoT side. The second piece is a part that we have been doing with IBM is that we are doing and this is more recent because first two quarters we just focused on getting the transition to happen, getting our people teams ready. In the last quarter, we started to do some revenues where we are now partners of IBM and we are doing implementation and deployment work around the continuous engineering product. So, that has started to happen and again, it is the first quarter where we have seen numbers but these numbers are small but they are starting to be with important customers and we are billing in some cases directly but in most cases through IBM on those products. And the third line of business which we have started to do is, to work with IBM, to be their IoT partner where we are selling together with them on an IoT solution. We have several solutions that are now available on the IBM portal and our portal where when customer is looking for doing what next happens on the IoT side, they are coming to us for directly implementing these things because we have prebuilt many of these solutions that IBM is carrying with them as part of their sales channel. So, that is really what we are doing there and I think, I am quite positive and upbeat on where we stand on the current state of relationship. I was in Europe last week where I met some of the key executives and I would say that the relationship could not have been any better, looking ahead 10 months into the relationship. And again, this is a long-term partnership with opportunities and customers who make rather long-term commitments and it takes time to get those going. So, we will see in an effect in terms of our revenue over a period of time. But the relationships that we have started to be visible in is pretty significant. On the other one I will get Mritunjay to comment on it. But, I would like to say that your observation Sandeep, we should see good growth on Digital, IBM, and on the Accelerite piece while the services business grows at near NASSCOM rates or nearly there is a fair assumption. And let me ask Munjay to add more commentary to that.

Mritunjay Singh: Thanks, Anand. Let me give a little more color to the services business. So, there are essentially four areas that we are working on, Financial Services, Telecom and Media, Life Sciences, Healthcare and the traditional ISV business. Financial Services is doing very well for us, we are actually growing that and it is almost now 15.5% to 15.6% of our business overall at company level. So, that is a good traction. The ISV sector as you imagine is struggling also we have had a lot of customers who have had very stressed out business model and they are currently cutting some of the budgets. The Life Sciences and Healthcare business is being kind of flat and Telecom and Media has been similar to the ISV, because of other shift in the market. So, if you look at from our overall perspective, these are the ones which are actually in the financial services show a promise, life sciences and healthcare collectively as a sector show promise. And we think, going forward like you rightly said, Sandeep I think we have seen the bottom of it and we will see an upward trajectory now. How much, of course, it depends on the industry because industry is going through a change. Services is a red ocean market so it will continue to have a very different trajectory than the rest of the business.

Moderator: Thank you. We have the next question from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: My first question is on IP. It appears if we strip out the contribution from IBM IoT, the other IP business is essentially flat in the nine months. So, if you can just tell us, what exactly is happening there, why are some of the IPs where we were quite hopeful earlier like Radia, etc., how are they performing?

Dr. Anand Deshpande: Okay. Within the IBM there are several IPs and most of them are doing quite okay to doing well. On the Accelerite business, we have been taking on end-of-life products and trying to see how to grow them. So there is some of that factor. However, we have had pretty good growth on new deals on both Radia and on Aepona. Aepona is the IoT platform that we have and Radia is the end-point client management product. Both of those have done really well. On the CloudStack part it has done okay, it stays stable and it has not grown a lot but it is a fairly stable business and has been now growing at pretty small numbers. But the Radia and Aepona business are doing well. We have two products that we have been working on – one is the Sentient product and the other one is the Concert product, these are new products that have not been launched in the market yet. We expect to launch them in the middle of this quarter to end of this quarter and they are the ones who are supposed to be the revenue generation engines for the product. Right now, we are essentially working mainly on the products that we have inherited and I am quite happy to see where they are and the profit margins on these products have gone up quite a bit during this quarter.

Abhishek Kumar: That is helpful. Second question is margin. We already have utilization at 78%, which I would assume would be optimum level and with IBM also likely to dip because of seasonality next quarter. Would it be fair to assume that 15.9%, 16% is where that margins should trend at least for next two quarters, three quarters?

Dr. Anand Deshpande: Yes, it is a good question and again it is very hard to answer this because a lot of it has to do with the non-linearity of the business. And also, one important factor that I would like to point out is that the digital business that we are doing and growing, is not a T&M business and we are able to get some IP and some solution based selling which gives better margin. So, we are sort of gambling or saying that we think getting IP business and the digital business growing should be the reason and way we will get improvements on margins. And we are seeing evidence of that in this quarter actually. So, when we get these two businesses to grow faster that should help in improving the margin. Clearly, the utilization numbers that we are operating on this quarter are really good but there is a limit to how much we can keep increasing on utilization.

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

Apurva Prasad: Sir, I had question on the ISV part of the business. You mentioned about the trimming of smaller accounts which has been an ongoing exercise. So, I wanted to understand, how different really is the growth profile within the larger ISV accounts and the smaller ones? And if you could throw some light there please?

Mritunjay Singh: This is Mritunjay. I think the smaller ones and the larger ones are a little different. Some of the larger relationships are essentially the ones which are whole technology, pre-cloud companies. So, they have a different kind of a challenge while some of the smaller ones are cutting-edge, new technology kind of companies. So, it is very hard to define them by a size, right definition that we track is the stage of journey that they are in as an ISV. So, we pay a lot more attention to the ones which are on the newer technology or the ones that are on the growth path. The ones which are doing the older technology products, we are looking at them a little differently in terms of offering them a broader portfolio in terms of what Persistent can bring in. This is especially where we have a sizeable relationship. If we have a small footprint in an ISV which is large and is struggling then we actually look at de-risking that and kind of bring that down. So, that is the kind of trajectory we have taken in ISV because overall if you look at the ISV space, the spend has come down and so as the total outsourcing that they are doing in that.

Apurva Prasad: Sure, sir. But then, what is really giving us the confidence that it is bottoming out, missing there?

Mritunjay Singh: The confidence is looking at the other two sectors that I just described. In the last few quarters, we have been chasing some of the larger relationships in the enterprise segment and also in some of the ISVs in terms of broadening what we can do as a company. We have a good enough pipeline of these. There are five, six of them. We are expecting one of them to close this quarter. So, hoping that the new ones which are growing can outpace the slowdown that we are seeing in some of the other ones and that is why we are saying they are bottoming out because the pipeline is healthy in the ones where we see a good traction.

Moderator: Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Just one question from my side. Anand, I was just looking at the onsite revenue proportion over the last five quarters and that has actually been pretty much within the band or really stabilized, despite a significant growth coming from the enterprise and out of the digital segment which are more skewed towards 'onsite'. So, just wanted to know your thoughts on what is really happening there and whether you would think that the proportion of services across the two locations is now at this rate even within digital.

Dr. Anand Deshpande: Yes, I would like Sudhir to comment a bit on his side. But you are right, I think, by and large, we have reached a critical mass where we have enough to get going at least on both the digital and the services side so, the onsite numbers have not changed dramatically. Sudhir, if you want to comment anything on that?

Sudhir Kulkarni: Sure, Anand. What I think, I would like to also focus on is not just the onsite or offshore mix of things but as to how we are dealing with the digital projects. I think, more and more I am increasingly seeing that we are taking on projects which are in a fixed bid model and in ownership model plus IP led so, essentially what ends up happening is that the mix of resources used is going to be (a) in our control; and (b) better profitability as Anand was mentioning. So, that is what we are looking forward to in the future in the digital business. So, that is why these numbers really over a period of time in digital offshore onsite mix etc., probably may not make much sense. It might go plus, minus but depending on where we execute best.

Moderator: Thank you. We have the next question from the line of Ganesh Shetty, he is an Individual Investor. Please go ahead.

Ganesh Shetty: Recently, we have learnt about some visa restrictions and protectionist measures from U.S. government. But being in the specialist business of IP products mainly and we are intentionally lowering our services business. I think, we are going to be affected in a least manner. Still, can you throw some color on this, sir? How we will be impacted if this becomes a rule in future?

Dr. Anand Deshpande: Yes, sure, okay. Again, we are still speculating on exactly what might happen. But the two numbers that people talk a lot about are: do we have more than 50% local hires versus immigrants, H1B visa's and L1 visa's and the second part is what happens if the $100,000 minimum H1 requirement comes into play. So, let me first comment on the first part. So, today at this moment, we have about 47%, 48% of our people who are local U.S. people and the rest of them are combination of H1Bs and L1s. We do have some more H1Bs that have been approved where people have not travelled as yet but we will see how that happens. So, we are fairly close to getting to almost 50% or in that range anyway. That part is not a big factor for us and predominantly our acquisitions of teams from IBM, Intel, HP, all these other things have really helped us in creating a local workforce that is completely built locally. We had also set-up a center in Columbus, Ohio, or Dublin, Ohio which is a suburb of Columbus where we are starting to hire locally and build a team locally out there. So, we have been trying to be a U.S. centric force for U.S. work anyway for quite some time. So to that extent, we are not directly affected by that. Now, if you look at the H1B, large percentages of our H1B's actually go to California and there most of those people do get paid nearly 100,000 or more. So again, they are not usually affected. But we do expect some people who are going at lower wages today, we will have to increase their salaries to go to a 100,000 plus. If we were to look at all the people that we have right now in the U.S. and said, everyone who is less than 100K should be paid more than 100K. The total impact of that was between $1.5 million and $2 million per year, so that is the current impact. Again, we do not anticipate that this will turn out where everyone needs to be given a raise. But this is really what the calculation is. I also believe that because of our center in the mid-west we will be able to hire local people in the mid-west at competitive wages and we will be able to retain the profitability numbers onsite to what we are today despite these rule changes. So, again, we are still speculating on this right now. But that is how it looks at the moment.

Ganesh Shetty: Thanks a lot sir, for giving elaborate explanation of this issue. And sir, my second question, as we are reporting good profit quarter-after-quarter and our CAPEX is also more or less at the same level. What exactly, we wish to do with our cash balance which is more than Rs. 880 crores? So, are we looking for any acquisition or use this for a better treasury management in the future? This is what I want to know, sir. Thanks a lot, and all the best.

Dr. Anand Deshpande: Yes, I think again a very valid point. I do not want to comment on it this quarter, there was some discussion on this in the board and we decided to really study this issue and get back next quarter rather than say more on it. So, I understand the problem that you are pointing out. The fact that we have cash on the book, is the problem I do not know but that is what it is today. I do not really want to comment on it today but perhaps next quarter when we are there we will be able to share a little bit more on what we may have to do with this.

Moderator: Thank you. We have the next question from the line of Jinal Sheth from Multi-Act. Please go ahead.

Jinal Sheth: I had two questions. First one was relating to margins. So, last two quarters, three quarters, we are sequentially seeing good improvement on Accelerite and digital front. So, can we expect these margin improvements to continue for next two years, three years? And also for services, this quarter there has been slight moderation in margins. So, is this normally or it can improve or this is the normal range?

Dr. Anand Deshpande: Is there an opportunity to improve margins in Accelerite and digital, the answer is yes. But will this happen every quarter for the next three years. That is kind of hard to say and in fact if I tell the presidents to do that, those guys will stop working for me. So, let us see how that goes but yes, absolutely there is room for doing more in those businesses and definitely we will work on that. In terms of the services business, I think let me have Mritunjay comment a bit on it.

Mritunjay Singh: Yes, so the services margin, I mean there are two factors, I will explain you. One of them is, there were leaves and holidays in this quarter. We also have had an impact of provision for bad debts going up because of one specific case. So, if you remove these two, I think we are doing fairly well, we have been bringing a lot of efficiency in the way we run some of these things. We are trying to go towards larger project and larger deals. So, there is a scope to improve a little bit not a whole lot like I am thankful that Anand was saying that we cannot improve margins every quarter for next three years, we really cannot. Linear business is very simple. People cost plus model and that is how this business has been running. There is an established norm in the market based on the price point. I think we have been experiencing a decent pricing and our cost has been controlled despite all the salary hike and all that. So, I do not anticipate significant variation in the margin.

Jinal Sheth: Okay. That is helpful. Second question was on the IoT front. So, basically, can we break even in FY 2018?

Dr. Anand Deshpande: I think it is too early to say that but there will be aspirations.

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

Mayur Parkeria: The question which I had was, one on the balance sheet side actually what we are seeing there is a good rise in the trade receivables also as the revenues are going up. And in current quarter, the rise in receivables has been much more than the rise in the revenues. So, will the changing structure of revenues increase the receivable days in slightly medium-term or is it just one-off?

Dr. Anand Deshpande: Yes, let me ask Sunil to answer that question, I think he will give you clear picture on that.

Sunil Sapre: Yes, Mayur, actually what you observe in the receivables in the balance sheet is more a seasonality factor because of the way holiday season impacts some of the collections in U.S. plus some factor of the billings that happen which are just actually not due. So, while it will show up on the receivables you will see the December quarter for us even the last year we had a spike in the receivables but then they came down during January, February March, once the collections happened. So, it is not something that structurally you need to really worry about.

Mayur Parkeria: Okay and similarly, unbilled revenues, as a component of balance sheet has grown multi fold now. It is almost two times or more than that then what it was in the earlier. So, again is there a revenue recognition policy which is different for any of the reporting segment or how is it?

Sunil Sapre: No, the unbilled revenue your observation is correct. The increase is on account of the revenue coming out of royalty share which gets billed out after the close of the quarter. At the end of the quarter we carry it in the unbilled form and only after actual numbers get frozen the invoices get raised. So, there is nothing beyond that. The revenue recognition and all is as per the normal norms, it is just because of the conversion to the actual invoicing which happens after the close of the quarter.

Mayur Parkeria: Sunil, sir, last three quarters this unbilled revenue has remained pretty steady so, we can assume the trend to be remaining like that?

Sunil Sapre: Yes.

Mayur Parkeria: Okay. Last question on the operation side, sir, if you can throw some light on the IP based win which we had for Fortune 500 Company. Earlier, we had indicated that a lot of platform is also moving towards product business now. So, is it something that kind of win I mean qualitative color, is it moving in the direction in which we wanted or is it something for normal platform based win or is it more moving towards IP base. So, how is it? If you can add some color on it.

Dr. Anand Deshpande: Sudhir, you want to comment on that IP based win for digital experience for Fortune 500 Financial Services Company?

Sudhir Kulkarni: Sure. So, I think your comment about platform led win versus what is IP in it is very good because what is essentially happening is that we are building certain IP around these platforms and we are now selling them as solutions. So, for example, if you start putting things on the Salesforce platform or the Oracle platform or increasingly now the new one which is Google, if we start putting solutions on these platforms then the platform wins happen. But at the same time, we have a much larger sort of a picture with the customer and also much more profitable because we are selling a solution as opposed to selling just services on that platform.

Mayur Parkeria: Okay. So, it is more in line with the solutions and the product selling also.

Sunil Sapre: That is right. It is more in line with our strategy. But at the same time, I want to also qualify that this is initial days of selling this kind of solution led selling**.**

Mayur Parkeria: Sir, what will be the ticket size broadly, it will be smaller in 250K times or it will be 1 million, a broad range of these kind of deals.

Sunil Sapre: These could potentially be very large deals in terms of ACV and TCV. But at the same time, you start with a small project to start with. These are very large companies and our objective is getting in there with a certain solution and then expand from there, that is the whole point of continuous transformation by design. So, you transform one piece at a time and then you get in there and then have a larger digital program.

Moderator: Thank you. We have the next question from the line of Abhishek from Equirus Capital Private Limited. Please go ahead.

Abhishek: Sir, any observations from your initial conversations with customers on them spend patterns for 2017 and any instances of you know projects delayed or pushed out in anticipation of regulations?

Dr. Anand Deshpande: So, the second question, no. We are not seeing any push on some of these regulations or any of the Brexit or for Trump related issues. Overall, we do see renewals on pretty good clip this year in terms of what we are working on. That said, as we have pointed out in the past, project sizes are shrinking partly because of the way the new technology is starting to happen. So, when you look at next generation projects, you are getting certain improvement in the efficiency of delivering those projects to the customer and the customer sees that benefit in some cases. You have to convert that to an IP deal rather than just do a T&M deal because the T&M deal could get smaller so, some of that is happening. So, there is turbulence but in general, the market is robust, customers are spending. They have roadmaps and they are executing to those roadmaps. There is nothing stalling at the movement, it is moving quite well.

Abhishek: That is helpful. And the second one, is on Europe. Now, it remains pretty volatile on a quarter-on-quarter basis. Any observations as…

Dr. Anand Deshpande: It is a small number. The reason it is happening is because of small numbers, deal here and a deal there can change the numbers very dramatically that is the reason why it looks like.

Abhishek: Okay. And lastly, on the margin front, I mean as the contribution of IoT rises, I know you have already highlighted, difficult to say whether IoT will breakeven in 2018 but not looking at numbers but mathematically as the contribution rises there would be definite pressures on the margins. I mean, is services growth a lever which you would like to play for catch-up on the margin side?

Dr. Anand Deshpande: No, I said, we are looking at the digital and the IP to be the lever for generating better margins. We will take this question offline. We have lots of questions from the other investors right now. So, I just want to get through this quickly. We will follow-up with you.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, on the digital I mean, what are the current deal sizes and what is the outlook there?

Dr. Anand Deshpande: Sudhir, you want to give a quick answer? Give a short one.

Sudhir Kulkarni: Sure. I think we are starting to see the rise in terms of digital programs and these could be in the USD 1 million to 5 million range that is what we are looking at right now.

Moderator: Thank you. We have the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Most of the questions have been answered. Only one question on margin side, I think, if I see the mix of the business which generates higher margin is where growth potential we foresee is higher. So, can we say structurally, now we are closer to the minimum margin level or you believe investment required to drive growth in new businesses would impact margin in the short-term?

Dr. Anand Deshpande: Dipesh, this is a continuous process right meaning, we have to keep investing and we have to keep improving margins. So, both of those are all parts of the game. I do not know what to tell you specifically. Sunil, you want to comment on that?

Dipesh Mehta: The reason for asking is because we have seen significant differences in terms of our historical range. So, if you can throw some color on how one should look for next three years' perspective or two years perspective?

Dr. Anand Deshpande: Three years is too far. But maybe next quarter we will give you more details on how we will look at it for next year. But here is what is happening, right, we have to spend more on sales, we have to spend more on investments. So, all these things are negative turn. However, if we are able to shift the mix of projects from not being T&M to being based on digital, IP and all of these things, those are the positive levers that we have. That is really what we are operating on. Market continuous to be challenging so, it is not trivial to just charge more money at the moment, and costs are also going up. So, it is a tough market to be in. We can take this offline Dipesh, I think your question always needs more detailed answer and you should not be the last one asking the question.

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

Nirav Dalal: I had a couple of questions. One was there was a decline in the employee count in this quarter, so outlook on that.

Dr. Anand Deshpande: Yes, good observation. I think employee count this quarter was lower than previous quarter. We do have some fresh graduates who have joined in recently who will add to their employee count. In general, again, more work is getting done with fewer people.

Nirav Dalal: Okay. Because there was a comment in one of the newspaper saying that you would relooking on your graduate.

Dr. Anand Deshpande: Yes. So, let me explain that comment actually, I think, the headlines made it sound really horrible but it was not bad. What I was trying to suggest to the market was that, fresh graduate hire on campus recruitment, this year we have done 200 people campus hiring so far as compared to fairly large numbers in the last quarter like 600, 700, 800, in the previous year. Now, the reason we have gone lower on this year is, one is we think that we can get people when we need them next year. So, there is no need to hire on campus. When we need the people I think they will be available. So, we are taking a gamble that, when we need them we will be able to get them at that time. So, we will hire more people from 2017 batch. It is just that we have not gone ahead and made campus hires yet. And one of the reasons why we had to do it that way was last year when we made these offers and this is kind of very strange. We made large number of offers and we had people joining in and January and February this year for offers that were made 18 months back, these guys have graduated in June but they are joining their first job six months later. And we still get most of those people who we have made offers joining which means, the market is not picking them up. So, there is no point in going ahead and making offers and letting people hold onto offers for six months, eight months and not start working. If we are more just in time, that is good for everyone. So, that is really what we are thinking right now.

Nirav Dalal: Another question was regarding the IBM IoT that came across March last year, the wage hike for these employees would happen in July or would it happen in January?

Dr. Anand Deshpande: No, I think their wage hike will happen in July. I do not think there is anything happening this quarter on that. Well, let me not say wage hike, there is a wage plan that has been already set up for them for through the end of our financial year which will be March and most of those we will look at all the salaries and everyone has one group starting July next year.

Moderator: Thank you. We have the next question from the line of Rohan from Multi-Act. Please go ahead.

Rohan: Yes. This is Rohan. Just one question, you alluded to various things that we are doing to improve trajectory on the IBM CE-CLM product. In terms of the cost basis for this product, do you think the cost basis will be constant next year versus this year? Can we offshore and do things like that to have the same cost?

Dr. Anand Deshpande: Yes, I think that is possible and we would also have some levers to rearrange the cost so that we can move some costs lower as well. So, there are lots of things that are being thought of. But I think overall the product is doing well and we are going to continue to invest in the roadmap.

Rohan: Roadmap does not imply higher costs, is that a right understanding?

Dr. Anand Deshpande: No, not necessarily.

Rohan: Okay. So, whatever the growth we do on this product next year it would flow down to the EBITDA level?

Dr. Anand Deshpande: Yes, that is fair to say.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants. I would now like to hand the conference over to Dr. Anand Deshpande for closing comments. Thank you and over to you, sir!

Dr. Anand Deshpande: I would like to thank all of you for attending this call and appreciate your comments and feedback. I am sure; we have missed answering some of these questions. Please do not hesitate to write to us and we will be very happy to respond to you on a one-on-one basis. Thank you very much for attending this call. It is the top of the hour and we are going to close this call with this. Thank you very much.

Moderator: Thank you very much members of the 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.