Persistent Systems Limited

Analyst Conference Call

Q1 FY20 Results

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MODERATORS

Dr. Anand Deshpande
Chairman & Managing Director

Mr. Christopher O'Connor
Executive Director & Chief Executive Officer

Mr. Sandeep Kalra
Executive Director & President - Technology Services

Mr. Mark Simpson
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Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning Officer

Mr. Amit Atre
Company Secretary

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Moderator: Ladies and gentlemen, good day and welcome to the Persistent Systems Earnings Conference Call for the first quarter of FY'20 ended June 30, 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 on the call today Dr. Anand Deshpande – Chairman and Managing Director; Mr. Christopher O'Connor – Executive Director and Chief Executive Officer; Mr. Sandeep Kalra -- Executive Director and President, Technology Services; Mr. Mark Simpson – President, IBM, Alliance Business; Mr. Sunil Sapre – Executive Director and Chief Financial Officer; Mr. Mukesh Agarwal – Chief Planning Officer and Mr. Amit Atre -- Company Secretary. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you, sir.

Dr. Anand Deshpande: Thank you, Raymond, and it is my pleasure to welcome all of you to this first quarter analyst call. Thank you, all for joining us today.

Very briefly, we had the annual general meeting of the company yesterday, Wednesday, 24th July and I am happy to announce that all the items that were listed were approved unanimously. We had withdrawn the item regarding Deloitte which Sunil will explain later in the conversation.

It is my pleasure to welcome the new team that has taken over most of the company's operations. We have Chris O'Connor here in person in Pune today for this call and we also have Sandeep Kalra on the call today in person in Pune and also Mark Simpson and all of us are here in Pune.

So, I am going to hand this off to Chris to share the details of the performance of the company for the quarter. Over to you, Chris.

Christopher O'Connor: Thanks, Anand, and thank you all on the call for joining, and as you may know this is my first full quarter in the company which I will be able to fully see and understand and go through the operations. From a performance point of view in the first quarter, our revenue came in at US$119.62 million, other significant numbers are PAT was Rs.82.4 crores and that kind of give you some highlights of where we are, I think you all have details which we will do for the rest of the call.

Some things that took place in the quarter. Just to kind of highlight that are also a part of the press release, we completed our share buyback program which I think has been going on for some time. That program is completed in June and it is now over and that is a part of the standard process and we had been working for some time.

In terms of business awards and highlights, we in this quarter currently announced the acquisition of Youperience, Salesforce practice which is based in Germany with a component in the UK as well. This highlights other things that we see taking place at our Salesforce as a growth mechanism for the

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future. We continue to be ride well in other industry standard and participate in the events that we play in the industry and you can see several Hackathons and Gladiator events that we participated into from the technology point of view in terms of who we are. I think a key point from a business syndication point of view that I would like to celebrate is during the quarter we likewise crossed the 10,000-employee milestone and we will be celebrating at this coming weekend by planting 10,000 trees one for every employee in the company that we have today. Crossing a 10,000-employee milestone is certainty an indication of health in terms of our ability to grow our linear rates which was 1.2% as well as our ability to continue to manage employment needs using a global team balancing between onshore/offshore capability that we have. So, it is an indication of the strength that we see.

If I look at the quarter itself, I am going to let Sandeep and Mark talk about their areas respectively, but at my level I see areas of strength emerging. Salesforce for example comes across multiple times in a quarter as an area that is growth for us as well as our acquisition and the fundamental strength in Europe as well as delivery capability in Europe that we did not have before particularly in Germany and the ability to take different concepts in how to collaborate and to advocate Salesforce as a practice to our customers beyond just solve time and material. So, we gain richly from that you will see also that our key wins in the quarter that we have multiple Salesforce wins called out there.

Second thing I would like to highlight which Mark will talk to you as well will be industrial sector catching on as a category that balances our traditional work with just our largest client and the reason why this is important and the reason it is so important as they are the leading brand, leading out of the top line, the purchase of software from not only our largest client but some of their collaborators in the industrial sector area as well. And this is a key trend that we intend to highlight and further advances on the idea of value add and value-added reselling. So, the key indicator for me in the quarter was top-down as we get to question-and-answer session, we will obviously go ahead and talk of any areas that you want to go to.

For the next section of this, I am going to turn it over to Sandeep, our President and Executive Director of TSU, followed by Mark and followed by Sunil, our CFO who you know. Sandeep, go ahead and take everybody through the TSU unit and your findings as a new member of the company.

Sandeep Kalra: Thank you, Chris. Good afternoon to you all and good morning to those who are coming from the US side of the house. This is my first interaction with you all. I would want to give you a little bit of background of what I have done in the past. I graduated from IIM Calcutta in 1995 and started my journey in Software Services with HCL Technologies in the US in 1999 as a part of their project engineering services and I took on additional responsibilities overtime establishing newer geographies first within the US, then followed by Latin America and Canada. My last role within HCL Technologies was leading pharma vertical in Americas. Subsequently, I joined a private equity company where the business was very similar to Persistent and that business was acquired by Harmon and subsequently by Samsung Electronics. I am very excited to be a part of Persistent and I am looking forward to working with my colleagues to take our company forward.

Now to give you an update I will cover two areas: First, I will talk about our Q1 business and then I will talk about the initial observations having completed my first few months in the company. First on the Q1 side, we saw a number of significant deals. As Chris alluded to it, the Salesforce practice, I will give a color on some of the deals that we won in Banking, Financial Services on Salesforce and otherwise. In India, we won with one of the largest banking, financial services company, a Salesforce implementation deal which is an end-to-end, outside of core banking and we will be involved in doing non-core banking applications migration over to Salesforce and also launching new products with them over the next three to five years.

Another significant deal that we won in financial services was with the leading global investment firm based out of the US. This is a multi-million dollar, multi-year deal encompassing the rejuvenation of multiple theoretical applications related to different functions within the business right from income tax returns, entity life cycle, capital call, compliance and many more.

Moving on to the healthcare life sciences segment, which is another large segment for us at Persistent. We continue to make progress, winning multiple deals including a deal with the managed services provider, a leading healthcare cloud computing company where we will be working with them to provide managed services to them as well as their customers; another deal in the healthcare life sciences space was in medical devices space with the leading medical devices firm on customer relationship analytics. This is a Salesforce-based deal, again a multi-year deal with sales, marketing and services.

Coming to the last segment within technology services with the technology companies, we signed a product engineering deal with the leading encryption hardware-based manufacturer in the area of trust and security and Blockchain deployments.

Coming over to my three months with the company, I have dealt with customers, prospects and some amount of time with our team members in sales and delivery. And I am pretty encouraged with the basic foundation that we as a company have and the kind of customer base that we have. As a part of the changes going ahead, it is not lost on us that we have to expedite revenues and most of these changes that we are bringing in are building on our foundation and leading towards trying to get not the project business but large annuity-based business. We are also forming a large deal team which will be working with advisors and trying to get RFPs from there and also work with the firms on their portfolio of opportunities. In addition to this, we doubled down on our vertical and horizontal service offerings to our growth in solution organizations in our chosen market segments. All these initiatives we believe over the quarters will lead to larger deal and annuity deals which hopefully should see the acceleration that we all aspire for. With this, I hand over to my colleague, Mark Simpson. Mark, over to you.

Mark Simpson: Thanks, Sandeep, and I would also like to welcome, everyone and good afternoon, good morning to everyone on the phone. Although I am not new to Persistent this is my first interaction with you on our earnings call. So, I thought I take a quick second to introduce myself as well. I graduated from a small university in Texas in the United States in Sam Houston State University in 1984 with the degree in computer science and I immediately started my profession with IBM in software development as an engineer. I held many technical, managerial and executive roles at IBM over a 33-year period and I retired in 2016. In my last four years of IBM, I was actually a customer of Persistent. Didn't have to look far when I decided to retire, I ended up with Persistent little time next day as part of the IBM alliance unit and as of May 1, I became the president of the unit.

Like Sandeep summarized the performance of the Technology Services unit, I will also give you an update on two aspects of our organization. Q1 is just a bit of strategic what we are looking forward. In Q1, we saw an increase in both the volume diversity of our pipeline as well as our wins which I will talk about in a second. We acquired twice as many new logos in this past quarter that we had in any quarter since we started selling directly in the market in the ecosystem. Another significant deals we are highlighting are continuous engineering practice we started less than 18-months ago, we had a first significant SaaS renewal, direct to the market that we had done the first deal 12-months ago, we had a renewal. These are the types of the deals that will start foundation and growing annuities direct with the clients, our partners. Also, in continuous engineering, we had another 1 million plus deal with the customer in the automotive industry which is going to help us execute on our objective which is kind of consistent revenue QoQ. In our PLM practice also in industrial sector we had two new logos. This is a part of our business. It has been a bit flat. So, this is a good shot in the arm and given us some growth that we need. And finally, we in partnership with IBM closer to over $2 million deal with major one of the largest healthcare companies in the United States.

Briefly looking forward strategic direction, two things to highlight: IBM is our biggest client and they just completed the acquisition of Redhat, that was significant for them and therefore, significant for us. Our investments are tightly aligned here in Persistent with IBM strategy that includes helping them succeed with this acquisition both them and their clients. The second thing that I would like to highlight is it really supports in a corporate direction, just still real growth in solutions and the unit that I run is tightly aligned with industrial sector, so we will take the software reselling that we do in some of our assets and align it tightly with industrial sector to establish the growth in that particular market.

With that I will turn it over to Sunil.

Sunil Sapre: Thank you, Mark, and good afternoon and good morning to everyone on the call. Chris has given you a brief idea about the market updates and how we see the opportunity for Persistent. Then you heard Sandeep and Mark shared their perspective and understanding on the Perspective business.

So, let me now take you through the financial information for the quarter ended 30th June: On the top line, we had revenue of 119.62 million, growth of 1.1% QoQ and a decline of 3.2% YoY. The IP revenue this quarter was soft as compared to our internal expectations. In terms of YoY, there was a large deal in last year's first quarter which is the reason for the variation in IP revenue and it is also reflecting in the purchase royalty cost that you see on YoY basis. The Services revenue as a portfolio grew by 1.2%

QoQ and 4.5% on YoY basis and in terms of INR the revenue was Rs.8321 million which was flat on QoQ basis.

Coming to the composition of revenue, the linear revenue grew by 1.2% QoQ while the IP revenue grew by 0.8%. In terms of linear revenue, there was an increase in volume by 1.8% while billing rate declined by 0.5%. The offshore linear revenue grew by 3.2% comprised of a growth in volume by 2.3% and increase in billing rate by 0.9%. The onsite linear revenue declined by 1.8% constituted by a decline of 1.2% in volume and 0.6% in the billing rate. Overall, the gross margin came in at 34.7% as against 36.8% in the previous quarter. The key reason for the lower gross margin is the softness in IP revenue, coupled with the fact that there has been increase in headcount and slightly lower utilization at 77.9% as against 79.7% in the earlier quarter. So, this utilization has an impact of 50 basis points of margin. We also had the seasonality in terms of the visa cost for H1B filing this quarter which has an impact of 70 basis points. And on the dollar-rupee the currency softness impacted margin by 30 basis points. With this the EBITDA for the quarter was Rs.1202 million at 14.4% as against 15.2% in the previous quarter. As you would have seen, we have made a provision of Rs.100 million for the exposure towards IL&FS and the cumulative provision now stands at Rs.282.5 million, this is 66% of the exposure. Depreciation and amortization was 4.6% of revenue as against 4.5% in the previous quarter. The EBIT was Rs.816 million at 9.8% of revenue as against 10.7% in the previous quarter. The treasury income for the quarter was Rs.202 million as against Rs.283 million during the previous quarter. The income in the previous quarter was higher on account of the higher mark-to-market gain on certain treasury investments. The other part of the reason for lower other income was the fact that we utilized Rs.1670 million towards share buyback in Q1, thereby reducing the treasury size. The buyback was completed on 27th June and we have bought back 3.575 million shares and extinguished the same by 30th June.

On the foreign exchange side, the gain was Rs.80 million as against a loss of Rs.59 million in the previous quarter. The PBT came in at Rs.1098 million at a margin of 13.2% as against 13.4% in the previous quarter. The effective tax rate for the quarter was 24.9% as against 24.1% in the previous quarter. We expect the ETR for the whole year to be in the range of 26-27%. PAT for the quarter was Rs.825 million at 9.9% as against 10.2% in the previous quarter. The operational CAPEX for the quarter was Rs.172 million. The cash on books amounted to Rs.13,401 million as at 30th June as compared to Rs.14,975 million at the end of March '19. The forward contracts outstanding at the end of 30th June was $105 million at an average rate of 73.36 per dollar.

Coming to the point Anand mentioned in the brief initial comments with respect to Deloitte, we had proposed reappointment of Deloitte & Touche LLP in our annual general meeting for a term of two years. Deloitte informed us on 23rd July, that if the appointment is approved by the shareholders for a term of two years and not for five years, they will not be able to accept the same. So, the shareholders while they have approved the appointment in the AGM in the process of e-voting; in view of this communication from Deloitte, the same will not be effective. We have started a search for suitable audit firms and have shortlisted a few and we hope to make a decision in the next few days. We will approach the shareholders with an extraordinary general meeting to appoint the statutory auditors and as per the relevant provisions, Deloitte will continue to be the auditors until the appointment of new statutory auditors. So, that is the update on the finance front and thanks, everyone again and I hand it back to Chris.

Christopher O'Connor: Thanks, Sunil, and thank you, Sandeep, thank you, Mark. Observations. as Mark's first quarterly trend closes out, it has been a fascinating quarter to watch the business run. If I look back through the quarter I could see opportunities from many of our clients, embarked a meeting with all of the CEOs of all of our partners, with the significant leadership teams and use that as a way to touch the mettle of the business. I think as Sunil mentioned, we have a first quarter 19 large customer deals, but if you factor through that what we see is very consistently running business that has upward trajectory that continues to advance our employee billing, our accounts and our ability to do business in the world and this by my own measure and my own experience is a healthy stable business by the satisfaction of clients, returning clients and the nature of how that work takes place in our ability to richly engage with it. If you ask me for where I would understand further work that we can do, work has a nature of being very project-oriented in its completeness, whether we are selling software, whether we are doing work for services, we are project-oriented in nature which means that it has short durability or limited durability and it must be renewed and in that you see some of our business lumpiness. I think Sandeep and Mark have endeavored to point out. We see elements of work going on inside the company today where we are building longer running business models and we needed to do more significant transaction in the way that we are building an industrial sector business. The highlights are that Sandeep gave around Salesforce, BFSI and Healthcare Life Sciences, that is the core industries where we emerge more as a leader and just a provider of work. We intend to capitalize on this and focus on how to ramp this up. We have executed our structural changes in terms of manage the team as well as manage the style and we are through that process as well as we have aligned processes and procedures to how we will treat our segment-oriented businesses, I have just mentioned, how we will reconstitute marketing to tell the stories of who we are and the types of things that we can do to our clients and we have doubled down and restructured sales of this inside of these teams and that is what the organization and structures carried out and we enjoy the art of learning and teaching ourselves the new processes that are now in place and that is the work that is in front of us and we believe that is the positive trajectory for Persistent and we look forward more in that cycle in-front of us right now. So, those give you some of my observations as well and with that I will hand over to the question-and-answer session and I am going to go ahead and open up the phone for those questions to come forth

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Just wanted to get some sense on the services side of the business. Apologies that I have not been following the fortune of the company for some time, but from what I understand the services business was both composition of the business that we are doing with the technology/software product companies and over the last few years we had focused on the enterprise side of the market. So, Sandeep in that respect, now you can help us understand from go-forward strategy where is our focus, #1? The other question was to deal in terms of medium-to-longer-term outlook on margins given the transition on the business side.

Sandeep Kalra: With respect to the strategy, look, we at Persistent have had a very rich history of doing product development and the platform development for companies. Today, if you look at the level playing field, that has been set with the tenets of product development being very similar to modern application development and our investments in even modern application development platforms, whether it is Appian, Outsystems, coupled with RPA platforms and so on, our investments in assets both on CRM and the platform side. So, today those tenets are equally vibrant in the enterprise market space and that basically opens up a huge amount of addressable market for us, where we can compete with our bigger peers, whether they are Indian origin or they are global origin. So, from our perspective, as we talk about growth and solutions team, we have challenged them to put together solutions which can be long range with the partners that we have at scale, and if you look at even the smaller acquisitions that we have done, they are basically on a string of pearls where we are reinforcing our capability, even in the SFDC space if you look at it, we have the Sales Cloud, we have the Service Cloud, the company we acquired brings in the marketing cloud. So, overall our story is very relevant both from a product company perspective and the enterprise market which we are increasingly going to see at scale and that is why if you look at our segmental reporting, we have also started to report the segment in terms of BFSI, healthcare, technology side of it and emerging verticals. So, hopefully that answers you. So, we are bullish on it. Obviously, we have our work cut out but that is where our energies are going to be going forward. Sunil?

Sunil Sapre: On the question on margins, so this quarter the softness that you saw on the EBITDA margin which came in at 14.4%, primarily this was on the back of lower IP revenues. As you know, both in the Accelerite portfolio as well as in the IBM portfolio, the IP revenue has got more than proportionate impact on the margin. So, structurally we are keeping a very close control on cost. While we have on boarded certain people that utilization will come back and we believe that if the IP revenues play out we will do fairly well on the margin trend. So, far as H1, H2 of the part is concerned, as you know, the quarter coming is the quarter when we have the pay hike. So, obviously you will find certain impact of the pay hike typically does an impact of about 250-275 basis points on margin, but it is expected that some of it is recouped through the growth in revenue and of course the fact that we have certain benefit coming in from the hedges that we hold for this period which we have taken at good rates in the earlier year. So, overall, if you look at the investments that we are making, the kind of efforts to the market in terms of deepening client relationships, as it plays out over a period of next two quarters, we should be having that conversion happening into the margin.

Manik Taneja: Just wanted to understand the usual seasonality of business on the IP side, do you expect it to continue and in terms of your strategy on IP side, do you think we have to once again focus on some new IP acquisitions to drive growth or probably it will be more by selling the existing portfolio of IP.

Christopher O'Connor: I will answer the last question first which is our acquisitions has been done as a part of strategy to grow in categories, we think our rich in growth on their own and we add capability, we add people, we add geography reach through those. So, our acquisitions augment to bring out primary mechanism for stabilization of people or stabilization of growth. We believe that is a part of the strategy we already see emerging in the market around how to create value with our customers both in many of our technology solution areas such as the security or data or cloud and virtually in the industry verticals that is a lot of expertise which would be BFSI, Healthcare, Life Sciences and Industrial sector at the same time. So, that is our strategy and I suspect you will see us continue to look for the right value, the right place that provides us extension of our current strategy and really accelerates growth that in the market ready to take them.

Sunil Sapre: Manik, since you probably have not been in touch with us, you can reach out to us separately because we have a lot of questions from other callers.

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

Apurva Prasad: So, my question is more on the growth aspect. You talked about focusing more on large annuity deals as well as focus on large deals. Any milestones or targets that you can talk about how should we be tracking it for this year or do you expect this to play out over a more long-haul?

Christopher O'Connor: We expect it to play out over time without a doubt. We look at both the composition of IP-led and services revenue as part of that discussion, we likewise are looking at the major industry verticals from where we expect those deals to come from and you will find in our fact sheet for the first time some additional information on how those verticals have been represented in these areas such as BFSI, continuing to uptick. So, we will use those as milestones, certainly that you will see as long as deal composition and deals that are synergistic, IP software and services are also great things we will be watching it well. So, that gives you an idea of how we feel about that. I think Sandeep, why do you not talk a little bit about large deal machine?

Sandeep Kalra: Sure. Apurva, good question from your side. So, there are two things -- When we announce the deal win for this quarter as well, we talked of multi-million dollar multi-year deal. Both are deals that we talk about in Financial Services, the ones with an Indian bank, the one with the private equity global firm/investment firm, both of them are three to five year deals and they are decent size deals. So, our journey has started. If you look at the things that I talked about setting up a large deal team setting up a team to go after sourcing advisors, private equity firms, all these are initiatives in that direction. Obviously, as Chris pointed out, these are early days of these investments of these teams coming together. So, we are hopeful with time, we will progress and we will report all these to you and you will also see these hopefully in the numbers in the quarters to come.

Christopher O'Connor: I think Mark made an interesting point also. That is another indicator that we watch which is we pivoted around our largest customer; they are also selling the software. Mark made an interesting point that I want to make sure to highlight he made which is we have engaged a sister company of our largest customer to also begin selling their software as well in the industrial sector. This positions us the category of industrial sector as a VAR which is different in working for work and it is different in just being a reseller of pass-through mechanism on software by itself. We broadly brought up these points as well, as Mark mentioned that we have been doubling the number of transactions we have been doing out of industrial sector. These are all indicators of our ability to reach the customer in a bigger value and also position ourselves as the primary paper for the value of software that they are starting to implement both to do to services as well as to do the software that our partners provide as well as provide our own IP I think underneath the cover. So, we intend to sees this model across the company.

Apurva Prasad: Just another follow-up on the IBM. So, especially as Redhat is complete now, any opportunities for Persistent coming out of that transaction? And also there was a decline in the top-6 to 10 accounts. So, if you can explain that too?

Mark Simpson: Mark here. Absolutely. If I look at moving forward over the next year or so, our largest opportunity with our biggest customer is definitely helping them with that integration of Redhat into IBM obviously but also maybe more importantly helping their clients. This is a very large market. It is going to be something that perhaps could be disruptive but at the same time it is going to give tremendous opportunity. So, outside of the push we have on industrial sector, the second most important thing that we will be doing with this.

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

Madhu Babu: Hiring has been strong over the last four quarters though our growth has not been that much. So, what is the profile of the hiring – is it more of fresher's? Just wanted a view on your hiring momentum which has been strong?

Sunil Sapre: On the hiring front, particularly last two quarters you would have seen that we have added a fair amount of strength both on the offshore side in terms of fresher's and very selective on the lateral front. We are also taking active you can say help of the Persistent university which is an internal learning and development academy that we have wherein now that we have focus on both technology as well as the verticals. We are training people internally so that we can reduce the dependence on lateral hires. So, while we may have added people, in terms of the actual cost in absolute terms it is not a very phenomenal number. On the US side, the hiring has been very selective to meet the gaps in terms of skills and locations where the people are required to deliver to clients.

Madhu Babu: Secondly, on the advisor-led deals which we plan to target, I understand we are strong on the Salesforce and Appian kind of implementation solution. So, in the advisor-led deals, would it be like end-to-end stack which would include traditional services as well as a part of the deal?

Sandeep Kalra: We would go selectively after the advisor-led deals. And earlier if you look at the trends, the advisor-led deals earlier used to be massive, 100 million, 200 million, 500 million, single deals kind of encompassing all the different parts of the stack. Nowadays what we have seen is people are looking for niche providers, the disruptors if I may call so and they are looking at decoupling application development which looks like fields like product development, analytics, platform development, because every company today is trying to become a platform/software-driven company. So, we have seen enough appetite for the services that we have to offer with the sourcing of agri channel to be able to go and sell them to our strength. So, we will go selectively but we do see a good amount of market on those sides.

Moderator: Thank you. The next question is from the line of Rajiv Aggarwal from Doordarshi Advisors. Please go ahead.

Rajiv Aggarwal: My question first is in the past, company has talked about a growth rate especially with the stack of around 15-20%, while in this call we have not talked anything about the growth rate. So, can you give me some sense of what is it that we should be expecting in financial '20 and maybe if you want to look further than that to get a sense of what is your assessment, management team's assessment is and what you are seeing is possible?

Christopher O'Connor: As you look at Persistent's performance in '19 and the first quarter here, we clearly have healthy running business and we have a healthy set of clients. We have enjoyed selling to those clients in different capabilities that is separate services, separate software and working with the largest clients. We have taken a deliberate strategy to work the integration of those capabilities towards the larger deals and towards the total value discussion that we can have either in our horizontal technology areas or to our largest vertical areas and we are moving accordingly with that. That involve some of the people here with me on a phone today as well as some of the structural elements that I talk to you about around what we have done with our businesses just from marketing focus and try to sell. With those changes done-through, we are in the quarters now of getting changes to take hold and it is early to tell you what our immediate growth going to be for this quarter or for the next quarter and it is probably early to tell you what a year would look like at this point in time. We have got a good measure of our client's success. We have got a good measure of our client's traction. We have got a great set of clients that continue to do repeat business with us. We have a strong hold inside of our largest customer and they are now settled down to go do work on their own while earlier there was a distraction, and that is optimistic as the businesses there also are working hard to build patterns and structures around how we can sell and do repeat so in these segments that we described to you. So, we are doing that work but it is early for us to give you numbers.

Rajiv Aggarwal: Is the expectation that over maybe the next few quarters would be able to or is it where you would not be able to give the guidance forward?

Christopher O'Connor: It is absolutely our expectation. We really have clarity on how we are progressing.

Rajiv Aggarwal: Also, we have been acquiring quite a few smallish companies around the Salesforce, Appian and so on. So, can we talk a little bit around the strategy, around how those acquisitions help broaden our offering and how that fits in with the client and things like we are putting a lot of effort in a separate trajectory where we are now building up the channel partners and trying to work with some of the good vendors, so just talk a little bit about you think that strategy played in with a big client on that side?

Christopher O'Connor: I think you have two questions there. I missed one. Just please clarify with me. But I heard a question around the acquisitions and the second question that was around channel partners. So, first, talk through the acquisitions. It is exemplary in my description we just picked up over in Germany a company named Youperience, a Salesforce practice, a boutique well-known inside of Germany, well-known by Salesforce themselves, seen as a trend-setting leader of being able to work the business of the implementation of marketing cloud as well as to do the implementation of marketing cloud. This has consulted the capability that they have developed as well as the ability to technically install marketing cloud at the same time. So, why is that interesting to us? It is interesting because it complements our acquisition of PARX which we did a year earlier and provides us a significant hold of Salesforce in Germany which is a significant growth area for Salesforce itself. It secondarily complements our hold in Europe, which is small but we intend to continue to progress forward on, and gives us an in-country delivery capability that is already established and it brings us a selling team that speaks the natural language that knows how to progress inside of one of the largest economies in the world. Third, it brings us the ability to take consultive capabilities and teach the rest of our Salesforce practice that we have which is a top-20 practice as accounted to by Salesforce and be able to teach them how to do consultive capabilities worldwide. So, these are teams that are doing Salesforce today in Australia, in India, in the United States how to do that at the same time. This is a great looking boutique for us, because it brings this much richness to the table in terms of progress from so many of our vendors and these are the types of things that we look for when we do this. I think the second question you have was around partnering with our channel partners and what we see that is slightly different. When you move from looking at a channel partner who build software somebody that you can find one of our partner's webpages to asking us a work to trying to build value around them, you focus on category expertise, whether also trying to employ expertise. So, many of the companies Sandeep mentioned for example are applying themselves in healthcare or in banking, or applying themselves in industrial sector and Mark touch in one of them. And they want to advance their business, for you to advance yours. You construct the right value solutions and you gain the attribute of them being well and to take you to market, you gain the attribute of them seeing different and somebody that does not work around install and you gain the attribute of them providing marketing and list to you at the same time. This is something that I have enjoyed in my career of working with channel partner, Sandeep has the same experience and Mark does as well. As part of that we are going to the table as a management team in terms of how we would like to see the value progression take place in Persistent which is the pride lift for our partners so they provide it back and it is little bit of a different focus in just doing typical time and material from the way we apply this pressure in the market. So, that hopefully gives you a picture of both of those two.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Chris, if you look at the IP revenue has seen a little soft this quarter and that has a significant impact on the margins and Q1 is typically a very seasonally strong quarter for IBM revenues as with Q3. So, is it IBM portfolio that is weak this quarter or was it Accelerite and if it is IBM, how do you see that, is it just a one-off this quarter or should we expect that this is the kind of where the revenues will trend from now on?

Christopher O'Connor: We have IP revenue in the couple of places. The specific area that was our weak point was our Accelerite business in IP revenue.

Ravi Menon: So, then could we expect that in Q3 the normal seasonality for IBM should come through and we should see a bump up in revenue by then?

Christopher O'Connor: I think the IBM business will continue to run in its normal seasonality that we have already talked about in prior sessions. I believe the Accelerite business will continue to be one where we are gaining the capability of that software and combining it more with our services going forward and we will talk to you about that strategy as it evolves. Accelerite to us is selling software standalone brand and our focus has been therefore as we talked about is to build combination of packages and whether that is doing large asset associated services deals or deals that are designed around creating value in a certain industry. We are finding supplying Accelerite more because that then as a standalone software company. So, we are expecting the growth that we project to come both from the work that Sandeep is doing and the work that Mark is doing.

Moderator: The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: First of all, if you could say what are the current challenges and action plans to revive the digital business revenue? Secondly, if Chris or Mark you could share your perspective in terms of how we could leverage our deep reach in to IBM ecosystem, drive various business opportunity for Persistent going forward?

Christopher O'Connor: I can give a clarification on the first question with ecosystem. If you look at the current digital number that we have got there, this to me is not yet as the way we factor that number emerged as an indicator that has given me a positive or negative. I understand the way the number looks today, but I found digital elements in all the business that we are doing and I found that we are advancing the cloud source, cloud progression to SaaS nearly every facet of our business. So, I do not put a negative in the Persistent in a digital business transactions when SaaS context. I have to see digital engage to your offerings that across the board whether that is an industrial sector to banking and finance, data to cloud all working with partners that are wanting to advance digital business and we are ourselves the prime provider of that. So, I am bullish on our digital capabilities and on the total digital approach that I see… in fact I see it in nearly every sector and I in my first quarter of this company are not planning a heavy guidance one way or the other to that number that you may see on paper and it is just my current education where I am and we can talk more on that as you would like. With relationship to IBM, Mark, perhaps you want to talk about may be two items which is how we interlock with IBM in terms of their internal business and then second how we interlock we want to sell to from our own perspective.

Mark Simpson: Sure, Chris. From our traditional business working directly with the IBM teams, big opportunity is Redhat, we talked about that before and that is clearly something that we think we can do quite well and the second area which is around the ecosystem. If you think of the long success we have with IBM starting with time and materials, innovative-business models, we have innovated again and we are selling directly to their ecosystem in the market in kind of three or four ways and we do have a backup where we already have a relationship and do work for them especially our IP arrangements on royalty, we have three significant elements to that -- We sell their software which gives us top line revenue growth; we have kind of top line financial services revenue on top of that, and then finally we are developing our own IP that is very complementary in that ecosystem. So, Chris likes to call stack revenue where we get the product revenue from the royalty, where we sell their software, we have a world-class special services and very relevant IP.

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

Sandeep Agarwal: A couple of things: One, Christopher, you are already there for last few months and I am sure that you would have met most of the clients. So, what is the sense which you get when you meet the client, what is leading to we remaining little behind in the growth path compared to industry and in spite of our robust capability, #1? #2, how long do you see the pain to continue? I am not asking for a specific guidance or outlook, but I just want to try to understand that how much more time it will take before we return to our growth commensurate with our capability?

Christopher O'Connor: I have met with multiple clients. It was observational in the sense and then I will be somewhat quantitative at the same time. As I met with the clients having enjoyed a rich career around software, software projects, you learnt how to listen for key indicators of success and also lack of success. I am yet to have a lack of success call with any client nor have I yet to have one of my teams come in the room and use the CEO as the back stock to save a client deal. While is anecdotal in its nature is an expectation of a software industry that you will have work that you will have to do around key projects and clients to make sure that they are satisfied and some of those are normal business as unit as usual well measured, corrective actions and some of those are emergency procedure done in the urgency of dark at night. We are amazingly in control of our clients and our projects and the satisfaction that they have. Numerically as I checked against that from my first visit, I found that our client base is rich and returning at a project level. And this is the key phrase to use because they are coming back to us repeatedly for the next project and the next project and we have along with the client that do repeat business with us and generally I felt it regarded as their provider of health of choice. To your second question, we need to progress into understanding their total business more and building total value for them more and how we can help them. Often, we see the total scope of where we are heading. We let them go to the point of telling which projects that they want us to employ on. When we could get in often and consult and advise on appropriateness of how to go all the way through a total program or total architecture or total initiative. And this is the category expertise that you have heard myself, Mark and Sandeep talking about developing and applying more clickable services for we have hired business leaders through inside of each of our traditional technology categories and our market industry categories who are now addressing those areas and we think are significant areas that we should be applying the main value and going for larger segments of the clients business as well as more leadership as well as more clients. So, we have done the tooling for this in the past quarter wherein one of my colleagues will phrase as the stitching phase which is now getting it to work and bringing up examples. We have examples in banking, we have examples in industrial sector, we have examples in Salesforce where we see this taking hold today. It is getting into scale that is the time that we are putting in. I anticipate that over the coming quarters you will see us bringing in more incremental progress, incremental examples, and those will affect our results as we go through the next several quarters as well.

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

Nitin Padmanabhan: Just wanted your thoughts on the margin profile considering that the IP revenues have actually come down quite a bit as a percentage of revenue. So, compared to what it was before I think it is down 24%. In that context, do you think that the margin profile will sustainably be at a lower level than what it was in the past or do you think that there is significant room for IP revenue to grow from where it is today?

Sunil Sapre: So, far as the IP revenue stream is concerned, there are multiple nature of IP deals; one is the deal that we do on our own products where we have ownership of these products in the Accelerite pack. That has got a very significant impact on the margin because our costs are already baked in there. The second element is what we sell in terms of licenses with our partners. So, the entire sell with business, whether it is on the IBM reseller ecosystem or with players like Appian, Out-systems and so on, there is a license cost that is involved in the purchase. Currently, what you find in terms of the Y-o-Y dip in IP revenue is because of the fact that last year in the first quarter we had a significant reseller deal; it was of the tune of almost $6 to $7 million which was one lumpy deal that we had in the last year first quarter. So, what actually impacts margin is the business that we do on the non-reseller side, where it has got disproportionate impact on the margin. So, your question is right that, yes, if the overall IP revenues are less, will it impact margin significantly? And the answer to that is not significantly. It will only impact to the extent that reduction is on the significant margin conversion kind of IP business which is not significant, but yes, we have to package the whole Accelerite portfolio in a better manner along with services and utilize those IP in a little more you can say comprehensive deal than rather selling just the licenses on Accelerite portfolio.

Moderator: Thank you. The next question is from the line of Neerav Dalal from May Bank. Please go ahead.

Neerav Dalal: A couple of questions: One is that there was a decline in the top 6-10 clients the revenues. So, could you cite reasons for the same? And second is if we could reconcile the IBM piece, in a sense that as a client IBM has increased, so non-IBM has seen a decline, so I just wanted your thoughts on that?

Sunil Sapre: Top 6-10 clients, we will take it offline.

Neerav Dalal: The other part is should we now expect further decline in the Accelerite portfolio the thing that we have seen in this quarter?

Christopher O'Connor: The Accelerite enjoys some stable set of clients and the numbers that you see a reflective of stability of those clients. I think as mentioned earlier, Accelerite tends to provide and we have noticed this when we looked at the patterns of when we included with our services, the Accelerite IP when included with our services team tend to provide a rich value, a more extensive value to our clients as a total package of software and services combined together than by themselves. So, the current number should be representative of the clients that we have and we anticipate maintaining that base. The future trajectory will be to enjoy Accelerite as an asset combined with our services to provide what we think as a greater value to our clients and that is a little bit of pivot we are making, if not it is detrimental to today's Accelerite number.

Neerav Dalal: Because where I am coming from is that the top client has increased, ISV business revenue being flat and the IP revenue being flat. So, this would mean that Accelerite has actually seen $2-3 million decline in revenues?

Christopher O'Connor: Thanks. I think we are at the end. I want to thank you for the quarterly call. You know how to reach us should you have questions that you want to reach out and further gain advice or input on. We remain available to you in all those forms and thank you very much. With that we are going to close the call. Anand, thank you very much for taking the time, Sandeep and Mark thank you for joining us, Sunil as always, thank you for all of the financial input and with that we are signing off.

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