"Persistent Systems Limited Q2 FY-20 Earnings Conference Call"

November 5, 2019

MANAGEMENT:

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Chairman & Managing Director

Mr. Christopher O'Connor
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Mr. Sandeep Kalra
Executive Director & President - Technology Services

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Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning Officer

Mr. Amit Atre
Company Secretary

Moderator: Ladies and gentlemen, good day and welcome to the Persistent Systems' Earnings Conference Call for the Second Quarter of FY20 ended 30 September 2019.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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; Mr. Christopher O'Connor – Executive Director and Chief Executive Officer; Mr. Sandeep Kalra – Executive Director & President Technology Services; Mr. Mark Simpson – President-IBM Alliance Business; 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 Mr. Christopher O'Connor. Thank you and over to you, sir.

Christopher O'Connor: Thank you very much. It is my privilege to be here and welcome. We are going to talk about our results, we will talk about our work and we will talk about how we view the market and our surroundings.

To open up, I think the first quarter of the year was a very reflective time of change for Persistent and gave us the opportunity to learn and evaluate and constitute structure, which we talked about last quarter. This quarter has been a quarter of implementation and execution from our observations from Q1, putting structural starting points behind us and into execution mode and moving those forward.

We are pleased to see that many of the areas that we are working to provide the right leverage for are indeed taking place, and we are pleased with the results that you have in front of you. Our revenue was $125.5 million, growing at 4.9% quarter-on-quarter, which is 6.2% year-on-year. Margins standing at 13.8% for EBITDA and EBIT stand at 9% and PAT at 9.7%.

We executed and used the structural changes that we talked about in the first quarter to help propel the work that yielded these results, both through structural shifts and how we work, as well as rebranding the Persistent

Company and setting us up for market lift into the coming quarters with that work as well.

The quarter was framed in my mind by a very strong quarter of organic growth, which was really a pleasurable point for us to see. No one single deal, no one large deal, no single client dominated the quarter. We quite frankly were able to release some of the constraints that we saw through the structural changes and the branding work that is in process to help us achieve this growth. And it was across the board in all of our segments. It was in all of our customers of all relevant sizes from our high-volume customer set that does smaller deals with us to our largest 10 customers, we experienced growth in size of deal and the type of deals that we are able to do with our clients.

So to us, this kind of helps set us up for how we want to be able to look at the company with the organic growth target that we experienced across the board. IP revenue was strong, as you see. And I think the most pleasurable highlight of our IP revenue was that it was very balanced. It was balanced in coming from our software business, our large Alliance business, and from our own organic activities, almost in equal portions when you look at how that revenue came in and the growth of where it came from. And so to us, that is a hallmark of how we want to attract the business, which is to be able to grow our own IP, to be able to take advantage of the IP of our partners and to leverage our software at the same time. And so that was the highlight of our IP business.

We increased deal size as I mentioned. And we started to develop our pipeline out on a view on bookings, which is a new process for the system to enjoy, developing systematically a way to have headlights around not only current quarter but also quarters to come, of which we have optimism of our ability to sustain growth into those next quarters. So all in all, a solid, educational quarter from our first quarter of observation as the new management team here in Persistent.

Technology Services, as Sandeep will talk about, we are at 3.5% quarter-on-quarter, while our Alliance business, as Mark will talk about, grew at 6%. These businesses were highlighted by launching new solutions in digital banking. In conjunction with our partners, who are strong capabilities inside these solution sets, publicly taking the stage and leading the discussion on solutions in banking and in other areas, generating multiple new leads, multiple new sources of revenue, as well as presenting Persistent as a solutions company in many of these events for the first time. So it gave us a real opportunity to show our understanding of the market and how to present ourselves. And we intend to capitalize and build on that as we go forward.

We direct presented to multiple thousands of clients, each reports with fashions with our partners often beside us working with the then clients in that work. So using marketing, using market impetus and designing lift to take us into the future is a huge part of how we see our growth and our growth strategy going forward.

This really sets up a foundation for our organic system. I think it is important to note that we believe the organic system of growth is a strong foundation of how we need to sustain growth quarter-on-quarter. We believe that, that is in our target and our horizon to be able to do in the coming quarters. Conversely, we did execute as well on the small acquisition of the company Youperience, a European based Salesforce company. And in this first quarter, that company operated inside of the domain of technology services and Sandeep will reference that a few streaks further.

We will continue to look for positive targets of choice. And obviously your suggestions are going to be key in that as well as how we approach the market and look for targets as we go into future quarters, given our current cash position, which is a positive place to be.

So all in all, that is our summary. We remain focused on growth. We remain focused also on the control of margin and in the preservation of cash. We will talk to and I am certain that you will ask questions on how those things come into balance. In the preservation of margin, you will find that we work through several onetime events and occurrences such as the rebranding of Persistent, events around staffing and structural changes that have change and timing oriented qualities to them as well as some seasonal things that came to hit us.

So I remain bullish on the statement that we made last quarter, which is our seasonal or our regular long running not seasonal, but our long running margins of Persistent will continue to remain where we will get back in line to, and we will just take a little bit of time to make that adjustment as we get growth to move up the relative targets and at the environment that we want to.

So with that, I am going to break I am going to turn it over to Sandeep. Sandeep will take you through Technology Services, and then we will move on to the Alliance business.

Sandeep Kalra: Thank you, Chris. Good afternoon, good morning, to you all. Let me start with giving you an update on Technology Services in Q2 business. As Chris alluded to, the growth, we came in with about 3.5% growth and with the revenue of $84.89 million. This contributes this standard at about 10.5% of year-on-year growth. The quarterly growth came on back of 1.9% organic growth. The rest was on behalf of Youperience which is our Europe based Salesforce acquisition that we closed last quarter.

From a segment perspective, BFSI came in strong, contributing about 7.7% growth, followed by Healthcare & Life Science at 1.9% QoQ growth. Year-on-year, banking financial services stood at 21.9%, Healthcare Life sciences at 7.2%. To give you an insight into some of the larger deals that we did. In banking financial services, we run a deal with one of the leading U.S. based independent retirement/college savings service provider. This is a 3 year deal, and it is roughly a double-digit million dollar deal, helping them develop and manage a comprehensive investment management platform that offers intelligence and personalized investment experience.

Another one of our multiyear, multimillion dollar deals was with Direct writer of Surety and Fidelity Bonds and Insurance. As a part of this engagement, we will be building digital platforms to support their different lines of businesses.

In Healthcare & Life Science, we won a multimillion dollar, multiyear deal with a U.S. based nonprofit health care delivery system, a provider, as we have classified them, to help digitize referral management and clinical services authorization process. We also signed a multiyear renewal with one of our largest customers, a platform provider in the health care space, and we are going to build the next solution of peer-insight platforms that help present data to providers in digestible form and minimize the administrative burden.

In the third segment, which is our ISP and emerging verticals, we won a large deal for setting up an outsourced development center for one of the leading providers of home service plans in the U.S. This will be focused on building digital customer engagement platform for them.

Now in terms of our horizontal practices, the Salesforce practice that we have continued its growth momentum. We grew about 13% quarter-on-quarter. This included our acquisition of Youperience as I alluded to you earlier.

We were also recognized by the leading outsourcing advisory ISG as a rising star in the provider lens for Salesforce implementations categorizing us as one of the leading service providers. And we also happen to be among the top 20 Salesforce implementation providers globally.

In our intelligent business automation practice, we continue to build on our strength, wherein we continue our practices on Appian and Out systems, building business process related applications for different industry segments. The proof of our strength was in our recognition by Out systems, as the MVP partner of the year for 2019 in their yearly conference, just gone by.

On our security practice, we built on our practice by building new partnerships with companies such as Ping Identity and Saviant and these practices have started to benefit from these partnerships wherein we are starting to implement latest cloud security and identity solutions and also helping the customers migrate from legacy platforms. We have also built IP around the partnerships that we have done in order to accelerate the implementations and win more business around these.

Among other significant updates, we had mentioned that we are investing in our adviser relations and alternate channels such as private entity. We continue to see a good traction with them, and we are also seeing some initial deal participation through these channels.

So with this, I will hand over to my colleague, Mark Simpson, to give an overview of our Alliances unit and our Industrial segment. Mark, over to you.

Mark Simpson: Thanks, Chris and Sandeep. It is also my pleasure to be here again this quarter. Let me start also with an update on Q2 business from Alliance perspective, and then I will give you an update on some other strategic initiatives.

Our Alliance business ended the quarter just over $35.3 million. As Chris alluded to, this represented a quarter-on-quarter growth of 6%. We also had a 93% renewal rate on our existing contracts, which was a little higher than we normally see. And we also had an increased client stat score with our key Alliance partners. And these two things together give us confidence of an ongoing solid foundation for the business as we execute on our growth initiatives.

Finally, we acquired 10 new logos in the industrial market this quarter. Specifically, this was in government defense, transportation and industrial manufacturing segments. With IBM, who is our biggest Alliance partner, we are watching quite closely the execution of the Red Hat acquisition. In the near term, this is relevant opportunities for us that to help the modernize their software stack, Leveraging Red Hat technologies, both the contracts we have already won, as well as building a strong pipeline.

Longer term, we are engaged directly with Red Hat as an independent division of IBM via the partnership program selling directly to the enterprise. With the Dassault Systems as our other partner in industrial markets we serve, we continue to see success with joint marketing programs, specifically around aerospace and the associated supply chain.

And finally, with noting our relationship with IBM, we have recently been recognized with two pretty significant awards. Last month in Munich, Germany, out of 20 finalists, Persistent was recognized as the partner-of-the-year for the IBM's Engineering Lifecycle Management segment. Also in the same month, in IBM's Call for Code event at the United Nations in New York City and Manhattan, Persistent won two awards. First, we were one of the 5 companies worldwide to be recognized as a Corporate Engagement honorary and second, Persistent was recognized as the winner in the Latin American Region.

With that short update, I will turn it over to Sunil for his summary.

Sunil Sapre: Thank you, Mark, and good evening, good morning to all. I hope you all had a good Diwali. You have heard Chris, Sandeep and Mark talk about the business outlook and market perspective. So let me now take you through the financial performance and cash flow and other details.

So the revenue for the quarter at $125.51 million came in at a growth of 4.9% for quarter-on-quarter and 6.2% YoY. In rupee terms, it is Rs. 8,846 million, growth of 6.3% QoQ and 5.9% YoY.

The linear revenue grew by 3.6% quarter-on-quarter while IP revenue grew by 9.7%. In terms of linear revenue, there was an increase in volume as well as billing rates by 1.8% each. The offshore linear revenue grew by 1.6% comprised of volume growth of 1.4% and increase in billing rate by 0.2%. The onsite linear revenue grew by 6.8%, constituted by increase in volume by 4.2% and billing rate by 2.5%.

Moving on to the direct cost, as you know, this is a quarter when our annual pay hike becomes effective. Cost of pay hikes were partially absorbed by the growth in IP-led revenue, which helped in a significant manner, when there is a Persistent IP or our own IP conversion to margins is significantly higher. The reduction in visa cost which was there in Q1 also helped the gross margin. And we had a small benefit from currency depreciation, which helped by about 25 basis points.

Let me explain certain onetime items on expenses side and income side this quarter. You will see some of those in the sales and marketing costs, as Chris mentioned. So on the expense side, we had the brand refresh exercise this quarter, which has resulted in onetime costs and part of the costs has come in this quarter.

We also had the Youperience acquisition, which had certain legal costs relating to the due diligence. In one of our major customers, we also had a discount coming in as more of a relationship and goodwill gesture. All these items, which is a bucket of sales and marketing expenses, led to the increase in sales and marketing expenses from 9.2% to 11%.

Now just to reflect on what we had said in last time first quarter call, that in April-June quarter, we had a reversal of the sale incentives pertaining to FY19, where the revenue growth was not very good, but we had not reversed those incentives, which we were not payable to the sales-force at the end of March, and that exercise was done in April-May-June quarter.

So April-May-June quarter had a credit to the extent of 0.6%, and the actual sales and marketing expenses were 9.8%. So we should be actually looking at sales and marketing going up from 9.8% to 11%. And we believe as we go along and increase the revenues, this number to start moving down towards 10% over time.

On other items, there are two items which have a positive impact with respect to direct costs. So we had a reversal in terms of certain employee benefit provisions which are long-term employee benefits, and we had a change in leave policy this year, which was implemented from 1st July, where the accumulation of leave has been reduced from 75 days to 60 days.

The net impact of these changes had a credit of Rs. 185 million in terms of long-term employee benefits. And if you look at both the items, the one-off items on the expense side and one-off items on the income side, the net credit to P&L was Rs. 35 million, which is not a material amount, but it will help you understand the movement of items like S&M why it has gone up significantly, why did gross margin remain at the same level despite the pay hike cost being there in this quarter, et cetera.

In the normal course, in terms of the sales and marketing head count, you will see an increase of 13 people, which largely were in addition in the U.S. sales team. We also had some churn in the sales team due to which we carried cost of the overlap time, as you would appreciate that people do come in first, and after certain overlap the others may exit the system.

Overall, the gross margin remained at 34.7%, at same level as previous quarter. The SGA as I said increased. EBITDA came in at Rs. 1,216 million at 13.8% as against 14.4% in the previous quarter.

As you know, we have an exposure to IL&FS. So the total exposure is at Rs. 430 million of which we had provided Rs. 280 million till last quarter. This quarter, we have provided additional Rs. 50 million, taking the cumulative provision to 77% of the exposure.

Coming to cash generation, we have a couple of big-ticket items affecting working capital, which I would like to explain. There was an increase in receivables in this first half as compared to last year's first half. And you will recall that last year's first half had one large deal of $7 million in the Alliance portfolio where the entire money came in the same quarter, which had helped the cash flow.

So if you look at the composition of revenue, there was one bumpy item, which got collected and it helped the cash flow. If you neutralize that the last year's first half cash flow would be to that extent lower. On the payable side, this quarter, we had lower payables as at the end of September '19 and this is because of the fact that we accelerated payments to vendors. For the reason that we are migrating to a new ERP, and in the wake of Diwali and so on, we did not want the transition to affect any vendors. This amount was significant to the tune of Rs. 500 million.

To that extent, the cash flow for the next quarter will see improvement because this cash flow is also already been accounted in this quarter, Q2 quarter. The other reason, of course, is the lower operational profit as compared to H1 of last year and the fact that the reversal of long-term employee benefits, which I explained about is a noncash item.

Depreciation and amortization was 4.8% of revenue as against 4.6% in the previous quarter. The increase is due to amortization of the intangibles coming in from the acquisition of Youperience and the earlier acquisition, which we had done of Herald Health, and also payment made towards the new ERP licenses. With this, the EBIT came in at Rs. 792 million at 8.9% of revenue as against 9.8% in the preceding quarter.

The treasury income for the quarter was Rs. 226 million as against Rs. 202 million during the previous quarter, helped by certain mark-to-market gain due to the softening of the yield curve. The foreign exchange gain was at Rs. 138 million as against Rs. 80 million in the previous quarter, as the hedges, which were taken at similar time last year, were at good rates. PBT was Rs. 1,156 million, with a margin of 13.1% as against 13.2% in the previous quarter.

As regards to tax provision, we have reviewed our position with respect to the new corporate tax rate regime and will be opting for the same. In this quarter, you will see ETR at a slightly higher level for the reason that there is a reversal of deferred tax assets. As you know, the deferred tax asset gets restated at the new corporate tax rate, these are items which basically have been charged to P&L like provisions for IL&FS, the provision for any doubtful debts which are not adjusted for tax now but will get adjusted for tax whenever the actual write off happens.

So earlier these were stated at the earlier tax rate now they get restated at the new tax rate. On a steady state basis, we expect the ETR to be in the range of 24% to 25% as against the current 27% to 28%.

The PAT for the quarter came in at Rs. 861 million at 9.7% as against 9.9% in the previous quarter. The operational CAPEX for the quarter was Rs. 202 million. And during the quarter, we had pay out towards Youperience acquisition amounting to Rs. 440 million and final dividend payout of Rs. 280 million. The cash on the books amounted to Rs. 1,261 million close to about $180 million as at 30th September, as compared to Rs. 13,401 million as at the end of last quarter.

The value of forward contracts that we hold on books was Rs. 112 million at an average rate of Rs. 73.33 per dollar.

Thanks for patient listening as it took me some time for covering all the items, but I think it will be helpful. And I hand it back to Chris.

Christopher O'Connor: So Sandeep, Mark and Sunil thank you. We are now going to open up for general questions and we are all here at your disposal.

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 Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: Yes, so where is your revenues of Youperience? There like it is in the services or the Digital side?

Sunil Sapre: Digital side.

Princy Bhansali: Digital side. Yes, so, excluding the revenues of Youperience, there is a decline in digital business. What is the reason for that? And when can we see it growing?

Sandeep Kalra: From our perspective, we made a statement last time as well. The way we have classified digital and the way the whole industry classifies for digital it is slightly different. So the way digital is classified right now for us is some of the platform work that we do, whether it is Salesforce, whether it is Oracle Identity and Access Management and a few other platforms. Now if you look at the overall color commentary that we gave, even the wins that we talked about in BFSI or health care in terms of building Digital platforms that is reflected in our services classification as of today.

So, if you were to look at overall our business that we do, which involves digital technologies, it is growing significantly. And as we go along in the next few quarters, you will see us reclassify digital. But what I was saying is we as a company the way we have defined digital and in our industry there is no standard definition that we have been able to find between our peers and we have spoken to many of the peers and even some of your analyst peers on this call today and we believe most of the work that we do at Persistent and even the examples that I gave you of deal wins may be today classified as services in our erstwhile definition while they are actually digital work.

So if you look at our bulk of our company's revenue about 80% to 90% of the revenue is what the industry loosely held classified as built in and if you look at our growth rates whether it is within the TSU side of the house or overall Persistent, are pretty healthy. So we would tend to believe that our digital revenues growth rate is anywhere between 3.5% to 4% if not more of the growth that we showed.

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

Mayur Parkeria: Actually just wanted to understand while you gave a detailed understanding of lots of items on the revenue side, margin side, cash flow side, where there are elements which have impacted the financials, while most of them still appear to be all business oriented. So instead of trying to adjust and look at all of them separately, we would still like to keep it at one level and still what it shows is, at the end of the day there is an impact on the EBITDA margin.

So just wanted to understand how will you manage to ensure that the EBITDA margin starts, actually the fall in EBITDA margin is curtailed and we start seeing an improving cycle?

Christopher O'Connor: So I will take the first part and Sunil you can do the latter in detail. So certainly our path is to continue to grow as the structural effects that we have put in place are now behind us. As Sunil mentioned, you have an overlap period of time where we cut in change and then change takes place with it going all the way from systematic that is moving behind us. Likewise we have rebranded Persistent and used a professional to help us get that done. And that organization and their costs are moving behind us as well.

And so those three items coming together, which is moving through structural changes, moving through one-time occurrences, and continue a forward view on the growth in the coming quarters, help us restore our margins. It will take us a little bit of time. But it gives us no reason to doubt that we will get back to historical levels.

Mayur Parkeria: So Chris, while the are onetime, it does not mean they are onetime in recurring, it is still recurring? Is it just that the levels of these expenses have gone up by the restructuring exercise, right? So that is what, will it be right to say that?

Christopher O'Connor: I do not believe that the levels have risen to new primary levels. For example, the work that we did around restructuring the company as such, true piece of work we did to engage a professional team to help us get that done. We actually started the rebranding exercise in about a quarter, which is a phenomenal speed. And those folks that came to help us have come in, they have applied their craft, and they are exiting the system now, and that will be a true return.

The value of where our marketing expense has been. The same is true with some of the shifts that we have done. We have brought in change to some of the traditional sales process and teams. And we have exits in progress at the same time. These overlap with the natural overlap, in terms of just riding out what the HR systems can allow you to do. As well as the turnovers and handovers as part of that we are sitting as well.

So we can see through restoration in this. We do next with growth, that we will need to move commensurately to make sure the structure supports it as well, but that should be aligned with our expectation of where we want the EBITDA to be, not in terms of where it is today.

Sunil Sapre: And Mayur, just to add to what Chris said, on the EBITDA your basic question is, what are the levers to improve EBITDA, right?

Mayur Parkeria: Right.

Sunil Sapre: So essentially you would see that we have added people in the system in the anticipation of growth. To see our head count is now at 10,500. So over the last few quarters, the people that have been added, to some extent, our utilization numbers have come down. And that is the lever that will be used as we book more orders to bill these people, which are already there in the system. So that is, in my view, the biggest lever apart from the fact that the pieces that we are working on Persistent IP and some of the partner IP, will help us to convert better margins. There is hard work to do, there is no denying that.

Mayur Parkeria: Okay. And what will be the contribution of now Salesforce vertical in our revenues?

Sandeep Kalra: The Salesforce, for example, for us, it gives us about $55 million to $56 million on a current basis. And that is supposed to be accelerating based on the order books that we have.

Mayur Parkeria: Quarterly run rate?

Sandeep Kalra: Well, I am talking about this $55 million was an annual trailing 12-month kind of run rate. And on this quarter run rate basis, it will be close to about $60 plus million.

Mayur Parkeria: Okay, $60 million?

Sandeep Kalra: Yes, that was our rough value for this quarter. The trailing 12-month was roughly about $55 million.

Mayur Parkeria: Yes, and most of the revenues around this vertical would be all implementation revenues?

Sandeep Kalra: Yes. So we treat Salesforce as a horizontal, which cuts across the verticals which we have as banking financial services, Healthcare & Life Science, IFB and other verticals like industrial, et cetera. Now when we talk of Salesforce, Salesforce we do multiple kind of work. So it can be around Sales Cloud, Marketing Cloud, it could be work that we are doing around applications, development on the Salesforce platform itself. So there are multiple different kinds of work that we do in the Salesforce horizontal.

So to make it even more simpler. So if you were to look at any of the larger NBFCs in India, then they launched their loan products or any other products, that is the kind of work that we do for them, and we pretty much have some of the largest NBFCs in India on that. If you look at the health care side of it, the large provider systems, which are the hospital systems in the U.S., that is a big segment for us.

Outside of that, even in the ISV and emerging verticals, there are many large logos where we have done work developing applications on the Salesforce platform or implementing the CRM side of the house, or as I said, Service Cloud, Marketing cloud, and others.

Mayur Parkeria: Okay. And any color on why are when you look quarter-on-quarter, the $3 million number of clients, they have fallen from 22 to 20, while last quarter, when we announced the deals we thought this number should actually go up. So any specific color on it?

Christopher O'Connor: So we fix the number that we are asked to some as well reflective of the bookings that we see and the growth that we are on. And we have looked at this quite deeply and we do not see this as a systemic issue there, it was as an indicator, either one way or the other. Our top 10 accounts continue to grow.

Some of the names change sometimes in those accounts, sometimes they are accounting for our contracts the ending contracts start, that way they can actually ending a quarter basis.

So this is such a 22 to 20. And then the overall number of accounts that we feel is consistent with what we tried to do this quarter, which was to grow and to leverage its expansion appeals and to do more cross-sell inside of the deals that we have and I could just see the overall number of deals increase as we look forward as well.

As Sandeep mentioned, we have a variety of mechanisms or irons in the fire that is spreading to be very positive. And I think you will see the absolute numbers grow. So our focus in this quarter was to grow revenue and to get our engine running. That started to truly harvest all of our system inside of our clients and provide more value.

Moderator: Thank you. The next question is from the line of Nimish Patil, an Individual Investor. Please go ahead.

Nimish Patil: Actually I am an independent investor. So I have invested in the Persistent Systems stock. So my question is, how do you think this result this Q2 results will impact the stock price? Are you more bullish on the stock, or do you expect more downfall in the stock price before we can see any upward momentum? So this is purely from an individual independent investor perspective?

Sunil Sapre: We are here to tell you what we have done. The market is the best mirror that can judge where we are going. And this call is basically to address any of the queries that you have about what we have done and earlier discussion that you would have heard. There are all deals in the market, right? The market forecast more than what one can build in any operating model in an Excel sheet. So whatever questions you have got you can ask. We have no way to predict the market.

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

Tanmay Mehta: I just had one question on the Alliance business. We see that it is a very seasonal business. And do we expect this typical seasonality to play out? And if you could give some color on how this business will perform going forward?

Christopher O'Connor: Yes. So the question is about traditional seasonality. I think that we are seeing that stabilize. And we are seeing that stabilized in the diversity of deals we do with IBM and the fact that we have extended the alliance to resell Dassault software as well as other partner software allows diversity and stabilization of the seasonality moving forward.

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

Ashish Das: My question is on Accelerite business. This quarter we have seen a good jump on that revenue growth, Accelerite growth. So how this Accelerite business will do in coming quarters or next year the outlook on the Accelerite?

Christopher O'Connor: So as we talked about last quarter, the Accelerite business is a standalone business in today and how we show and report it. If you looked under the cover of the Accelerite business, it is really a small portfolio around data. It is a small portfolio around cloud. It is a small portfolio of capabilities around security. And then the jump that you see this quarter, we were able to bring forward some significant deals, in particular, one larger one, that was able to be brought in out of a future quarter and into this current quarter. My hat's off to our sales team for pulling off that. It is always good to see something that you have not planned be brought forward. And that is why you see the revenue acceleration.

As you look at Accelerite and you think about the definition I just gave you, which is, it really is a set of capabilities around data, around cloud, and around security. You will see, as we exit this year, that Accelerite will start to be folded into the way that we show those units work, and inside of the technology services unit run by Sandeep, as a part of their overall capabilities.

We see the world as a solution-oriented world as we look forward. The Digital discussion that we had earlier exemplifies that the world is not a software nor is it services, it is a blended solution set in terms of our execution. And we will execute in kind and Accelerite will blend into the horizontal stack that I just mentioned. And as we hit into the fiscal year 2021, we will be reporting inside of those stacks as the individual components grow. And that is the same way you see us showing today, our growth and our work around BFSI and Healthcare. You will see us talk about our other technology sectors as they become significant and well defined.

So Accelerite, we will head down that path, and then I believe it is the right path for Persistent to consider ourselves a solution company. And that is how we will fare better in the future.

Ashish Das: Okay. Another question is on IP actually, in Q3 there is this seasonal impact that always we have seen in IP-led business. So question next quarter, are we going to see any seasonality on the IP-led business?

Christopher O'Connor: So seasonality can always exist around our Alliance and the IP discussion. And we are subject to the habits of our partner and they may do that. I think there is two things to look at in our current IP-led business reserves. And one is that our software, the Accelerite stack continues to have its independent and attractive revenue stream. The third component that I mentioned also earlier was that we have our own Persistent IP in other segments of technology and an industrial sector that we sell and Accelerite also.

Our strategy is to balance the singular component of IP-led, which has been largely led by our Alliance partner, with other types of IP revenue. And as I mentioned earlier, it really was a good sign to see us be able to balance that as we executed this quarter and focused on it, both selling our own IP as well as selling the IP of others at the same time.

So our anticipation is that the seasonality effect was smooth to being non-distinguishable as we moved in to the next couple of quarters. So I would anticipate you will see a minimal effect in the future quarters. So no effect as we head into several quarters out in the future. And we are taking effects, plans to be able to execute in time.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal. Please go ahead.

Susmit Patodia: I had a couple of questions. Firstly, if you could take us through the operating cash flow will they are down from Rs. 246 crores to Rs. 86 crores H1 over H1. And how much of this is because of working capital?

And the second aspect is almost 15% of your revenues are not audited by the parent auditor. And so if you could give us some color on who was the other auditors because it is quite a material size of the revenue?

Management: See on the auditor's front this what you are referring to is about the subsidiaries outside of the material subsidiary, which is the U.S. subsidiary, which is audited by the principal auditor, which are the main statutory auditors signing off the accounts. The other companies which are there essentially in the Europe region one which is PARX and the other which is Youperience and the third one which is our subsidiary in France. So these are the main places. And these are audited by the subsidiary auditors. They work on the terms of reference from the statutory auditors. And they have discussions before they close off and sign off on the main financials.

So that is about your second question. And on the first question, yes, operating cash flow I give out certain details to you in terms of what kind of items, one bumpy item in terms of cash flow for the last first half when you compare was a big $7 million deal, which has resulted in payment, which helped the cash flow.

In terms of the payable days, we will find the payable days is significantly lower for the simple reason that we had paid out all the vendors in anticipation of our transition to the new ERP. And of course, the reduction in operating profit itself by about Rs. 40 crores versus last year's H1 is one of the other reason.

So we have more questions coming up I mean, I have given enough details you can just reflect on that when you have the transcript of the call and reach out to us in case you need anything more.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Yes. So I have two questions. So on the Alliance business, what is the reseller revenue that we have booked in the Alliance business? And how do you see the seasonality playing out in the second half of the Alliance part of the business? And also on the Digital part of the business, we have seen internal growth in the Digital part of the business, so what is the outlook of growth on this part of the business?

Sunil Sapre: Amit, you were not very audible in your second part, if you can please repeat your question, that would be helpful.

Christopher O'Connor: Yes just repeat both questions on the Alliance, please, and the second question

Amit Chandra: So on the Alliance, I asked about the resellers part and the seasonality. And second, the growth outlook for the digital business?.

Mark Simpson: I will answer the first question, then we can just take the second question. So the first question was what is the essentially the percentage of our reseller business on the Alliance. And it is about 15% or so. We do not report exact numbers, but that gives you an idea. And what was the second question?

Amit Chandra: The outlook of growth on the Digital part of the business. So we have seen the Digital business returning to growth in this quarter 3.2% quarter-on-quarter. How do you see that business panning out in the second half?

Sandeep Kalra: Sure, Amit. So from our perspective, see we made a comment on the Digital business earlier, so I will not repeat that, but the way we have currently classified the Digital business is a combination of a few horizontal businesses on our side, which includes things like Salesforce, our intelligent business automation practice, the security stuff that we do and a few others. Now if we were to even look at our current run rate and to just give you a simple example, the Salesforce practice itself when we talked about, trailing 12-month revenue for us is close to $55 million and the current quarter, the Q2 quarter gone by, the revenue for us was $60 million.

So you can pretty much see that the run rate for the Salesforce practices is pretty much growing up. So we do not give forward looking guidance, but we are seeing the healthy uplift across the segment. The way we define digital today and a bunch of digital stuff that we housed as of now, as per our peer's definition in the services business. These are platform developments, AI, machine learning work, that we do across board. So we are seeing a very healthy demand. We have a very healthy order booking in the last quarter and a very healthy pipeline on the same.

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

Mayur Parkeria: So Sandeep, the question is one for you is, on the Digital side, earlier we understood that the effort for Persistent was to or for the industry also is to move from linearization of revenue to non-linearization. Now since the Digital part, which is growing strongly for us now has started growing again, is there any opportunity right now itself where there is enough for non-linearization of revenue or these are one-time projects and services, which are there?

Sandeep Kalra: So if you look at examples of how we could make it nonlinear, to build on your question. So for example, when I refer to the security the new alliances that we have done, one of those alliances is the Ping Identity as a company and Saviant is the second one. So when we are working on these partnerships, our go-to-market strategy for us involves implementation and managed services, et cetera, around these.

While doing that, we are also building our own IP, which is kind of a surround IP to help do our faster implementation or do faster integration or even build on certain functionality. So those are IPs that we are building as a surround IP to the partner IP, et cetera and that will help us in increasing both the linear revenue by having more of those businesses in implementation, and second, the nonlinear one where we bring our IP to that level. And like that we are doing across board and Chris, if you want to add to it, please go ahead.

Christopher O'Connor: This is Chris,; coming into the company and picking up the definitions that we have had, the Digital, the services transition number is really reflective of a past event of the market recognizing that it needed to move from on-prem to the new cloud-based digital services base for us. And if you ask me my view of the system today and you ask me to go through each of the lines of business, everybody from the services to asking us to engage in a new cloud-based MES to our banking solution which we just released this quarter, which is all online, bringing together digital components and partners like Mambu and our systems are sitting on AWS.

And then one of these things are classified in the old definition, we have had a Digital business that we currently serve. You will see report the current definition just as a courtesy through the end of this year and then we will restate either Persistent as a digital business or remove the classification all together because the market has simply moved past that. So I share that with you as a view coming into this fresh in my evaluation of all the work we do.

And then second, on your point, just to kind of add some more color on Sandeep's point. We released the digital banking solutions this quarter which has partner software inside of it, digital partner software inside of it from companies such as Outsystems and Mambu. And depending on what part of it you buy from us, and whether you want to be a wallet or a bank or a credit union, you include different partner revenue and our opportunity to include the resale of that partner software along with it as well as IP components that we are building that will be IP-led charges or IP-led revenue for us, are in addition to the actual work that we would do to put that system in.

So this is a significant shift from us in terms of how we think about banking where we look for work to do versus leading out a solution, leading out our partners' software as the seller and our own IP into the mix. And I call this revenue stacking. And this revenue stacking phenomena we have the opportunity to execute across the board in all of our horizontals and verticals. And we intend to enjoy that itself Mark has alluded to, we are smoothing out the seasonality of IBM revenue.

They are having only one piece of revenue by mixing it with other revenue stacks and we will do that inside the technology services as a deliberate part of our strategy to move on the journey to solutions for our clients. So hopefully it gives you a little bit more color and a little bit more understanding of our thoughtfulness around this.

Mayur Parkeria: So Chris, pardon me, I did not get the entire picture, but I could capture the few things of. Let me just try and understand, is there while when we are seeing incremental revenues, are we seeing let me dissect it and ask that, are we looking at increasing the annuity revenue pie?

Christopher O'Connor: Yes, I think that is fair to say. I think that is one way to look at it, which is growing an annuity-oriented business is absolutely inside of what you get when you think about our own IP. And as well as the work we do with partners, it has a different definition that is annuity-oriented approach in terms of our work with them by owning entire territories or becoming the primary driver of sales in certain continents of the world, where our partners are advocating that we do sell in. So we pick up their tail as existing clients as well as the ability to renew all those head counts as well on Persistent paper which Mark is enjoying in particular in the Alliance business unit. But we anticipate doing elsewhere as well. So yes, but it is not an annuity as you think of traditional software product, it is a blended business model.

Mayur Parkeria: Okay. Final question from my side is, earlier if I understand, when we look at the organization's complete structured, the HR function was a centralized function, right earlier? Unlike housing it under the respective segments of technology, digital or earlier was it like that? And currently, how it is like?

Christopher O'Connor: Well, we continue to enjoy a certain set of services, and we think about our business units as a composition of vertical and horizontal execution points in the market where we want to be excellent. And we have services around IT, HR or a variety of other capabilities that we continue to enjoy that way and shall in the future.

Sandeep Kalra: And then just to clarify, if you were listening to the management of talent across business units, the management of billed resources across business units, it is all central. So the business units are more based on market segments that they cater to. But as far as the HR is concerned, which are central as far as talent management is concerned, it is all central. Hopefully that clarifies.

Mayur Parkeria: So even the requirement of sales people as well as the technology people for the respective business units gets is a central function or is it?

Christopher O'Connor: I will give you some brief color as we draw to a close. We have special services, and we have special capabilities that enable that acquisition of talent. The individual description of a role may be written by a particular line of business or by a particular market segment that has a particular need and we will help provide the fidelity of definition. But the way that we do this is consistent across Persistent and we think that enjoys an advantage for us. And we also are able to move people at ease and at will to help balance our business completely.

So I think that brings us to the top of the hour. I think that brings us to a close. And I would like to thank everybody for their participation. We have enjoyed the questions. And certainly, we are available for follow-up. A full transcript will be available as well, and we will be happy to take questions after that. So with that, thank you and enjoy your day.

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