Persistent Systems Limited

Analyst Conference Call

Q1 FY19 Results

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MODERATORS

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President Sales – Technology Services

Mr. Atul Khadilkar
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Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning Officer

Mr. Amit Atre
Company Secretary
Moderator: Good day, ladies and gentlemen and a very warm welcome to the Persistent Systems’ Earnings Conference Call for the First Quarter of FY19 ended June 30, 2018.

As a reminder, all participants’ 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 today with us on the call Dr. Anand Deshpande – Chairman & Managing Director, Persistent Systems. We also have with him Mr. Sudhir Kulkarni – President, Sales Technology Services; Mr. Atul Khadilkar – President, Delivery Operations Technology Services; Mr. Sunil Sapre – Executive Director & 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, sir.

Anand Deshpande: Thank you, Ali and I would like to wish all of you on the call a very good evening and if you are in India and other parts greetings. I am pleased to share with you the results from the Q1 which ended on June 30th 2018. For the quarter the revenues were $123.60 million, in rupee terms it was Rs. 8,342.81 million. In dollar terms the growth was 5.7% Quarter-on-Quarter and in rupee terms this growth was 10.9% Quarter-on-Quarter. The PAT was Rs. 873.48 million which was an 18.5% QoQ growth for the quarter. We also had our 20th Annual General Meeting of the company on Friday July 27th 2018.

All resolutions including the one for the final dividend payment of Rs. 3 per share were passed with the requisite majority. In terms of the basic highlights of the business we were appraised at CMMI level 5 in this quarter and this is something that we are quite proud of. Persistent also invested and partnered with CAZENA fully managed big data as a service with a built in DevOps for analytics. This is a Boston based company and this partnership will help us with some of our big data solution both for services and also for our ShareInsights products.

We were aggressively partnering with the Ministry of HRD and AICTE and we were co-organizers for the hardware edition of the Smart India Hackathon 2018. This 5-day event was inaugurated by Shri. Prakash Javadekar – Honourable Minister of Human Resource Development, Government of India on June 18, 2018.

We have shared a set of highlight videos about some of the work we are doing on our website under Customers Speak and I will encourage you to have a look at some of those. In terms of what we want to do today I am going to now hand it over to Sunil Sapre and to Sudhir Kulkarni who will share a bit about what is happening from the finance end and also from the Digital and the Services end of the business.
Sudhir is visiting us in Pune from California, so he will share a bit about what is happening, and I will finally conclude to give you some colour on some of the quarter’s results and then we will open it out for Q&A. Let me hand it over to Sudhir Kulkarni to give you an overview on what he sees on the customer’s side.

Sudhir Kulkarni:

Thanks Anand. So, while helping Dr. Scott Friedman, Chief of Liver Diseases at Mount Sinai, New York to use big data to transform research into disease types and improve patient care or working with Robert Paglia, the Chief Administrative Officer of Indiana, to implement a cloud-based platform for transparent and integrated services to citizens from his 92 state agencies the theme I hear from our customers is pretty clear. Technology shifts are leading to disruptions and every business is under pressure to transform their old ways of doing business.

The years of investment in building tools, partnerships and teams skilled in next generation technologies and techniques that we have been on is clearly helping us to lead our customers as they navigate their business through this change. You will recall in April we merged the erstwhile Digital and Services units to create the Technology Services unit. This has created a great platform for future revenue growth by unleashing synergies between sales and delivery teams experienced in healthcare and financial industries with those working on next generation technology practices and partnerships.

The unit built a robust pipeline in Q1 and added 24 new customers, several of them leading companies in healthcare, healthcare research and financial services industries. The quarter proved to be a quarter of positive pipeline momentum in ISV and enterprise segments both. Both these types of customers are navigating technology shifts in their business. Whether we are building a next generation cloud-based product or helping a large enterprise navigate cloud and data technologies including AI and ML to change their business the skill sets and techniques required for such a change are the same.

Our decision to build business in three industries and four technology areas is keeping our teams focused and as evidenced by the momentum in healthcare especially data driven transformation of healthcare. We did see a drop in our erstwhile Digital unit revenue due to projects with two partner platforms completing and corresponding new deals not ramping up quickly enough. While we provide this data for historical comparisons I would not read too much into it as this business has built a robust pipeline.

Moreover, the way industry defines Digital over 50% of our business is comprised of Digital projects in DATA, AI, ML, Cloud, IOT and Security etc. Some of my excitement is also due to the two new partnerships that our teams have forged with Unicorn such as Outsystems and Blue Prism. Our customers in their transformation journeys are using visually developed custom code, robotic process automation and machine learning to become more like born-digital companies. I am positive that these partnerships will stand us in good stead in coming quarters.

Furthermore, Hackathons as a way of generating ideas and building minimum viable products quickly and then using methodologies like scaled up agile to take them all the way are being increasingly
adopted by our customers. Whether it is building a new age data platform for social research, a platform to automate patient acquisition and overhaul care management for a large US hospital or building a new age IOT platform for a utility services company to manage huge real estate assets.

Our teams have been using these Software 4.0 methodologies to great advantage this quarter. In conclusion with a healthy pipeline and clearly great traction in our focus areas, the Technology Services business is poised to grow well in the future. Now back to Anand.

**Anand Deshpande:** Let me now hand it to Sunil to give you a little bit of colour on the financial data.

**Sunil Sapre:** Good evening everyone. Thank you, Anand and Sudhir. Now that you have listened to the business updates from both Anand and Sudhir, I will give you some details on the margin movement and some other financial information for the quarter ended June 2018. So, the revenue for the quarter was $123.6 million with a growth of 5.7% QOQ in dollar terms and 10.9% in INR terms. On YOY basis the revenue grew by 9.4% in dollar terms and 14.6% in INR terms.

The increase in IP led revenue was 29.6% over the previous quarter as you know we came back from a low quarter of Jan, Feb, March while the Linear business had a decline of 1.2%. If you look at on a YoY basis the Services business grew by 9.2% and the IP business grew by 9.9% showing that there is enough uptake in both streams of revenue that we have. As Anand mentioned, we have the Reseller business where over the last few quarters we have been working on developing this business under the Alliance unit.

You will recall in Jan 18 we had announced about increasing our sales presence in Europe. So, in this business we are involved in the pre-sales phase as well as we provide support over a period of say 3 to 5 years and this business had significant growth in this quarter. So, it is happening based on the investments that we have done, and you can say to some extent the investments have started paying off. On the Linear revenue side there was a volume growth of 0.6% while billing rate declined by 1.8%.

The onsite Linear revenue declined by 3.6% constituted by 1.8% decline in volume which is to some extent attributable to the completion of certain projects what Sudhir referred to; and 1.8% decline in billing rate. The offshore Linear revenue grew by 0.7% comprised of 1.1% increase in volume and 0.4% decline in billing rate. I would also like to explain about the realignment of few business lines within the business units.

So, effective 1st April 18 the PLM business which is an annual run rate of about $5.5 million to $6 million which was part of the Services unit till last year was moved to the Alliance Unit to align with the vertical focus on industrials which is largely driven by the Alliance Unit. Similarly, one of the products developed by the digital unit which is Neuro that we developed in association with USA has been moved to the Accelerite Unit primarily to ensure that there is a unified approach to product marketing efforts under one unit.
And this product had a revenue of $0.3 million in the last quarter. One other realignment is also the Concert IOT Platform which was developed under the Accelerite Unit has been moved to Alliance Unit in order to bring all the IOT related business under one unit. The sales and marketing expenses have increased by 11.2% as we have been investing in our sales efforts. The EBITDA margin for the 1st quarter was 16.8% as against 14.8% in the previous quarter though utilization slightly declined from 81.2% to 80.7%, the yield per person has gone up by 5.2%.

Depreciation and Amortization was at 4.8% as against 5.6% in the previous quarter. As you know in the previous quarter we had an accelerated charge on one of the products and the percentage terms it is declining because of the improvement in revenue. Coming to the EBIT, this is the quarter where we hit an EBIT of Rs. 100 crores at 12% as against 9.2% in the preceding quarter. The overall impact of the currency on the margin was favourable by 50 basis points. Foreign Exchange gain at Rs. 21 million as against Rs. 150 million in the previous quarter is largely due to rupee depreciation at the end of the quarter which resulted in mark-to-market loss on the forward hedges.

Profit Before Tax was Rs. 1,186 million at a margin of 14.2% as against 13.1% in the previous quarter. PAT for the quarter increased by 18.5% to Rs. 873 million with a margin of 10.5% to revenue as against 9.8% in the previous quarter. Operational CAPEX for the quarter was Rs. 118 million and cash on books is Rs. 12,425 million as compared to Rs. 12,003 million at the end of March 18. We have forward contracts amounting to $ 123 million at an average forward rate of Rs. 67.81 and of course this is comprising of the hedges booked during the several quarters in the previous year. The recent hedges of course as you know have been coming in at a rate of Rs. 71.50 to Rs. 72. Thank you everyone and I hand it back to Anand.

Anand Deshpande: Thanks, Sunil and Sudhir for your commentary. I just want to make a few short comments and explain once more the Reseller business because I expect that would be a set of questions that I might get today so I am going to explain that one more time. If you look at it overall in terms of our numbers I am quite pleased to see the European numbers actually have gone up. This is by design and some of the work we have done with the Reseller business is aligned with that. The IP numbers also to some extent have gone up because of this number.

Overall if you look at all our parameters they seem to be in range and actually they are quite good overall so nothing specific in that count. Now in the Reseller side as Sunil has already mentioned, we have invested in the Reseller business for the last two quarters. We have added a team in Europe to help sell the products that we are building with our partners and during this quarter we had a good quarter in this where we had a specific set of deals that contributed about $6 million to the revenue line. In general, we expect that we will get continued business along these lines over the next few quarters.

So, this is not a one off type arrangement but an ongoing but periodic type of an arrangement. So, you will see revenues as you look forward over the year, but every quarter would not be the same numbers as you would expect because these are license sales that are happening as they come along. So, every
quarter will not be the same number but if you stretch it over a period of four quarters you will see that there is a substantial amount of revenue that we expect out of the reseller business.

So, this is really where I would like to stop and open it up for questions and of course for the first time, first few questions we will be little bit more elaborate and as we go along we will try to get as many questions as we can. So, let me hand it back to Ali and let him open the questions.

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 Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: On this IBM reselling business, so how does the dynamics work? I mean there is almost like $6 million of pass through revenue, so what is the kind of margins in this pass-through business and how will we get the additional services business?

Anand Deshpande: It is not a pass-through business, it is a value-added reseller business for one thing. Second, we are selling products that we have built, so these are CE-CLM products and some services and support and other factors are also factored in as part of it. We have a team that is orchestrating these projects in some sense with customers in Europe and as and when deals happen, there is a license component and then there are other services around it.

Sometimes these license components can be much larger than the services components attached to those kinds of deals. So, as per accounting policy if the licenses are completely delivered then we are able to accrue that during that quarter. Now we do expect that these kinds of deals are continuous, we will see many deals across, even in this quarter there were several deals that contributed to this number and we expect these numbers to come in again every quarter as we go along.

Now there is a bit of a seasonality in terms of how our partners operate. So, they tend to have a better quarter in Q2 and Q4 of the calendar year which is Q1 and Q3 for us. And we expect a similar level of change in terms of the resell in Europe business that we have. We have a small part of this overall pie that we are selling, so that is really what that is and there is a purchase cost on some parts of what we acquire from the customer and that shows up in the purchase column that you have.

So, you will see transparently in terms of what exactly is happening but there is a value-added reseller business there and many of these products are products that we are building out. So, that is really the model in which we are selling.

Madhu Babu: And second sir, on Digital, I think this quarter was weak. So, do we expect a sharp bounce back from 2Q onwards? And how are both the verticals panning, BFSI and Health Care?

Anand Deshpande: So, I am going to let Sudhir answer the details on it but yes, the Digital numbers were lower than where we had expected them to be but he will explain the reasons. He has already mentioned some of that. In general, one of the changes as I have pointed out and I wanted to mention this as well. If you
look at our annual report which you would have seen and also variation of that is on our website, that gives a very detailed overview of how we are approaching the market this year and what we find is that when we were looking at Digital for the last two years, the first versions of Digital were mainly related to building out employee related or customer related solutions.

This quarter onwards or this year onwards we have deliberately decided to focus in addition to just doing these horizontal solutions also focus a lot more on specific industry segments and the Industrial industry segment is the one that is led by the European partnership and the work we are doing there. In North America we are focusing mainly on the financial services area and also in the healthcare area.

And on both these areas the kind of activities that we see and the kind of partnerships that we have, whether it is Partners Healthcare and all of those, they are all very robust and if you look at some of the videos that we have on our Customers Speak they should give you a sense of the kinds of work we are doing, and we will be happy to share more.

These all have a slow ramp in the sense that they take some time to close. We are talking to the right people and it will be some time before we see, immediately large numbers coming in but I am quite confident about the pipeline and I will let Sudhir give you further details on this because he is directly working with customers and he is on the ground with them.

_Sudhir Kulkarni:_

Yes, sure, Anand. So, primarily the Digital revenue, the way we were defining it as we said was where systems of engagement as Anand said that impact customers and other stake holders like employees who are the ones that we are focusing whoever focusing on. But more and more that we see that technologies that we are approaching our customers with, whether it is DATA, AI/ML, Cloud, IOT, Security etc they are impacting the entire set of things that a customer does.

So, when a customer in healthcare for example Providers which is where we are entrenched quite a bit, is looking at transforming some of their business, they are really not making a distinction between a system of engagement and a system of record. They are saying, here is my problem can you solve this problem. And then we are going ahead and implementing a solution for them.

So, I see that the way the pipeline has been built, I see that that ramp up does happen slowly and these engagements start maturing over time and they produce a lot more revenue over a period of time but in the last quarter which is the April-June quarter, there were a couple of customers whose projects we had begun last year which kind of ramped down very quickly because they finished. And then the others that we had signed up with them did not take off until almost the end of the quarter. So, that impacted our revenues.

That was largely the reason but if I look at the pipeline both in healthcare as well as financial services I think it is robust and I have never been more pleased with the set of customers that we have in that pipeline. So, hopefully we will see much better quarters coming forward and I would not read too much into the drop that we had during the April-June quarter.
Moderator: Thank you. The next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.

Nitin Jain: I have two questions. So, first one is for Sudhir again just following up on the previous question. So, erstwhile Digital unit it has historically grown at around 30% for you, so does this a weak quarter change your outlook for this business? This is more a near-term question, so does this change the near-term outlook for that business?

Sudhir Kulkarni: So, essentially what we did, when we started Digital unit we had actually clubbed together certain platform partnerships that we had like Salesforce, Appian, Oracle etc and we said that certain accounts that were opened up through those partnerships we just put them together in a unit.

So, Digital unit was the definition of Digital from our perspective, but increasingly as I have said people are not making distinctions between how these systems are being developed and they are not making a distinction between whether you are transforming a traditional system and building on top of it or you are integrating with multiple systems or implementing robotic process automation for some of the legacy pieces of information that you need for the new systems to be built.

So, I would say that, that 30% to 40% growth rate that we have been having in the Digital business in the last couple of years has the potential, the pipeline tells me that there is potential to be able to grow the same and I like I said this quarter I would not read too much into it, we will get back on track on this one based on what I have right now.

Anand Deshpande: So, let me give you a direct answer. Yes, the plan is to grow the Digital business at the same or better growth rate. And despite the negative QoQ number the overall number for the year has not changed at all.

Nitin Jain: And just the second question again for Sudhir. So, you mentioned about these partnerships with Outsystems and Blue Prism, so can you provide more colour on these partnership? Is it more like the healthcare and banking partnerships that you had entered earlier?

Sudhir Kulkarni: Yes, so these two are more horizontal not specific to a vertical because these two are trends that we see, the low code no code visual code building custom code building that is happening in the industry today is really a need of many, many customers when it comes to the new system that they are developing and Robotic process automation which is where Blue Prism plays we are also not partnering just with Blue Prism, there is also other companies in that space like Automation Anywhere, Work Fusion etc. So, we have built skills and we have built a practice around these because we see that as a trend that will be a big impact on how Digital gets executed.

Anand Deshpande: So, let me add to this. Nitin, the point here is that we are expecting and seeing both Blue Prism and Outsystems bringing customers to us. And also, we see us, many of our customers are deploying low code and RPA and having a partnership with Blue Prism and Outsystems is critical because we are being asked to implement them. So, we have implemented that as a partnership where they are taking
us to customers, we are taking them to customers and we have implemented our built-out skills for these products.

Nitin Jain: You have made comments on higher sales spend so is it just reinvestment of the currency gains that you would have realized this year, or is it something more than that?

Anand Deshpande: Like I mentioned in last quarter, see overall we are starting to believe that two trends are happening. One is that the market is buying today, and you would have heard this from everyone else as well that in the US and in general people are looking at next generation transformational solutions and they are spending. So, there is activity in the market and second is we believe that some of the build out that we needed to do both in terms of IP, technology and capabilities across the company we are ready to deliver.

So, under these conditions I think our constraint right now is our ability to sell aggressively and meeting as many customers as we can and starting to get into more engaged conversations. So, at this time it makes sense for us to increase our sales team and the sales velocity and everything else around sales rather than around engineering. So, that is the overall comment that we have made, and we started one by one, so we have made an investment of more than a dozen people in Europe and that has started to deliver results and you will see more sales activity in North America and other parts of the world as well.

So, we have tried to do a slightly different approach on how we should do sales in North America specifically around many of our projects and we have created a different kind of team to help the back office for sales to happen. That was done this quarter and I think some of the impact of that will be seen in Q3 and Q4, but we are investing in sales and marketing this year.

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

Gaurav Rateria: We have seen that your partnership led approach has helped you in acquiring lot many clients, but if you look at the client migration into higher buckets like a $3 million plus, that number actually has been very volatile and over a period of 2 to 2.5 years that number has not changed much. So, what is the strategy and approach to make sure that you are to able to mine the existing accounts which you were getting from your partnership led model and move it to the next levels?

Anand Deshpande: There are two comments that I would have in terms of what we are trying to do to make that difference. What is happening right now, the obvious one is that when you work with a specific partner most of these partners are IT solutions, there is a project that is attached to the project that we get from the customer and objective has been to deliver that project to the highest level of satisfaction for that particular project and the buyers of those projects are tend to be specific individuals. Like for example if you are doing a CRM purchase the person who is buying is the person who is responsible for CRM or low code or whatever else that is. So, clearly that has been the way some of these clients have come to us.
And by merging those Services and Digital group together one of the things that we are trying to figure out is that can we leverage the fact that we get an entry into an account to see how to do other things with that customer. And there is a specific charter that we have done, and I will tell you two things that we have done this year which we have been trying to think about how to address this problem.

So, first thing that we have done is, we have removed the account ownership, so we think that you know because I have an entry into an account does not necessarily help me get other business in different parts of the customers. So, we have made it possible for people to sell different services into that account more openly and freely. So clearly we are trying to mine the accounts but not necessarily, from only the piece where we start the activity and second thing that we are doing is of course by getting the Services groups to work together with the Digital piece, we have broadened our offering and our ability to not be restricting ourselves to one specific project.

So, this is really what we are doing. And I think your point about how do we grow this and how to mine once we get an entry is really a big part of what we have identified as a challenge and your observation is absolutely correct. And I think how well we do on that will help in terms of growing the business because if we do not do this then we are just selling new things on a continuous basis and projects will keep ending and there will be no follow up on it.

So, I think your observation is bang on meaning we knew about this and we have been working on it for the last two quarters and specifically dealing with this issue and like I said this is really what we are doing, and I hope this works out, so we will see better numbers of continuity on existing accounts.

Gaurav Rateria: Second question to Sunil. What is the outlook on margins especially with the recent rupee depreciation? Should we expect the currency benefit to flow through the margin, on an operational basis margin should be better than last year?

Sunil Sapre: Actually, if you see the EBITDA margin, which was 15.5% last year vis-à-vis 15.8% in FY17 that came on adverse currency in FY18, so in real terms the margin had improved but because of weak dollar, the margin was looking depressed. In this year we have exactly the reverse situation, at least in this 1st quarter and hopefully it will stay for couple of quarters more. It all depends on several market factors as you know but having said that we are looking at something like anywhere between 50 to 100 basis points benefit coming out of the currency and the remaining on a constant currency basis to drive various improvements right from revenue and costs to give another 100 basis points of operational margin improvement.

So, on a Quarter-on-Quarter basis as you know the next quarter we will have wage hikes which will have an impact of about 250 basis points on the margin and we will recoup some of that from revenue plus the onsite utilization improvement that we can do plus the continuing optimization of costs in various other areas but overall on a year basis we expect to improve operational margin by 100 basis points.
Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: In the Alliance business this time it has outperformed. So, I just wanted your view. Is it only because of the realignment and the Reseller business or there are some other factors also?

Anand Deshpande: No, I think it is a bunch of factors that have contributed to the numbers going up. And some of them are not quite visible because you see only one number for the entire business unit. Let me comment on the breakup of some of those things. We have a partnership with IBM where we do revenue share agreements on various projects and IBM usually has a soft quarter in the Q1 calendar and Q3 calendar which corresponds to Q4 financial year and Q2 financial year.

So, if you look at Quarter-on-Quarter on the basic numbers that were down last quarter those numbers are all up this quarter. So, there is a little bit of improvement in that side. The second part is of course the Reseller business and the third part is the slight readjustment that we made about moving the PLM business from services to IBM predominantly because we thought it is better aligned with the Industrial segments that we are looking at in terms of the growth for the industrial markets and the PLM and ALM business that we are reselling are to some extent in the same customer segment.

So, that is the reason why we did that. So, it has multiple factors and it is not just one or two specific reasons. So, it has been an overall good quarter for them. And also if you look at their numbers as such they announced a pretty good quarter.

Mayank Babla: In the Accelerite business then also bit difficult to comment on the pipeline but if we could have your views what can we expect going ahead, any new launches?

Anand Deshpande: The Accelerite numbers are at their lowest that they have ever been and one of the reasons why that is the case is that the R-Cloud business that we had talked about is off the book right now because it was an end of life product, we had certain issues there and now we ran into it, where the product revenues were the lower than the cost, so we have shut it down, so that cost about a $1 million or so that you see missing on this.

I think the new products that we have are doing quite well in the pipeline level. We have fairly active pipeline for the Sharelnsights product and for the Neuro product and the third product that we are selling aggressively is the Sentient product. We have certain projects that hopefully we will close during this quarter and we should see improvement on the Accelerite side for Q2 as compared to Q1 but again these are significantly small numbers as compared to our overall numbers.

So, even if that number went up by a certain percentage that would have minimal effect on the overall number growth for the company. So, we have not spent too much time on the Accelerite business during this call so far, but I do expect those numbers to go up next quarter.
Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir I had one book keeping question on similar lines. Now the Alliance business is it only the IBM or is there any realignment with respect to any other?

Anand Deshpande: No, so if you look at the Alliance business, if you look at that number and you look at the top one number on the chart, you will find that there is a gap between the two. And that is because the IBM Alliance is an alliance of businesses that are related to the business that we do in the Industrial and IoT and other segments of that kind. And IBM is a large part of that business. So, when we are reselling or doing any of the other things, those accounts are booked directly to those accounts not to the largest customers. So, yes, there is other businesses that are part of that Alliance piece which are beyond IBM.

Mayur Parkeria: Right and historically that has been the case. So, no specific realignment difference for this quarter?

Anand Deshpande: No, there is nothing specifically different in that but it is just that because the numbers that we have on other things such as the Reselling and others are quite significant they start to become more visible to you and I think if you look at top one customer which is the top customer list that we have shared, that will give you the total revenues against one specific customer. But the Alliance is a collection of bunch of other things as well, so you can see the difference between the two.

Mayur Parkeria: And the second question was on the similar lines, partly it was heard in terms of why the Digital was a little soft this was. Was that the only reason for even for the larger enterprise segment to be soft because Quarter-on-Quarter growth when we look at for last two quarters have been soft for the entire enterprise segment?

Anand Deshpande: Yes, I think to some extent that is related to that particular thing also. Okay let me explain one more thing here. If you look at the numbers as percentages, the IP number kind of starts to dominate and that pushes the enterprise number in percentage terms to be lower.

Mayur Parkeria: Sir, absolute also growth is only 1% if we look at it?

Anand Deshpande: It is small there but that is because of the dip in some of these things which happened which are all related to banking and other related businesses. So, yes, there is a dip and that is related to the same Digital dips that we are talking about. There is no doubt about that. That said the dip on the enterprise is not as significant, so I am not really looking at that number as an area of concern specifically on enterprise side and even the Digital business needs to grow and if that grows all these other things will take care of itself.

Moderator: Thank you. The next question is from the line of Depesh Mehta from SBICAP Securities. Please go ahead.
Depesh Mehta: Two questions the reselling investment which we made, is it restricted to Europe or we have plan to expand into other territories? And can you help us understand in terms of apart from sales people investment I think you alluded to around a dozen plus kind of thing. So, if you can provide some more color about investment plan there?

And second question is about this Digital business where we have seen some kind of weakness. Now what led to delay in start of new projects, so can you help us understand whether we are seeing any changing decision cycle or because you alluded it is broadly played out as you expect. So, whether that decline was planned?

Anand Deshpande: Okay let me get Sudhir to answer the second part of the question. On the Reseller piece, we have some people outside of Europe as well in that Reseller business, but those we have had before as well, but the significant investment has been in Europe and the partnership that we have had is a very European focus and definitely that is clearly the plan, and we will add other regions as we go along. How much will we invest again we have done a little bit more than a dozen right now, so it is about 15 plus people in and around and we might add another three to five people more in the next two quarters in that particular segment.

But again, it all depends on bunch of things. One specifically at Persistent we believe very strongly that you have to hire good people, if you get good people you make vacancies happen because good people inherently make business happen. So, if we find somebody right we will go ahead and make those investments any which way and that is clearly the plan. And I do expect that at this time investment in sales and marketing if you have the right people in the system is going to help in the long term. Market is ready to buy, and I think we need to be selling to them.

So, that is really what it is. And I think some of these numbers will be quite visible as you go along. I am going to let Sudhir answer your Digital question in more detail.

Sudhir Kulkarni: If I were to speak very clearly about what exactly led to the drop there were three specific areas customers where large projects kind of came to an end. We knew that they were going to come to an end. There were some trailing revenues expected but the decisions were taken to quickly drop them and when I said ramp up took time on the new projects that we have signed not only with those customers but others as well so there is no drop of a customer.

But it is more to do with projects being drop and not ramped up quickly enough. Now partly the new project ramp-up was our problem in the sense that we were not able to staff them quickly enough and partly towards operational decisions on the customer side as well that took a while to get some of these started. But hopefully these will get ramped up over the next quarter and we should see that growth as Anand was talking about.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
**Ashish Chopra:** Firstly, Anand just a clarification on the Reseller business which gave you around $6 odd million in the IP. So, is this typically just a single license sale or would this be a function of multiple licenses sold?

**Anand Deshpande:** No, it is a multiple contracts, multiple customers and multiple licenses and services that are attached to it. So, it is not just one single point one line-item, it is multiple line items of multiple kinds, so it is fairly complicated in that sense. But it totals up to that much.

**Ashish Chopra:** And secondly you touched upon earlier on a slightly different approach to the sales that you are taking in North America. If you could just elaborate on what is it that you would bid now doing differently versus before?

**Anand Deshpande:** Okay see one of the things that we had done in the past was to focus on announcing by saying that okay people on accounts will be selling to only that account and we had assigned accounts to an individual sales person. What we are trying to do right now is to find people or get sales people to focus on areas that they are good at selling, and we want them to sell the same thing across multiple accounts. So, let me elaborate that a little bit more because I think it might sound a little more confusing than it needs to be.

So, if you take a situation like say we sold our Salesforce project to a particular customer, if the person who sold that Salesforce project to that particular customer has capabilities to sell Salesforce related stuff for which they are really good at, our assumption that they will be able to grow that account across other lines of business has been flawed right meaning they can sell Salesforce they have sold all the Salesforce they can sell how do we grow that account beyond Salesforce, that was not their charter in any which way.

So, we want them to go and sell more Salesforce across the system wherever they can and we want them to not to be stuck to accounts, but we want any sales person who is capable of selling into that account to sell other things into that account. So, we look at an account and see more point solutions or point stories or overall entry points into that same account as against keeping them to an individual sales guy and not allowing any other activity on it. So, this is really what we have changed, and the other thing that we have changed which is slightly different but in some sense is that we have moved to a more of a direct commission model on the sales team rather than on a quota model.

So, instead of limiting sales people to sell only so much, right now they get a percentage of the sales and with no upside cap on it. So, hopefully sales people who are good at selling a certain kind of sale will sell the same thing in many accounts and not be constrained by these constraints of targets and quotas that typically are around, so this is the main change that we have made on the sales team. Actually, one of these days I will write a book on this topic and I will explain in more details because it is quite interesting how you think about sales, and how sales should be done. But I need for this call I think this is enough.
Ashish Chopra: Okay that is helpful. And you mentioned that you expect Accelerite to deliver better numbers going forward and so are you saying that expectation comes from the sale of Share Insights, Sentient and Neuro or is it the existing IPs which have been contributing to revenues?

Anand Deshpande: No, it is to do with selling Share Insights, Sentient and Neuro in the new accounts and existing accounts and the fact that anybody can sell all of these products and the fact that all sales guys across the company are selling these products and it is not restricted to any certain individual or certain teams. So, by and large we believe that these should be easy to sell, and we are starting to see activities where every sales guy who is completely unconstrained in terms of what their limits on target and quotas are.

So, we are starting to see a lot of action where sales guys are bringing in many more deals in these projects. So, I do expect the Accelerite revenues to have a bigger contribution of these three new products in the next quarter.

Ashish Chopra: Right and just one last one from my side may be for Sunil. So, Sunil, I think the impact from currency on the EBITDA margin this quarter seems to be a bit low at 50 basis points despite around a 5% depreciation of the rupee. If you could just help me figure that out because I was of the opinion that its sensitivity to margins should be much sharper than that. So, is it really the other currencies because of Euro at play here or is it sensitivity generally to rupee or dollar now lower?

Sunil Sapre: See over a period of time our dollar spent in terms of what we spent out of every dollar are they have been going up. If you look at the onsite headcount and compare over say last twelve quarters or so we were at some percentage like 8% to 10% of our staff was onsite. Today we are at about 18% to 20%. There is also increased cost of operations in terms of the subcontractor hire that we have to do because of visa challenges. And lastly the Reseller business what we are talking about the entire cost is also in dollars, it is not like that that margin has got any offshore colour to it. So, with all these put together, the impact is of this order.

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

Sandeep Agarwal: This is Sandeep Agarwal. Just one thing Anand like we have probably not been able to capitalize the way the Digital wave which has come to other companies now even the large cap companies are talking. And we have not been able to capitalize it for some or other reason maybe there is miss on some or other pieces like this time we are again taking our sales strategy in a different way and I think what you are saying now is looking more correct, because obviously every person has a capability to sell a particular type of product.

But do you think that it is a very, very important part of the uptick which could have positioned us much ahead of others has been missed, or you think that the journey has just begun and we will be able to catch up on that?
Anand Deshpande: No, I think it is still early days. I do not think we are anywhere near completion or anything like this. The Digital market is a journey and I do not believe that I do not think it is done in any way and I think it is all about execution so if you are able to execute right I think there is enough business for and enough growth opportunities in the future.

Moderator: Thank you. The next question is from the line of Abhishek S. from Equirus Securities. Please go ahead.

Abhishek S: Just wanted to understand in the Reseller business that our earlier belief was that our revenue share in own created IP is higher versus selling same product by IBM. I wanted to understand that do we have to register the same IP or the derivative IP with IBM? And does that in a way change how we price that IP?

Anand Deshpande: No, I am not so sure I get what you are saying but here is what we are doing. So, the same product that we are building up we know those products well, so we are able to do presales and also service packaged solutions on top of that and we have a Reseller team that is now people who used to work with IBM and other partners who have an understanding of the product and they are selling this directly to customers in partnership with our partners including IBM.

So, they know that we are doing this, they are aware of what we are doing, and we are doing it with them and along with them. So, that is really what is happening. So, and once we are selling these products, yes we have a commission on the, there is a plan on how the revenues get shared on the resale side and also on the engineering sides. So, both these are independent discussions and they generate revenues in both ways.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Sunil, this one was for you. What are the possible offers for the wage increases that we have next quarter on margins?

Sunil Sapre: So, the total impact of wage hike will be 250 basis points and we have few levers to recoup some of that.

Anand Deshpande: Only in the next quarter but overall during the year I think we will as we have already said we expect year-on-year margin improvement and we will be able to absorb this faster of 250 basis points that we expect on the quarter-on-quarter level.

Moderator: Thank you. The next question is from the line of Danish Mistry from Tata Mutual Fund. Please go ahead.

Danish Mistry: I joined the call a bit late, so I just wanted to get one thing on your sales strategy. Is it that you know you mentioned that different sales people can sell different products to the same client. So, are these products only related to the Accelerite segment or are they across the business? That is question 1 and question 2 is that what has the client feedback been in such cases?
Anand Deshpande: I think it is still early to see the client feedback, but this is not restricted to just Accelerite products. What we are saying is that people who have a certain skill in selling should be allowed to sell that skill across multiple customers so instead of focusing it on by account, we are focusing by sales person. This is actually a little elaborate and a very complex situation in terms of what should sales strategy look like. So, I do not want to go beyond this at this time, but I can take this question offline with you.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: My question is regarding the products that you are developing in association with IBM Alliance. So, what is the industry level growth rates for these products and is it secular across all products that we are developing with the help of IBM or is it differentiated across the products?

Anand Deshpande: No, so I cannot share with you these growth rates around their products because they are their products and they are the ones who will share those with you. So, I am sorry, but I cannot disclose that information to you. I can only disclose what comes to us.

Devanshu Bansal: The products that we are developing with the help of?

Anand Deshpande: I know but I cannot share their growth rates with you.

Devanshu Bansal: Okay can you tell us in which stage of the lifecycle are these projects, are these new products or?

Anand Deshpande: No, these are key products for them. They are selling them aggressively in their market. If you look at their numbers and their product roadmap, you should be able to see our products very clearly as prominent products in there and they are very much core mainstream products.

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

Gaurav Rateria: Just an update on what is happening on the Partner’s Healthcare and what kind of revenue model do you think will emerge from that?

Anand Deshpande: I think it is a good question you bring up. We are very excited about what we are seeing in there, the platform is nearly ready. We are starting to see two things happening in the intermediate future. One is we expect to launch the open source version of this product in the next two quarters it should happen either this quarter or the next one, but we are waiting for the right day to launch that. The second thing that is happening already and we will have more announcements on this in the next few months is that we are starting to get Partners team taking us to their friend basically the other doctors who are interested in using that platform and that has helped us build a sales pipeline for this overall product that we are doing, and I think it is quite exciting what we are doing in this thing. Some of what we are doing I will present at the conference in the end of August and this is the VLDB conference. So, I will have a presentation at that conference which will be open and available, so I will
share that with you. But I think overall there is a lot of activity in this area and you should hear more from us in the next three quarters.

I think we are at the end of well, let us take that last question from Apurva and we will end this.

**Moderator:** Sure sir. We will take the last question from Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Just a quick one on Digital. So, you have mentioned that FY19 should be we should look at better or equal growth in this segment. So, is it that you expect sort of gradual progression in this or 2Q should be back?

**Anand Deshpande:** No, it is all gradual actually nothing happens in our business overnight. It is a collection of things that keep getting added on. So, there is enough in the pipeline, so the question is how do we close it, get staffed and execute that is really what it is. But the market is quite upbeat so there is no reason to not expect 30% growth. That is all I can say.

**Moderator:** Thank you very much. That was the last question. I now hand the conference over to Dr. Anand Deshpande for closing comments.

**Anand Deshpande:** Yes, so I would like to thank all of you for being present in this call. I appreciate your questions and some of the points that you raised. If you have any further questions, please do not hesitate to reach out to us. Thank you very much. And I look forward to talking to you again at the end of the Q2 numbers which should be at the end of October. Thank you very much.

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