Persistent Systems

Analyst Call

PERSISTENT

Persistent Systems Limited - Analyst Conference Call

Q4 FY18 Results

Date: April 24, 2018

Time: 6:00PM IST – 7:00PM IST

MODERATORS

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Mr. Sudhir Kulkarni
President Sales – Technology Services

Mr. Atul Khadilkar
President Delivery Operations – Technology Services

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 the Persistent Systems Earnings Conference Call for the fourth quarter ended March 31, 2018. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should 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 Dr. Anand Deshpande, Chairman & Managing Director, Persistent Systems. We also have with him Mr. Sudhir Kulkarni – President-Sales Technology Services joining from the US. Mr. Atul Khadilkar – President-Delivery Operations Technology Services; Mr. Sunil Sapre – Chief Financial Officer; Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre – Company Secretary.

I am now glad to hand the conference over to Dr. Anand Deshpande. Thank you and over to you, Dr. Deshpande.

Anand Deshpande: Good evening all of you and welcome to Persistent quarterly and yearly update call. Thank you very much for joining us. I am sharing some items from the press release first. And then may I request Sudhir Kulkarni to give an update. After that I am going to request CFO Sunil Sapre to share the financial details and then I will give you a couple of highlights and then we will take questions for the rest of the hour.

So in terms of the revenue for the financial year we did $470.55 million which is a 9.7% year-on-year growth. In rupee term the revenue was Rs. 30,337 million a growth of 5.4%. The PAT for the year was Rs. 3,231 million with 7.2% year-on-year growth. In terms of the quarterly numbers the revenue for the quarter was $116.95 million which was a decline of 4.6% quarter-on-quarter. In rupee terms this was Rs. 7,525.46 million which was a decline of 5% quarter-on-quarter.

The PAT for the quarter was Rs. 737 million which was q-on-q decline of 19.6%. I would like to also mention that during the board meeting the directors have recommended a final dividend of Rs. 3 per share on a face value of Rs. 10 share. Just to remind you in Jan 2018 the board had declared an interim dividend of Rs. 7 per share. The final dividend as per convention and law has been recommended by the board and is subject to the approval of the members during the annual general meeting. I would like to share two management updates in the sense we have added two new board members.

I am really delighted that Professor D. B. Phatak recipient of Padma Shri award, he recently retired as Professor of Computer Science at IIT Bombay has agreed to join our board. Mr. Guy Eiferman who is an expert in life sciences and healthcare having held several important positions at Merck. He is based out of France in Paris specifically has joined as an additional director. Both of them are independent directors joining as additional directors on the board with immediate effect. And they are of course subject to approval of the members in the next general meeting.

I am really delighted that we are able to get these two gentlemen who are joining the board and we are also excited about having Guy Eiferman on the board. This gives us presence in Europe and also in the healthcare and life sciences area where we are making significant investments as we look forward. Quick awards and other highlights. We organized software edition of Smart India Hackathon which was a big success.

In this event we had almost 120,000 students participated in the first round and in the final round which was held on 30th and 31st of March we had nearly more than 15,000 students who participated in 28 locations. Persistent was the main organizer of this event along with i4C and it was one of the largest Hackathon that we have organized, and we are delighted at the success of the event.

We are featured in the HfS Blueprint Report for Internet of Things Services for 2018. We setup a 276 kilowatt KWP rooftop solar plant in our Hinjewadi office. Next time we are here we will be happy to show you the plant and finally we were featured in the Economic Times CSR Compendium for the work we have done as part of the Persistent Foundation.

In the press release we have shared a bunch of highlights and key events I think you once you go through them per se in this call. But I would like to encourage you to take a look at the two beautiful videos we have on our website. One from Mount Sinai Health System and the other one from USAA which demonstrates some of the work we are doing with them.

The other thing I would like to point out is that we are starting to see businesses are becoming software driven businesses and increasingly every business is starting to look at digital as part of their business. So we have decided that it is better to have better flexibility in terms of not trying to separate out the other services and digital and accordingly we have decided to merge these units operationally for operational purposes and to avoid having to decide since every business is coming out as digital trying to separate that out.

We have created a joint unit called Technology Services Unit. Atul Khadilkar is the joint president with Sudhir Kulkarni. Sudhir will be responsible for sales and Atul will be responsible for delivery and operations for this combined and joint unit which will have both of these together.

We are still trying to figure out exactly what is the best way to report will be but we will able to show performance in digital as well. So we think that digital is going to be a key part of our business going forward. Let me hand this to Sudhir Kulkarni right now who can give you a view from the market and then I will let Sunil share a little bit about financial details of what we have presented this quarter.

Sudhir Kulkarni: Thank you, Anand. Good morning, good evening wherever everyone is. I am here in Boston. We had a fantastic conference here called the World Medical Innovation Forum and I have been talking about health care focus. I will touch upon that briefly little later in the talk. For the digital business what I am going to talk about it continued to add number of new customers yet again I think this quarter in Q4 we added 19 great new customers 7 of which are marquee names 2 of them are large healthcare organizations and 2 of them large financial services companies.

But despite this addition of these customers there were 3 large digital projects that have ended this quarter and hence we ended the entire quarter with just about 6% quarter-on-quarter growth and about 43% year-on-year growth. I have been speaking about the next generation transformative digital platforms and solutions in healthcare and financial services that we have been building for US customers. And Anand just referred to Mount Sinai and USAA that are featured in our press release.

We were able to add significant wins with NEURO the Risk Based Authentication Solution that we have built in collaboration with USAA and that was the highlight of this quarter and we have generated significant interest within the healthcare community with our work with Partner's Healthcare in building out a platform for transforming healthcare. The first application on this platform is already in user acceptance stage. This week we were here at World Medical Innovation Forum to present where the major topic of discussion was the use of artificial intelligence and machine learning in healthcare innovation.

I expect that our approach of co-creation with major institutions in healthcare and finance will yield the results starting later this year. The pipeline of business is strong though the nature of business continues to be project based rather than T&M deal structures which are traditional ones that we have had in the past which presents the challenge of driving new lead generation and closing new business at a faster clip than traditional businesses. And you will hear a little more about how we have addressed this going forward for this fiscal year. We have been doing something very interesting in this area. PARX our European acquisition from a few quarters ago showed good growth this quarter and has also shown a very healthy pipeline build out for business in ensuing quarters.

With two new countries targeted to open in addition to Switzerland and Germany, as also new leadership trend added in Europe, I am sure that we will see a healthy growth in Europe as well. And APAC continues to show steady progress for us in the business. Let me talk briefly about the new Technology Services unit that Anand referred to which combines the erstwhile services and digital businesses for us.

Both Atul Khadilkar and I who will run this together. Look forward to leveraging the synergies of the respective sales and delivery team towards improved pipeline building and operational efficiency. In conclusion while Q4 was challenging for the reasons Anand mentioned and in the Press Release, I am positive that the healthy pipeline from marketing and lead generation efforts we are putting in place, posits well for our business in coming quarters. Back to Anand.

Anand Deshpande: So I am going to request Sunil to share a little bit of the financial highlights, Sunil.

Sunil Sapre: Thank you, Anand. And good evening everyone. As Anand and Sudhir have apprised you about the business developments I will share with you more details on margins and other financial information as of 31st March. The overall performance for the quarter was impacted as we know by the de-growth in the IP led revenue. The revenue for the quarter was $116.95 million a decline of $5.58 million, 4.6% in terms of quarter-on-quarter decline and 5% in Rupee terms.

The dip in IP led revenue was $6.76 million in absolute terms and percentage terms it was 20.6% dip compared to the last quarter. On a year-on-year basis the revenue for the quarter grew by 7.3% in dollar terms and 3.5% in rupee terms. On the full year basis, the revenue was $470.55 million recording a growth of 9.7% in dollar terms and 5.4% in rupee terms. Going to the composition of revenue, the linear revenue grew by 1.3% quarter-on-quarter driven by increase in billing rate of 2.8 % and the volume decline of 1.5 %. The onsite linear revenue grew by 1.2% mainly by growth mainly due to the growth in the billing rate of 2.1% however the volume declined by 0.9 %.

Offshore linear revenue grew by 1.4% quarter-on-quarter due to increase in billing rate by 3% whereas the volume dipped by 1.6%. So for the year as a whole linear revenue grew by 13.3% driven by growth in volume by 7.2% and increase in billing rate by 5.7%. The decline in IP led revenue as you know directly impacts the bottom line and the margin levels for the quarter were lower on quarter-on-quarter basis. The EBITDA margin came in at 14.8% this quarter against 17.4% in the previous quarter which is typically as you know the fallout of the seasonally strong Q3 when we had significantly higher EBITDA margin. And the more than expected drop in IP led revenue is the reason for the EBITDA margin drop from 17.4% to 14.8%.

However, utilization for the quarter improved to 81.2 % as against 79.9% in the previous quarter. As you would have observed our headcount also declined and that is the reason that some of the improvement in efficiency was derived to reduce the impact at the EBITDA margin level. On the depreciation and amortization front it came in at 5.6% as against 5% in the previous quarter. In absolute terms this was higher by Rs. 28 million due to accelerated amortization of one of the old acquisitions.

The higher percentage in terms of amortization is also attributable partly to the drop in revenue during the quarter. EBIT was 9.2 % as against 12.4 % in the preceding quarter. Coming to treasury income during the quarter it remained more or less in the same line as in the previous quarter. However, we had a higher foreign exchange gain at Rs. 150 million as against Rs. 50 million in the previous quarter mainly due to rupee depreciation at the end of the quarter. PBT was Rs. 984 million margin of 13.1% as against 14.8% in the previous quarter. PAT for the quarter was Rs. 737 million at 9.8% as against 11.6% in the previous quarter.

For the full year PAT was Rs. 3,231 million at 10.6% as against 10.5 % in the previous year. The operational CAPEX for the quarter was Rs. 100 million. The cash on book is at Rs. 12,003 million as on 31st March as compared to Rs. 11,117 million at the end of last quarter. The value of forward contracts we have outstanding at the end of this quarter is $103 million at an average forward rate of $66.95 to a dollar. Thank you all and I hand it back to Anand.

Anand Deshpande: Thanks Sudhir and Thank you Sunil. Clearly this was a disappointing quarter and the fact that we are showing a quarter-on-quarter dip and we had sort of given a surprise towards the end of the quarter since we saw the extent of dip that we had in the Alliance business. We knew that we would have some dip for the year end quarter because of strong Q3, but the dip we saw towards the end of March was higher than what we had expected. From further analysis that we have done across the business we believe that this was a one-off dip. Hopefully, we will be able to get some of the revenues we may have lost over the next 3 quarters as new license revenues get signed up.

But this was clearly a disappointment for the quarter. That said we are continuing to be on this journey of transformation. As we add more and more IP business, its proportion will increase and so will the variability in our ability to predict, as it is much harder to predict an IP based business than it is to predict a services-based business. So that has been a challenge and why we were not able to see the dip as early as we would have liked to see it.

That said you know I have said this is a one-off thing and we hope this financial year we should be better on all these other parameters. The business as such is looking quite upbeat and we are quite optimistic about what we think the rest of the year looks like. Let me take a pause here and then open it out for questions and answer any of the questions that you all have. So let us open it up for Q and A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Sandip Agarwal from Edelweiss Securities. Please go ahead.

Sandip Agarwal: Anand, we see that you clearly said that there is one-time blip, one rare incident which has happened because of which the growth has fallen to negative territory this quarter. But you know Anand, like we started talking about digital far long back than anyone else spoke about it. But last few quarters we have seen that many midcap companies who did not have much presence in digital initially they have also started giving substantial proportion of revenue as digital and also the growth numbers and the profit numbers are very, very significantly better and they have improved a lot.

But we in spite of being much ahead in that journey in terms of capability and forecasting the wave, we somehow have been hit by one or other thing every quarter, and we have not been able to get the kind of delta which we should have got. If you see even companies of $20 billion size are posting 40% year-over-year growth on digital, on a base of $4 billion, $5 billion revenue and what is happening means where are we missing, what is the issue and when can we see that super normal growth which others are seeing?

Anand Deshpande: Let me ask Sudhir to answer that question. As it is he is the one who is running it, so Sudhir why don't you take this?

Sudhir Kulkarni: Yes, so I think there are two answers or there are two parts to that question. So first of all is I do not want to debate about definitions or what digital is and what digital is not. So we started talking about what our digital business was, based on an internal structure that we put together and said we put together all our practices that we had, our partnership relationships that we had with some of the Sales force IBM, Oracle etcetera. And we call that out we said that that part plus an initiative that we had which was our own Vega platform initiative. We call that out as digital.

The industry is defining things very differently and if you look at that, there is no standard definition. So when people talk about 40% of their revenues is coming from digital or this is what is growing etcetera, I think it is all about the qualification of how people are defining it. And that is the reason why going forward putting together the technology solutions unit, as one unit that also substitutes the digital work that we are doing which kind of is pervading many of our service accounts as well. So trigger instead of reclassify what we have been doing in the services accounts which could be classified as digital according to industry standards, our numbers would be very different as well.

But having said that, the second part of that is yes, I mean there are certain expectations that we had for growth from some of these partner relationships. They have not panned out the way we thought they would. We have had some individual specific, people leadership related issues, we have fixed those now, we are fixing more of those as we go forward in the combined unit we will have much better strength and efficiency and hopefully you will see a lot more results coming out of that digital piece of it. And we will try and park this out as Anand said as to what our digital component is but we see that increasingly customers are not really making the distinction between what is digital and what is traditional kind of business, and therefore this move will start showing some changes I guess.

Anand Deshpande: Sandip, I think your point is well taken. I think we really need to show higher growth on a sustained basis on the digital part of the business, there is really no excuse. I must say that by and large the customers are buying these kinds of services, so our call has been definitely on track. I think our execution needs to improve significantly, no doubt about it and we have made a few changes in the mix which you will start to see results on hopefully in the next quarter and the quarter after that.

I do not want to start to make a whole bunch of promises on this call today, because I think it would be premature to make some of the statements. I have to deliver first and on a down quarter I do not want to make a random set of promises. So what you are saying is absolutely right. I think 40%, 45% growth that you are seeing in other businesses, we should see more than that. There is no reason why we should not do it. We have not executed as well as we should have, this is what I would say.

Sandip Agarwal: And Anand, sorry but one more question I had was, which you know you can reply clubbing other questions as well. But there is a sharp fall which we are seeing in client's numbers as given in the PBT, so in the IP led part so some clarification there, and second I would also like to just add little bit on what Sudhir says that okay I agree that classification of digital could be different, but overall growth numbers have improved significantly for midcap companies you can see that. And we are not seeing so let us discuss about only overall growth. PAT number has also not improved for several quarters now?

Anand Deshpande: No, you have a good point. And it is not about classification. Whatever the classification is, I think it is a question of relative growth on that classification, so it is not about classification. And whatever you classify you know growth rate needs to be there for whatever is classified. So I do not think there is any excuse on that. I think we need to execute better. So I think there were certain changes that we have made in the last three to six weeks which will start to show itself, but I do not want to talk about it at this time to give you a projection or to give you something actually show you better results next quarter and then we can talk about that.

Regarding the sharp decline on the clients let me explain that which also explains some of the dip on the Accelerite side. So we had a business which we have talked about couple of years back, called rCloud which was a migration product and we had one of case that we had settled. In that context we decided that business had become small and not viable, so we have shut that down. As part of shutting down that business, we had a large number of very small accounts like few thousand dollars per account and there were a large number of those, which we have transferred out. So that is the reason why business has gone down by about $0.5 million but it included a large number of customers that is part of that $0.5 million.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: The question is really on the Alliance business. I was just trying to get a better sense on the business. So we had the traditional IBM business and Watson IoT partnership. So just trying to understand what really is the split between both of these, if you can share that? And are each of these pieces growing at different rates and also thirdly on the traditional IBM business not the Watson IoT, is that really legacy kind of work or is there any digital related work on that piece and therefore the overall growth outlook over slightly longer term on this business?

Anand Deshpande: Let me take the last question first. The business that we have in the IBM Alliance business which is quite substantial is a mix of all kinds of things put together, because we do have quite a few businesses, which had about new product development, and building out new products which are related to integration of Watson Technology into a whole bunch of application. So good percentage of our business is around that. There is some business around data services and there is some business around security services as well. So it is a fairly diversified portfolio, various different kinds of things in the context as what we do for the Alliance business.

As part of that we also have a substantial part of it which comes from IT of which some of this we have called out as CE-CLM but in addition to this CE-CLM product portfolio, we have other IPs as well which are parts of this. And the reason I say that seasonality issue was there because they have a calendar year effect and the last quarter of their calendar year actually is usually better. In the first quarter they have had some odd changes and a bunch of other things, so some of the revenues that should have been collected as routine revenue brought forward to it and they did not find out till the end, and that is part of the reason why that number went down from.

Our further discussions with our customers we feel that some of those should come through over the next, two three quarters again. But you know unless it is there, it is not there so that is the reality of it. But we do think that overall the business that is there around the Alliance business should grow and there is one another point I would like to make here is that we have added this year more sales people and again we have taken them from our partners and we are working on adding more sales people in Europe. So we have added 10 more sales heads in the European market before selling the CE-CLM and other IBM products as part of the partnership that we have with them around reseller work. So we do expect that that should generate higher revenues for us and give us better control over our destiny in some of the products that we have implemented.

Ashi Anand: What is the possibility of some kind of a sense of this percentage of the portfolio is actually digital type work and actually growing well in this part of the legacy and is actually declining? Is that the problem or is the kind of problem that even the digital work is not really. Just trying to understand a bit or sense on the color per se it will help us project going forward?

Anand Deshpande: This one is a little tricky because of various clauses that we have in terms of what I can share from this particular customer. So I will not be able to give you a very precise answer on this but let me say the following. Roughly let us say 40% of our business is IP out of the total, and of the rest I would say at least a third of the business growing part of that business is related to business that would have got classified as digital or non-legacy kind of stuff.

So there is substantial amount of work that we are doing which is of the new kind of job, and of course there is 40% of the business which is products that are could be classified as legacy, so it is I would say 40%, 40%, 20% it is the mix of business there. But these are very approximate numbers from my point of view and I cannot give you far more details than this at this time.

Ashi Anand: Okay sure. That is very helpful. If I could just ask one last question. On the ISV part of the business I was just trying to understand what is the digital opportunity there? The digital opportunity in enterprise clients is well understood but how is the outlook on digital opportunity in ISV specifically?

Anand Deshpande: Actually, we are not classifying digital as a separate thing in a sense that ISVs are product development work and there has always been whatever. Yes, I know what digital in that really means. These are product companies we build products for them. That is really what we do for them. I do not split hair into it, to say which product development is digital and which product development is non-digital. I do not think it is really useful to track that. So our focus on digital is to say that people are starting to become software driven businesses.

We want to have people become software driven businesses. And as part of that, when they are starting to implement next generation of technologies that is really what we are calling our digital story, and we have seen most traction in healthcare and in the sort of financial services area. So that is really the high-level overview of what we are classifying as digital. But I think let us not go into the classification as we keep saying, I think that is not that important. The fact is that that part of the business has to grow, and we have to show growth on it so that is really what it is all about.

Moderator: Thank you. The next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.

Nitin Jain: So my first question is on the overall business. So you had made a comment earlier that you expect FY19 growth to be better than the NASSCOM guidance. But do you think your growth can be better than what you did in FY18?

Anand Deshpande: Yes, absolutely. I think here there is no real problem in the market. I think there are two parts of what I would say where our numbers basically were lower than what we would have liked to see. So one has to do with the fact that in the last quarter we were expecting a better IP return than we got. And the second part is of course, we could have executed a lot better on many of the digital projects that we started out, but we could have been doing much more on that.

Those are the two main reasons. I see no reason why we cannot fix this problem and we do expect that we can do better growth. But that said, on this quarter number I do not want to go around making any promises. But definitely we expect to do a better year this than we have last year and I will be able to show you that number when we look at the first quarter's results.

Nitin Jain: And second question is around the margins. So again you had made a comment regarding aggressive investment on sales. So what does this really mean for margins? So does it mean that whatever levers you have on margins you will just reinvest that excess margin into business and there will be no expansion?

Anand Deshpande: Now see again this quarter with the mess on the IP side, that contributes directly to the margins, so we think that is a one-off thing. A few million dollars on the IP revenue it would have the margins look a lot better. We think that this year whatever we should invest should be invested in sales rather than investing in product development and other R&D works that we have done traditionally we are reducing our investments focus from building new stuff at the moment to try to sell that because we think now we have enough to sell and we think the market is ready to buy.

So this year whatever we have an opportunity to invest, will be invested in sales rather than in engineering. I do not think we will on a yearly annual basis we will go aggressive on reducing margins. We think we can maintain margins and even grow them. But it will happen gradually and whatever investments we make will be made in sales and ideally these will happen incrementally. So we will expect that the sales investment actually will result in additional sales which will pay for itself.

Moderator: Thank you. Sir, you may go ahead with your questions now.

Management: Yes, we will take questions from Twitter first. So there were couple of them. So one of the questions was about how many new logos we have added during this quarter. And the other one was about the reasons behind decline in Accelerite revenue during this quarter?

Anand Deshpande: So the number of customers I think the chart shows it, can you show the numbers right now? The Accelerite decline has to do with the fact that we have closed down the rCloud business and a couple of other maybe rCloud decline is really the reason why the Accelerite number looks like it has gone down this quarter. Our total number of logos that we added is 48 for this quarter and 286 for the full year that includes PARX, these are net new logos and potentially the number of customers have declined because of the rCloud customers. It is a fact that we shut down that business which had a large number of very small customers, a couple of thousand to $5000 kind of customers. So lots of customers and proposals were fairly small.

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

Madhu Babu: Sir, one of our larger peer was saying that when digital now touching the core, I think the larger players which have a full stack of services are gaining market shares I think TCS was commenting like this. So considering that we are not present in the traditional services, whereas we are present on the digital stack front end, so are we missing out any opportunities because of the lack of traditional services?

Anand Deshpande: Well, it is hard to say that we are missing out on traditional because we do not have traditional services, but in the last year or so I think we have opened up a large number of logos where we have digital activities going on and I think we have enough to manage the growth that we need for the base that we are operating on. So I am not constrained, I do not feel constrained on the availability or access to customers at the moment.

That said, I am not I think digital is getting mainstream so definitely those people who are working mainstream projects with customers will start to see more and more digital business. But also the fact that we have mentioned and rather to say from the very beginning for the last couple of years the fact that the effort for the same work is going on it is actually true and robotic automation and various other cloud related technologies are pushing companies to deal more with less number of people and effort is going to go down for the same work. So both these trends are going to play along side by side as we look at the next few years as we look at business changes that might happen from effort based businesses to businesses that are based on something else.

Madhu Babu: Sir, just one more. On the headcount which has been coming down for last five quarters continuously, so whether that will constraint margin expansion next year because already we have substantially trimmed the headcount this last five quarters?

Anand Deshpande: No, I think one has to look at margins slightly differently. I think headcount reduction happened partly because we were carrying some extra headcount. I think now we are at a stage where as long as we are able to add headcount at the same proportion as the growth that we have, I think the margins would not be affected. But I am quite confident that this quarter the number on headcount will go up because we have reached a situation where our utilization numbers are above 80.

If we look at the numbers as well and you look at all the parameters that we have, all of them have trended well during the year and during the quarter. I think the mix that we had in the IP revenue this quarter has definitely hurt us and I will not say too much more right now because I am on the back foot, but I do see fairly promising trends that are good, the market situation is all fine, I do not see a real problem. So I do not want to say more than that.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Sir, you mentioned in your opening remarks about increasing the billing rate, so your comments on the demand situation and our capability. And second question is on IP led revenue. We were $120 million, what type of growth should we expect double-digit growth is visible this year some comments please?

Anand Deshpande: So to keep the answers brief at the moment because we do have a long queue. But see IP revenues will happen, growth will happen in two, three ways. One is the existing IP; we do have a few new IPs that we have brought into the system. If we are able to do extra growth on that, we are expecting on that. That should generate higher IP revenue.

And we have some other partners through which we are selling. So there are multiple things that are going on in the system which will help in increasing the IP revenue. In addition to that whatever we acquired during the year will also add to the IP revenue. So let us see on exactly what that looks like and what were the other questions sorry?

Sunil Kothari: On billing rates the increasing billing rates is showing better demand or what?

Anand Deshpande: No, I think the market in the US specifically, the availability of talent or the availability of people in the US is under pressure you know clearly for various reasons. So I think today if you have the ability to deliver you can charge premium. So I do not think the billing rates are really a challenge for works that is being done especially from the US market.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi Anand, two questions. Firstly, if you could share some numbers around what is the total fiscal 2018 number for the IBM IoT product related revenues and is it fair to say that there is no change to the full year plan with IBM on that on calendar 2018 which you would have anticipated at the beginning of the year despite this on the 1Q numbers?

Anand Deshpande: Well, I think the IBM numbers for the year and again there is a little bit of our financial year versus calendar year but roughly they were about $48 million on the IoT license revenues that we got which is roughly what it is and it was about $2 million less the previous year. Again the problem is when you look at comparisons of calendar year versus financial year, the first quarter can be $1 million plus or minus. So roughly there has been a 5% growth on a calendar year basis for us and we are trending higher than $48 million now so that is where it is at the moment.

Gaurav Rateria: Sure, I will ask one more question on for Sudhir. If you could share what is the proportion of digital business which is still project related? And you were alluding to some changes you made to make it more sustainable rather than just a project getting ended and then you have to refill it. So if you could allude to that, what exactly is the change you have brought about? Thank you.

Sudhir Kulkarni: Yes, I think as Anand mentioned that Q1 numbers really talked through what exactly we see an impact of those changes. It is all internal in terms of how we are structuring our accounts and our deals. So we have decided to focus on a few strategic sort of relationships that we have got. We have added a lot of new logos in the digital business over the last couple of years, and we have seen some of them really are large marquee names in the industry in healthcare and in financial services. So we have to focus on them and somebody asked a question about how TCS has been benefiting from some of the digital works happening in their incumbent accounts. And that is I think the story that we want to repeat here in those accounts that we have classified now as strategic accounts. That is a big change that we are doing on the digital side.

Moderator: Thank you. The next question is from the line of Ganesh Shetty, individual investor. Please go ahead.

Ganesh Shetty: It has been really a challenging quarter for Persistent. What changes you would like to define in our strategy especially for IP led business going forward so that volatility in the business can be predictable for an extent and we can really drive growth in the future? Can you please throw some light on this? Thank you very much.

Anand Deshpande: So unfortunately, it is a hard question for me to answer directly. I will tell you what the problem is. So, we operate with partners on many of the IP revenue lines and we get sort of an annual estimate in terms of what the approximate numbers are likely to be and what have been rolled out as targets by our partners, and then we find out really exactly what happens in the quarter just a few days before the quarter. Now the partner we are working with is working on calendar year and not on financial year that is aligned to us.

So we do have numbers for the year for calendar year 2018 which are not bad actually. They are reasonable. If you had said the Q1 numbers were bad and that is what we find out just a week before it happens. Now we try to check again, and you said these calendar numbers are they still valid and by and large most of them still have been acknowledged as valid. So I am sailing on little bit of uncertainty on the Q1 numbers but I have no real evidence to say that this is going to continue.

That said, we also have other IP that we are trying to solve, where we have better control, we have added more sales people who are selling our IP and if that starts show it then we would have better predictablity on our numbers. But today we have a substantial percentage of our IP revenue is coming through partners and unfortunately, we are going to be dependent on a sort of indirect visibility to the numbers for IP revenue till the end of the quarter.

Moderator: Thank you. The next question is from the line of Josias Goh from Saga Tree Capital. Please go ahead.

Josias Goh: I just wanted to ask regarding this NASSCOM guidance that you gave out. Why are you so confident of giving this guidance when you did not even have visibility on this Q4 numbers that you guys were going to miss?

Anand Deshpande: Actually, I could not exactly follow the question. If I am not answering the right question you can please ask again. But what I understand is that you asked about the NASSCOM guidance and what that means and how will our growth rate be as compared to the NASSCOM guidance. See again the NASSCOM guidance is in single digit numbers and we think we can do a lot better than that and have heavy evidence to believe that we will make that.

Beyond that I do not know exactly. What I believe is that the Q4 numbers being lower actually it makes it easier to make a NASSCOM guidance what happen because this year has become slightly lower than what we were planning for Q1 because what we are planning for the financial year for next year has not changed at all.

Josias Goh: I think what I wanted to ask is that with regards to your IP revenues going in Q4, you guys did not have much visibility like you did not know that this fall in revenue was coming right? So how do you expect yourself to be so confident in beating the guidance which maybe something like this can happen again in the full year next year?

Anand Deshpande: Yes, of course it can happen. But the point here as I said to you, right, when we are working with partners on their estimates of what that year looked like and all the other numbers, we are dealing with them around calendar year, and calendar year has four quarters, and this is the first of the four quarters that we have. So that is basically what happened this quarter and we will watch in the next couple of quarters to see what that looks like. But I have no reason to believe that we will not make or the partners will not be able to make the numbers that they are expecting for this month for this year.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financials. Please go ahead.

Pankaj Kapoor: I have three short questions. Anand, first on the IBM IoT business you mentioned the full year growth was roughly about 5%. So even if we take this quarter out which could have been a quarterly aberration do you think the overall growth as well as the pipeline that you see for next calendar year, is it trending in line with what you had anticipated at the beginning of the partnership? I recall you were talking about a growth upward of 12% to 15% then. So just your thought on that? That is the first question.

Anand Deshpande: On the IoT side I think the license revenue parts which are the IP part of the revenue I think we are tracking to where we need to track. I think the gap has been mainly around professional services and other IoT business as such that potentially generate the other parts of the revenue which have been missed right now. So on the other side that we are trying to do we are trying to do two different things which we feel that we are already starting to see results on that and we will start to see more of it this year.

One is that we have become a reseller that allows us to get access to customers directly, so that we can see some of the revenues directly to us and we have added more sales people who we have transferred from our partners, so that we can be a business partner and sell aggressively in Europe. So if you look at next quarter's numbers, you will see that we have added more sales people in our team in Europe.

So that will give us better control over the services business that we have missed in the past. But if you look at the 5% to 7% growth year-on-year that was anticipated, I think we are in the range that it was expected to do.

Pankaj Kapoor: And Sudhir, you mentioned that there were significant wins for neuro in the quarter. So is it something worth calling out in terms of the share of neuro revenues or the size of the deals, if it has really significant enough for us to call that out separately? That is first, and second my question to Sunil, are we going to follow a similar kind of a wage cycle as last year? I guess it is sometime in the second quarter. Or you want to pre-pone it, and if you have decided any quantum for that. Thank you.

Sudhir Kulkarni: So let me take the neuro question. I think we are starting to see traction, but it is still early days to say what kind of price points we will be able to sell it at it has been a range so far and what kind of market traction, what kind of segment of markets we are focused on. So these are still early days for this new piece of IP.

Pankaj Kapoor: Sure and Sunil my question on the wage cycle?

Sunil Sapre: The wage cycle I mean our wage hike kicks in on 1st of July and this year we will maintain the cycle. We have not yet finalized any percentage as of now, still some time away.

Anand Deshpande: I do, this is one comment I would like to make is that we do have about 13 to 14 people on the queue, we have about 8 minutes. I am going to try to be rather brief and fast.

Moderator: Sure. Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: Just a couple of quick ones. Anand, so firstly in terms of the investments that you talked about into sales rather than on product development, should we expect the manifestation of those efforts reflect completely in the growth on the Accelerite side or do you expect the sales efforts to also be into other segments? And second one that I had was for Sunil. Sunil, the direct expenses this quarter were down by Rs. 20 crores. So just wanted to have a sense if there were any write backs of any of these variables payout or bonus provisions and to what extent that number would have been?

Anand Deshpande: So very quickly no I think the sales effort is going to be across the board not just in Accelerite and you will see numbers growth in digital and the Alliance business starting to impact by the new additional sales.

Sunil Sapre: On the direct cost if you see actually there is a headcount reduction, about 150 reductions in the headcount which is one important reason. The second one being that we have an element of company performance bonus which is linked to the numbers that we make. And during the first three quarters not knowing the blip in the IP revenues in the last quarter we had provided for an amount which was not as per the CPG planned the company performance bonus plan and hence there was a write back for that particular amount.

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

Dipesh Mehta: Just want to get a sense Anand about the progress which we made on the partnership which we announced couple of quarters back on USAA and the Partner's Healthcare. And in the same, if you can help us understand some of the IP which we are developing like Sentient, ShareInsights and all those IPs where we are and what progress we have made over last few quarters, if you can provide some details?

Anand Deshpande: This is a loaded question with about 6 minutes to the end of the hour. But let me give you very quickly; so USAA partnership that is concentrated on Neuro at the moment and we have a lot on our website and some testimonials about USAA**.** The healthcare partnership that we have announced last year actually is doing quite well.

We should have some real revenue related activities in this financial year. In terms of the optimistic products like we see some action I think ShareInsights and Neuro which are the two sort of ones that we have been investing should give us some revenue. Sentient we have some in trial depending on how that works out we will be able to tell you more.

Moderator: Thank you. The next question is from the line of Shivam Gupta from CWC. Please go ahead.

Shivam Gupta: Just one quick question. Given the fact that you are entering the new year with the Digital kind of coming through and Neuro and Partners to contribute, would it be fair to assume that we can have a shot at our growth rate which is fairly better than 30% that we did for this year? Thanks.

Anand Deshpande: The answer is, yes. The targets are lot higher than that if that does not happen, that will not be good for people on the projects. That is all I can say.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Just one. I noticed that the number of the category which was greater in $3 million in clients it has come down from 19 to 18, I mean can you elaborate on that, any reason?

Anand Deshpande: There is one customer that has moved down from that group to the previous group they were probably on the border and still but here and there. There is nothing spectacularly happening there actually. But if you look at year-on-year the number is better. So last year we had 15 in that category, now we have 18 and this is a moving target. Sometimes it goes to 2.9 it gets missed out.

Moderator: Thank you. The next question is from the line of Kumar Saumya from Wealth Managers India Private Limited. Please go ahead.

Kumar Saumya: Sir, my question is regarding PARX If you could share with me the revenue contribution coming in this quarter and for the year?

Anand Deshpande: For the year we did approximately $8.8 million coming in from PARX and during this quarter it is about $3.75 million.

Moderator: Thank you. The next question is from the line of Sangameswar Iyer from Subhkam Ventures. Please go ahead.

Sangameswar Iyer: Sir, just a couple of clarifications. One on the margin front which you said that you will be able to maintain margins. Are we since given that this was a one-off quarter, the margin profile that one should assume for FY19 as a base, would it be the nine-month average, that is what you are talking about here or how should one look at the margins?

Anand Deshpande: Clearly if you ask me this question I would not count this quarter in the list. The nine month is sort of what we would have expected we should have gotten in this quarter and that is really what I would like to suggest but I do not want to make a guidance at this moment.

Sangameswar Iyer: Got it. One more follow up. if we were to recoup as you said earlier that the Alliance business would recoup whatever we lost this particular quarter of around $6.7 million, that should itself give us a headway of around 5%, 6% for the next financial year in terms of the Alliance business growth and if you were to look at the normalized growth that we should do, double-digit growth in the Alliance business is something can be achievable. Is there any head wind that we see to this double-digit assumption that one can look at based on the recoupment and the normal business of the Alliance?

Anand Deshpande: Let me tell you how you should look at that. Instead of looking at it on a financial year basis, you should look at it on a calendar year basis.

So you know the fact that it ended as $6.8 million minus for Q1 2018. I think it is not fair to say okay what Q2 will look like, because the partnership is not all uniform across all four quarters. I have been quite upfront about sharing the number to you. So if you pull out the numbers for the whole calendar year it will give you a good comparison.

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

Mayur Parkeria: The Accelerite revenues year-on-year have fallen from almost Rs. 70 crores to Rs. 47 crores. Is the entire dip driven by the fall in rCloud, or is there more to it in terms of and how do you see that in terms of the FY19 for the Accelerite revenue? And secondly sir, given that Digital is taking all the shoulders of growth, against Services, Alliance and Accelerite which are having muted growth or slower growth or some hotspot. Are you happy with the quality of offerings in the Digital and the way we are growing in the Digital for the next four, five years?

Anand Deshpande: Let me give you the last one first, because we are trying to find the exact numbers. See I am actually very happy with the quality of business as we end the year as compared to the previous years. So in terms of the quality of customers, the quality of business we do with those customers, the amount of next generation business we have all of those things. I think there are two problems that I am not happy about this quarter and as we close out the year and those have come around in my conversations so far.

One is the fact that the IP revenues we were surprised this quarter which we would have not liked to see. I mean a few million dollars that would have helped us this quarter would have really shown the difference and the second thing is that, despite a 30% growth that we have had on the Digital business, I think we could do a lot more on that. So those are the two main disappointments that I would say, and we have taken certain actions to hopefully help us fix both of those.

So that is really where I am going to stop here on what I can say about my next year. In terms of the Accelerite revenues, see as you know that many of these Accelerite revenues are also declining in the way they are designed and some of that is naturally expected. We were sort of hoping and confident that some of the newer products such as Sentient, ShareInsights, Neuro and all these will fill the gap, but the Location business which we were working on for the last few years which is something we acquired from Openwave also, we are closing out at the end of the year and rCloud is the other one.

But other than that, the three main areas that we are focusing on one is relating to the cloud business, the second one is to do with the security and the third is around data related areas. We are past the hour, so I am going to request that I am sorry we have a few callers stranded, but I just want to be sensitive and respectful to people's time and I would like to end this call here. Thank you very much. But let me it hand it back to Ali and let him close.

Moderator: Sure, sir. Thank you. Any closing comments from the side of Dr. Anand Deshpande?

Anand Deshpande: No, I do not have any specific comments. Thanks a lot for being here in this call. We are available and accessible and will be happy to answer your questions.

Moderator: Thank you. Ladies and gentlemen, on behalf of Persistent Systems Limited, that concludes this conference call for today. Thank you for joining us and you may disconnect your lines.