



Persistent Systems Limited

Analyst Conference Call

Date: July 21, 2010

Time: 05:00pm IST – 06:00pm IST

MODERATORS:

- Dr. Anand Deshpande – Chairman & Managing Director, Persistent Systems Ltd.
- Mr. Rajesh Ghonasgi – Chief Financial Officer, Persistent Systems Ltd.
- Mr. Hari Haran – President, Persistent Systems Inc.
- Mr. Nitin Kulkarni – Chief Operating Officer, Persistent Systems Ltd.
- Mr. Vivek Sadhale – Company Secretary & Head Legal, Persistent Systems Ltd.
- Mr. Hemant Pande – Head Of Planning, Persistent Systems Ltd.



Moderator: Good evening ladies and gentlemen and welcome to the Persistent Systems Analyst Call. As a reminder for the duration of the conference, all participants are in a listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal for an operator by pressing * and 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 & Managing Director, Persistent Systems. We also have with him Mr. Rajesh Ghonasgi, Chief Financial Officer; Mr. Hari Haran, President Persistent Systems Inc; Nitin Kulkarni, Chief Operating Officer; Hemant Pande, Chief Planning Officer; Vivek Sadhale, Company Secretary & Head Legal. I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Dr. Deshpande.

Anand Deshpande: Thanks a lot. Good evening to all of you and for those of you who are outside India, good morning or good night. I just thought I would give you very quick highlights of some of the activities during the quarter and then get directly to the financial results. We completed 20 years on May 30th 2010 and we have announced a new logo as part of the 20th anniversary celebration. I am pleased to announce that Ranga Puranik has joined as EVP for new business initiatives and portfolio and he is based out of Chicago. Our Nagpur center crossed 500 employee mark and the employee count on June 30th was 4911 as compared to 4662 on March 31st 2010. We actually crossed 5000 people last week as we had a batch of fresh 2010 graduates joining us. We are also pleased to announce that we were included in the BSE 500 and the BSE mid cap index this quarter.

And let me get in to the financial numbers very briefly, the revenues for the quarter were Rs. 1810.89 million indicating a year-on-year growth of 37.1% and a quarter-on-quarter growth of 5.4%. In dollar terms, the revenues were U.S. \$39.49 million representing a year-on-year increase of 44.8 % and a Q-on-Q growth of 5.8%. The profit after tax for the quarter was Rs. 345.28 million. It is an increase of 97% year-on-year and a dip of 13% Q-on-Q. The net margin, this is the profit after tax as a percentage of the total income was 19.1%. We

have released all the data online and just to give you few other highlights, say that we have done a round of promotions and salary hikes during this quarter while the salary hikes were announced in June there were with effect from 1st of April. The average hikes were about 12.5% in terms of the extra cost to the company during this quarter that has been factored in to the financial numbers that you see during this quarter. We had very healthy growth in the top ten accounts and also in new areas and new initiatives where we have been participating in. I am also happy to note that the revenues as a percentage of nonlinear revenues or IP led business that we have been tracking has also gone up as a percentage.

With this short introduction, I want to hand this off to my colleague Hari Haran. Let me just add one more item before I hand it off. We had an annual general meeting yesterday and the members at the AGM approved the final dividend of 50 paisa per share that makes the total dividend pay out ratio for the last financial year approximately 10% of consolidated net profit for FY10 as compared to the 6.2% we had done in the previous year. With this, I am going to hand this over to my colleague Hari Haran who is the president of our US subsidiary and also the head of the sales. He is present in person here with us in Pune today.

Hari Haran:

Thank you Anand. Good evening, good morning, and good afternoon ladies and gentlemen. It is a pleasure to talk about our Q1 market activity and Persistent Systems continued value creation in the outsource product development space. In a nutshell, we are seeing a robust demand in the market for product development services. We are seeing a lot of cloud deployment and application software companies actively migrating to a software as a service architecture. More and more enterprises and software providers are beginning to implement their mobility strategy actively. This includes extending existing applications into a mobile environment as well as creating new mobile applications. On the collaboration side, we are seeing an enterprise beginning to leverage social networking and search technologies and this has resulted in a spurge of product development activities in this area. Enterprises are also looking at more ways to elaborate the plethora of

data by doing a lot of predictive analytics thus resulting in product development and integration services work in the BI and analytics area for Persistent Systems. We are also seeing some wins in the telecom sector in areas relating to mobility, OSS/BSS, and analytics. We are seeing a lot of new customer tractions in our product development space. Our existing customers are also actively engaged with us in all of these new initiatives as evidenced by our Q1 results. We are efficiently executing on our growth strategy and we continue to delight our customers in their growth and product development endeavors. With that, I would like to pass it to Rajesh Ghonasgi.

Rajesh Ghonasgi:

I will go through the financial metrics and some movements of our balance sheet. 1) As we discussed in the pay hike of 12.5%, if you see the financial ratios in our presentation, this has an impact of 3.7% on the growth margin and if you see the rest of the ratio barring small changes it is this impact that flows down to the EBITDA margin, then the PAT margin. This is in account of the pay hike that happened effected on 1st of April and as we go along, we will rationalize this in terms of sales. There is small increase in S&M ratio to revenue as we have added some sales people in the U.S. and as you rationalize our cost, we have been able to cut it back 70 basis points in ratio terms. We had earlier talked about our tax impact and that going to be visible this year. It is visible in this quarter. You will see that the last quarter tax, effective tax rate was 4.8%. It scaled up to 7% and as we had explained because of some of our units going out of tax holiday under Sec 10A and it will be between 9 and 10% overall for the year. In addition to this, other financial metrics, we currently have a FOREX hedge as of 30th June 2010 of 77.25 million at Rs. 47.90 per dollar and going forward, our intend is going to be keeping it around 50% of our net exposure. Currently, it's set around 50% of our net exposure for the next 12 months.

There are some other changes in the balance sheet, you will see that we have been able to cut DSO down, it moved from 67 to 61 days because of focused collections and of course whole lot of operational work that we have done. In addition, there is one balance sheet item that we will highlight. We have had movement in terms of 3 asset names, asset classes; investments moving from

156 crores to 285 crores, net current assets moving up from 63 crores to 117 crores, and cash and cash equivalent moving from 192 crores down to 23 crores. Now this is a movement of the IPO proceeds that we had because we had classified it in the cash column because it was in an escrow account at the end of the last quarter. That amount has got a) invested in mutual fund investments which have moved to investments and part of this amount has been used to repay the selling shareholders dues and pay for IPO expenses. So if you see all this three asset classes together, you will see that the movement is we have repaid certain liabilities which are the selling shareholders dues. The refunding of amounts which were due to shareholders who paid IPO expenses and thereafter what was left over have been moved into investment. Having said that, this gives a picture of the movements that we had, we would like to move on to the Q and A.

- Moderator:** Thank you very much sir. We will now begin with the question and answer session. First question is from Sandeep Agarwal from Antique Stock Broking. Please go ahead.
- Sandeep Agarwal:** My question is regarding the 12.5% pay hike, I am not able to get that calculation. Why have the margins dropped down so much, I see the gross margins coming down significantly.
- Anand Deshpande:** Let me give you a very quick answer. So essentially because of the market conditions, we have done a pay raise for all employees and that has been done with effect from 1st of April. So essentially whatever our cost of employees was in the previous quarter has gone up by about 12.5% in this quarter predominantly because of pay hikes.
- Sandeep Agarwal:** This 12.5% is for the three months?
- Anand Deshpande:** Yes, but it will continue for the year.
- Sandeep Agarwal:** So it has come in through here.
- Anand Deshpande:** So it will come from here on. If you look at our salary bill for employees that were there on March 31st for the same employees, salary bill in April is 12.5%

greater than what it was in March. Now that we have done this, this will continue through the year and this will be an on going activity and this is for offshore employees and the onsite was a little less but it totals out to about 12-12.5%.

Sandeep Agarwal: Okay, thanks.

Moderator: Thank you. The next question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran:What do you see in terms of especially in the application software market? Do you see some of the larger software makers coming back to looking at just a version upgrade, or are they talking of continued investments and products for improved either next version or a new product. What is it and what kind of demand you are seeing in that space?

Anand Deshpande: So let me have Hari answer that question. He is closer to the customers.

Hari Haran: Yes, thank you very much. So the number of the large software providers. There is two types of activities that we are seeing from them, yes the first point you made, they are continuing to do future upgrades and doing their next release plans etc. and some of them are also thinking about new products. So they are naturally looking to us where we are engaged some of the big customers where we already have engagement, they are looking to ask to help them in the planning process there and that is resulting in some business to us. The second stream of activity is some of these application service providers big ones have started looking at some selective products in their portfolio that are good candidates to be put up on the cloud because they want to attack also certain market segments which is more amendable for software as a service model and that requires invariably a lot of work to put that application and enable that application to go on the cloud and they are naturally looking at us, particularly those customers where we have an engagement. So these are two streams of activity that we are seeing with large customers and we continue to see this growth.

Srivatsan Ramachandran: In terms of geographic point of view, predominantly more in a U.S. based company. But if I had to look at Europe as a broad market, how would you judge it. Do you think it will be about, any where even half as big as the U.S. when overall product point of view given that there are not many large software or technology majors leaving out on SAP or Nokia, Siemens out of Europe as a continent?

Hari Haran: Yes of course. Our opinion is North America continues to be the leading market definitely bigger target market than Europe. But having said that, there are number of opportunities in Europe as well. If not necessarily in the ISV as we call it, independent software vendor space, there are lot of enterprises in Europe where there is product development that actually takes place within the enterprises for their own consumption. So there are opportunities that can be addressed and hence that does represent good target market. Now we are not actively executing at the level as yet because we are now in nascent stage of growth in the Europe market, but we do see opportunities there as well. But certainly North America continues to be the leading player in this category.

Srivatsan Ramachandran: At a broad level do you see yourself diversing beyond these three vertical of licenses, telecom, and technology, look at any other verticals in the OP space of course being that the horizontal strength of yours, would you look at any other new verticals in the end market point of view or may be a 2-year timeframe?

Anand Deshpande: Of course, definitely over the next 2-year timeframe, we will look at other verticals. Even in the short term, we may be looking at them, but if you look at the new initiatives that we have started around cloud analytics, collaboration, and mobility, they actually lend themselves quite well to new verticals and we will use those as an entry point to get into new verticals including BFSI and other finance related stuff.

Srivatsan Ramachandran: Thanks a lot sir.

Moderator: Thank you. Next question is from Subhasni Gurumurthy from Ambit Capital. Please go ahead.

Subhasni Gurumurthy: My question was relating to the guidance which you had mentioned in the last quarter, given the strong top-line performance in this quarter, is there any revision to that?

Anand Deshpande: Subhasni, your point is absolutely valid. We have given a guidance of \$155 million for the top-line and bottom-line guidance of Rs 140 crores. We had a board meeting today and we felt that let us not change the guidance at this time. It is only one quarter in, we are still in an early stage as a company and we thought it would be conservative to just leave it where it is. But that having been said, both you and I know we have to beat the guidance and it looks quite imminent that we can do it.

Subhasni Gurumurthy: On the geographic performance, Europe has actually done pretty well, while U.S. has slipped versus the last quarter the performance has slipped marginally. So any specific reason behind that, because the trend which we are seeing with most of the other companies is otherwise?

Anand Deshpande: No I wouldn't read a lot into those numbers. I think the European customers that we have is doing well and may be some of their business has grown for sure, but it is still very insignificant as far as the total business is concerned.

Subhasni Gurumurthy: That is all from my side. Thanks.

Moderator: Thank you. Next question is from Yogesh Agarwal from HSBC Securities. Please go ahead.

Yogesh Agarwal: If I strip of the top-line growth it seems like volume growth was close to 3% and some part of the growth came because onshore saw some larger or stronger growth in the volumes. Which of course improved the realization? I am just trying to understand is it probably because of start of some projects which will fade of in the coming quarters? In fact there are any projects fading of or any of those kinds of things?

Anand Deshpande yes, there is higher percentage of onsite this quarter predominantly because of a particular project where we are in a phase of the product where we need to complete some of the activities onsite. Some of those people will come back in the next quarter. There is enough sustainable business in that account that we should be able to maintain those numbers that we are projected. The other thing that I would like to point out here is that if you look at IP led business during this quarter, actually that as a percentage has also gone up by a percent point and that is any way our plan and we would like to see that number going up as well.

Yogesh Agarwal: And my second question is more from a competition point of view, one of the largest companies in India held its analyst meet a couple of days back and the entire day was focused on these three themes, collaboration, cloud, and mobility. Considering most of the larger companies are also finding opportunities in these areas, how will you make sure that you maintain your lead and secondly compete with the amount of investment these guys are making, so for instant they show case an application store for OEMs and TSP I know that you guys are also working with one of the OEMs. So how do you make sure you compete with the company which is coming out of its solutions rather than just helping your clients in these areas?

Anand Deshpande: As pointed out already in, we are leader in the outsource product business, so most of the major players who are providing infrastructure in the cloud computing area are our customers and we have been building their platforms for them which is being released in the market. So we have an extremely good understanding of what is happening on the cloud infrastructure space and the cloud infrastructure that is available in the market good percentage of it we have contributed to it. So we believe that we have extremely deep technical capabilities in the cloud computing and mobility area and other people of course will do this because it is a big area and lot of business is going to happen, but we are very confident about our ability and our positioning in the market at the moment.

Hari Haran: Let me also add a couple of more points. Thanks Anand. So first of all, I considered it as very good news that competition is taking our lead and talking about these 3 areas as well. What does mean is suddenly there is lot of activity and the market is being validated more and more that these 3 areas actually we said four areas are actually, it is an area that is growing a lot, so we are very happy about that. One of the differentiators following up on Anand's point from our side which gives us an edge is we actually saw this area about 2 years ago and we started actively investing into it that means keeping some people aside creating framework, creating solution accelerated, creating some IP methodology etc. So we are at a point where we are actually executing on this. So packed the creation more and we are executing on it. So we have a little bit of forward position in the runway because we did some planning and we took some bets about couple of years ago.

Yogesh Agarwal: Right. My last question for Rajesh, what are the margin levers outside IP based revenues for the rest of the 3 quarters?

Rajesh Ghonasgi: Number one is we recently added nearly 400 fresh graduate engineers, they will come under the stream they will improve our pyramid that is the one big lever. The other levers are IP growth because we planned to grow our IP business and IP yield is the total billing yield is real improvement in productivity that we are looking at. In addition to that, we also have looking at tighter G&A expenditure profile. So we will be able to shave off considerable amount of basis points on all these 3 accounts.

Yogesh Agarwal: Perfect, thanks a lot.

Moderator: Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all the participants, please limit your questions to three per participant. Next question is from Mohit Agrawal from Equirus Capital. Please go ahead.

Mohit Agrawal: I just wanted to understand a trend that I am seeing on the fact sheet on the revenue mix for the fixed price contracts that has considerably dropped from 17.5% last year to 9.8%. So any particular trend there and where do you see

that stabilizing. My second question is on the onsite versus offshore mix, here again we are seeing the onsite from 8.7% rising to 19.3%, again is there any forward looking trend on the mix and any particular reason for these changes because we are seeing other companies doing just the reverse of what Persistent is showing.

Anand Deshpande: So let me take your second question regarding the onsite mix first. Essentially, we have a particular customer where we have a project which is in a phase at this moment which requires us to have more onsite presence. So that is the reason why our onsite presence is high. I expect that in the next quarter, the onsite presence will come down and in another couple of quarters, it will come down to somewhere in between the 18% and the 9% that it used to be. Regarding your other question, regarding fixed price and time and material and all that, actually most of our fixed price contracts are somebody is trying to, they are like T&M contracts, so that is being distributed to us. We are not trying to specifically reduce them, but on the other hand during the quarter, we did complete some of the bigger ones that we had in the pipeline and which is why it looks like this quarter has been lower, but in our classification we like to classify T&M and fixed price together because if you look at our yield on those two activities, they are pretty much the same. So it does not really help us whole lot to do fixed price in some sense at the moment. Our better yield per person comes out in the IP led business and that is where our focus is.

Mohit Agrawal: Okay, thanks for that.

Moderator: Thank you. Next question is from Jaykumar Doshi from Equirus Securities. Please go ahead.

Jaykumar Doshi: What is the tentative head count increase that we are looking for FY11 and if you can also give some indication on what would be the percentage of freshers that we would be recruiting going forward in the coming quarters and in terms of impact on the cost, how much will it normalize the direct cost?

- Nitin Kulkarni:** In terms of the source numbers increase, we are going to add around 1600 people this year and as far as freshers are concerned, we will be adding close to 450 freshers. So they have already started joining us. The first batch joined us in the last quarter and the rest are joining us in this month.
- Jaykumar Doshi:** Just one moment, I heard earlier that we have added 400 freshers already, right? So 450 on top of 400 or few freshers would be joining in the fiscal?
- Nitin Kulkarni:** Out of the 450 are the total number of freshers are going to join this fiscal, out of which some of them have joined as in Q1 and the rest is joining us in this month.
- Jaykumar Doshi:** Okay and 1600 is the gross number or net number?
- Nitin Kulkarni:** So 1600 is the gross number.
- Jaykumar Doshi:** And if Rajesh could give us some idea on the addition of more employees at the bottom of the pyramid. How tightening of pyramid, how much positive impact it will have on the margins, the gross margins?
- Rajesh Ghonasgi:** I just quote out of statement I made earlier. We added about 370 people, some of them joined before the 30th of June and some of them have joined in the month of July. Close to 400 people have joined. Now they come in as fresh graduate engineers, they go into boot camp and in less than two months they get into production. In effect they will improve our pyramid - about 10% of the population in India will be now from the fresh graduate engineer type and that will improve the margins. I cannot give the figure to all of this because you can work out the maths separately, but 10% of our population in India will be fresh graduate engineers who went into production in the next 2 months.
- Jaykumar Doshi:** Could you give us some idea of the effort and the contribution of the new business areas, the key focus areas like cloud computing, business analysis, enterprise collaboration, and mobility as of now in the previous quarter.
- Hari Haran:** I want to come back and give you the information on sort of some metrics on what we are seeing in these new initiatives. Rather than breaking it into actual

numbers, how much we are seeing in each of these new initiatives, let me tell you this in terms of metrics. Whatever we did last quarter with these new initiatives that is BI/analytics, cloud and collaboration, we have seen a growth more than 50% quarter-on-quarter in these new initiatives and 40% of the revenues this quarter came from new initiatives. Does that answer your question?

Moderator: Thank you. Next question is from Sashi Bhushan from Prabhudas Lilladher. Please go ahead.

Sashi Bhushan: Can you please deconstruct the U.S. dollar term growth in volume pricing and cost currency effect, growth has come from Europe as well?

Anand Deshpande: So the price increase contributed to about 1.2%, the volume growth contributed to about 3%, and the IP led revenues contributed to 1.6%, growth of 5.8% quarter-on-quarter growth that we had in U.S. dollar terms.

Sashi Bhushan: Sure and also on the margin front despite the salary hike by 12.5% in effect in this quarter, we have not seen our margin dropping much, so can you give us what are the margin levers that we used and what were the different factor which impacted the margin like currency and what was the impact of wage hike and any other factors?

Rajesh Ghonasgi: Number one is if I take the rupee, the rupee was slightly better than the previous quarter. So there was a small impact on that, but it is not such a large impact in the first place because if you work out a constant currency term, it is not even 40 lakhs or so. So the rupee per se did not impact. The real volume lever that helped us was IP which has grown substantially. We grew to 3.5 million; which is a 1.1% increase that is the major point number one. The other one is while we had a salary hike, it was not to all people because people who have joined in the last six month they would not be eligible, they would be getting hike next year. Overall, the impact on the wage hike has been slightly less than 12%. These are the two immediate variables that impacted the EBITDA.

- Sashi Bhushan::** Also, interest income and other income has gone up?
- Rajesh Ghonasgi:** That is gone up, but I am talking about the EBIT and EBITDA levels which are under control.
- Sashi Bhushan:** And also in our top 5 clients in this quarter grew on a quarter-to-quarter basis. Is there any trend or is this a quarterly aberration?
- Anand Deshpande:** As I said in minor aberration, if you look at the numbers in terms of volumes and in terms of real dollar terms, all of them have gone up. In addition to that, I think that 11 to 21 also have done well actually and overall there has been a healthy growth across the board in by and large most of the accounts and if you look at the percentages, they are marginally lower than the previous quarter, but last quarter we had one customer who had substantially higher presence so that is why the top 10 was higher last year than it has been in general.
- Sashi Bhushan:** We spoke about adding most the bottom of pyramid as margin levers and we have given hiring guidance of 1600 people which we are going to add in this financial, the freshers addition is just 450 which is like 28 to 30% of total hiring which we are going to do. So how is the pyramid is going to help us maintaining the margins?
- Anand Deshpande:** It is a good question Sashi. What the 400 to 425 that we are mentioning as fresh graduates for 2010, these are fresh campus recruits that we have recruited as part of the campus recruitment last year. We are expected to hire more 2010 and 2009 graduates as well of the 1600 that we are proposing to hire during the year.
- Nitin Kulkarni:** Bulk of the hiring that we will do will be at the junior levels. So essentially in the 1-3 year's experience as such and that will help us maintain the pyramid ratios.
- Sashi Bhushan:** Okay thanks, that is all from my side.

Moderator: Thank you. Next question is from Anurag Purohit from Alchemy Shares. Please go ahead.

Anurag Purohit: I had a question on guidance because if you look at \$155 million for the full year essentially you are guiding of flat quarter-on-quarter growth for next 3 quarters and also in rupee terms, the trend is a little bit reversed because if you will take out the FOREX gains in this quarter essentially you are probably building material improvement in margins for the next 3 quarters if you look at the 140 crores net profit guidance. Could you elaborate on that please?

Anand Deshpande: I think you have a very valid point and you are absolutely right and all I am saying is that I am not giving another fresh number that is all I am suggesting here. The fact is we have a good growth opportunity. We think we will continue to grow. So it is very obvious that we have to beat numbers and it is quite clear that that is going to happen. That having been said, we had this board meeting today and I am not really ready to put another number in the hopper potentially give us another quarter and we will have a better number for you.

Anurag Purohit: Is the conservativeness coming in from the client point of view because client additions in the last two quarters have not been that great and even in this quarter only one incremental active client has come in to the system and repeat business has been quite high.

Anand Deshpande: No, actually since it is little hard to read those numbers. Let me give you a little bit of an explanation on how these clients work. If you look at on year-on-year basis, you will see that we have 240-250 clients and that will continue this year as well. It will be even more than that. The reason they look like they are flat or only one client has been added is because certain clients get dropped on a quarter-on-quarter basis. There are large numbers of clients where we have one-off deals as well such as license revenues that comes once a year or renewals that come once a year. So there are certain number of clients that show up only once in our 12 months period. So they also get counted and that is why it is hard to look at numbers. We have a client addition of almost 15 to 18 new customers who have joined this quarter and

so we are not hesitating at all in terms of saying that we see healthy growth on the customers. We see good traction on existing customers, we see good traction on new business and everywhere I do not see a major issue there. Now if you look at ongoing business and it shows that the 98%, the reason it shows that is because we kind of zero the numbers at the end of March 31st so when we count new business as compared to existing business, we are counting new business meaning only logos that have started during this quarter as new business. Everything that started last quarter is now counted as existing business which is a reason why you will see that number will go steadily for four quarters and then again it will get reset to 0 and 100% will become existing business.

Hari Haran:

This is Hari to reiterate what Anand said. We have added close to 50 new customers, so just this quarter alone. So we are seeing a very healthy uptake and improvement in our new business acquisitions and new business growth that now you indicated that why the conservatism. As Anand indicated from the board meeting we just do not to come up with the new number, our business growth continues to be quite robust.

Anurag Purohit:

Could you explain a little bit on the FOREX gains part because hedge reserve has gone down the quarter and there has been FOREX gains despite the rupee moving the other way on end-to-end basis?

Anand Deshpande:

So again I will get Rajesh to answer on these specifics where we have a 12 month forward Hedge policy. So if you compare the FOREX that you are comparing, you are comparing the FOREX from 12 months back and not from quarter-on-quarter number. So last year, the forex number for the rupee dollar was actually very strongly, we had almost Rs. 50 less in terms of the value for forward covers which was about 12 months back and we have had this conservative policy of buying forward covers 12 months in advance on an ongoing basis. Every month, we buy up to 50% of expected revenues on a 12-month forward basis. So you will see this number going up and down through the year and that is to be expected.

- Anurag Purohit:** Okay and any indicative figure in terms of the salaries that we are offering to the freshers?
- Anand Deshpande:** We have been paying Rs. 3 lakh per annum in the first year that a person joins which they paid for almost 8 or 9 months because they join in July and then the salary revision helped them get to the next level by April 1, 2011.
- Anurag Purohit:** Okay, thanks and all the best.
- Moderator:** Thank you. Next question is from Sujit Parab from Enam Securities. Please go ahead.
- Priya:** Hi, this is Priya here. My first question relates to the traction you are seeing and how are the average deal sizes inching up. The second question relates to the IP driven momentum you have seen in the current quarter, is this a fair combination of service offerings across the period of the cycle or you seeing it more towards the end of lifecycle?
- Hari Haran:** Let me take both questions, the first question is at what in the average deal size. Without getting into specifics, I want to say that by and large, we see our average deal size when it start to be in the half a billion never heard but as you know that many of the product development deals, the way it worked as you get engaged with that volume and then as you deliver in 3-4 months, it grows nicely and there is a trajectory that you take as you go into the third and the fourth quarter after that. So we are seeing there is no change in our deal sizes from last quarter to this quarter, we are seeing them then added in terms of the deal sizes are concerned. Your second question had to do with.
- Anand Deshpande:** The IP led business and the trend on it whatever, so my comment would be yes, you will see a trend, we are trying to make sure that it goes up. You also mentioned in what part is it? Well actually most of the thing was in royalty type revenue models that we have where we have connectors and other activities that freshers' royalty every time our customer sells that particular product and so it would be not end of life, it is really early part of the life where these connectors get sold.

- Priya:** Sure. And can you share with us the revenue breakup across PDLC cycles because that will be more useful as well.
- Anand Deshpande:** I can give you approximate numbers Priya. I do not have the exact numbers here, but most of our business comes from the early stage of the product development cycle which is help desk QA. The end-of-life percentage of our business would be less than 10-15%. We have about 10 to 20% coming in out of professional services work and that constitutes about 35% total between end of life and professional services. The rest of the business which should be almost 65% of our business would be in new product development work or product development work which is very much mainstream or early stage product development.
- Hari Haran:** To add to that Priya, what are our compliance is when you are latching on to a early product development cycle, there is a lot of rooms across because basically the way product development lifecycle work as you know is the multiple releases for the product that is planned over a period of time and the work continues and it grows as you go from release to release. I suppose to getting the engaged at a later point in time where I would say mature or end of life where it is a different type of behavior in the way the revenue behaves.
- Priya:** So would this imply that if the R&D spend were to remain buoyant what we are seeing right now, you would see an improvement in the overall pricing because you would pass through all the four stages of the PDLC cycle?
- Anand Deshpande:** I guess it is not something we thought over a lot about Priya. We are selling wherever we can, we will get what we can and we will try to make the most of it right now.
- Priya:** Sure, thanks very much and wish you all the best.
- Moderator:** Thank you. Next question is from Abhishek Sasmal from VCK Shares. Please go ahead.
- Abhishek Sasmal:** Asia Pacific has shown good traction this quarter, so can you split it between India and rest of Asia?

Anand Deshpande: Most of it is from India.

Abhishek Sasmal: What kind of quarter-on-quarter growth is it showing?

Anand Deshpande: Again, we have seen the percentage of growth quarter-on-quarter just if you were looking at India alone, would look very good. So I think if you look at our total percentage, the percentage of business from Asia Pacific despite the growth is only \$3.32 million about 8.4% and this number last quarter was 2.45 million. So it has gone up by about 50%.

Abhishek Sasmal: And secondly on the pricing front, what kind of trend are you seeing in the onsite and offshore pricing, I recall in the last con-call, you have said that some kind of pricing discount which had been there for the last 12 months had been stopped. So after stopping that, what kind of pricing trend are you seeing in onsite and offshore?

Anand Deshpande: So what is happening is that let me explain this in the context of our business. Typically, we have contracts that have clause to renew or renegotiate prices every 12 months or so. So whenever a contract comes up for renewal that is the opportunity that we get to get an upgrade on the contract or to get a new pricing. Whenever we have been discussing, I think in an average, we have been getting about roughly 5% increase, but again that happens to all contracts that up for renewal, they do not happen on ongoing. It would not be a sudden 5% increase because only a small percentage of the contracts are up for renewal every month and then there is new business that we sign up. With the signing up at about 8 to 10% higher rate than what was going on last year. So overall the rates from last year to this year have gone up, but it takes time for all the rates to go up across the board.

Abhishek Sasmal: Okay and I remember you were saying that some part of your revenues comes from the royalty that you got for selling of your products. So what is that percentage share of total revenue of that?

- Anand Deshpande:** So that percentage as a percentage of total, we have been classifying that as IP driven business that was about \$3.5 million which was about 8.9% of the total revenues and these are all royalties or other things put together.
- Abhishek Sasmal:** And lastly you were saying that from new initiatives like cloud computing, enterprise, mobility you are generating 40% of your total revenue. So what sort of margins you are seeing in these segments and what is the percentage contribution of total EBITDA?
- Anand Deshpande:** So I see the margins on these business initiatives are quite healthy, lot of them are so unfortunately from existing customers and many of our existing customers when they decide that they want to move to the cloud computing area, we have been able to get new business from them and when you do that, unfortunately you were not always able to charge a premium because you already have a lock-in on the rates for various things and you have to pretty much live with that, but by and large, these services are in demand and wherever we can, we have been able to get better rates.
- Abhishek Sasmal:** Thanks a lot and good luck for the next quarter.
- Moderator:** Thank you. The next question is from Anurag Purohit from Alchemy Shares. Please go ahead.
- Anurag Purohit:** I just required one data point. You mentioned that some of the STPI units have gone out of the tax benefit. What percentage of revenue and profit these units contribute?
- Rajesh Ghonasgi:** These units are about 5 to 10% of our overall revenues, but the tax equation is a little more complex in that because you get some income in the U.S. entity and a large part of the income in the Indian entity. Three of our units are out of STPI, but a large portion of our work is still under STPI and that is the reason why the net impact for the year is going to be between 9-10% being the effective tax rate.
- Anurag Purohit:** Okay and you mentioned that new deals are coming at 8 to 10% premium pricing?

- Anand Deshpande:** Premium meaning as compared to last year's numbers, yes.
- Anurag Purohit:** Okay, thanks and all the best.
- Moderator:** Thank you. Next question is from Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** Just to clarify billing rates this quarter have not moved up in tandem for the onsite for Q1 FY10 and Q1 FY11, I guess partially Mr. Anand has answered the question, any thing else to add?
- Anand Deshpande:** I think the onsite rates are not going to go up that fast. The offshore numbers are the ones that will go up.
- Grishma Shah:** Even if the contract comes up for renewal?
- Anand Deshpande:** Yes, onsite rates are very hard to renegotiate at the moment.
- Grishma Shah:** Okay, thanks, good luck.
- Moderator:** Thank you. Next question is from Sandeep Shah from ICICI. Please go ahead.
- Sandeep Shah:** If we look at the cash and cash equivalents plus the investment, it has gone down from 348 crores to close to around 310 crores and net current assets have almost doubled. So why has this happened?
- Rajesh Ghonasgi:** These three asset classes that I said about investment, net current asset, and cash and cash equivalent go together. I just explained it primarily because this is accounting movement between one class to another. When we got the IPO close on the 31st of March, the money that we had received was held in escrow hence it was shown as cash and cash equivalents. At the same time, we had two selling shareholders plus we had a provision for IPO expenses both of which were reflected in net current asset. So number one is out of this 191 crores, part of the money has gone to repay these selling shareholders as well as the IPO expenses which is the reason why the net current assets have gone up. If you take the amounts paid out of the March 31st figure, the net current assets would be in sync with the rise in business. As you see the

investments moved from 156 crores to 285 crores, this is equal to the cash generated during the last quarter plus the amount that we got from the IPO on Persistent's accounts and the total amount invested is shown here. If I actually total these three line items up and look at the net movement is equal to about 13.5 crores increase which is the net cash generation that we have generated in the last quarter. It is just an internal movement. Number one, the IPO money being used to repay selling shareholders, the IPO money being used to pay IPO expenses and the leftover amount moving from cash equivalent because it was in escrow into investment.

Sandeep Shah:

Okay thanks.

Moderator:

Thank you. Next question is from Jaykumar Doshi from Equirus Securities. Mr. Doshi, if you have a question please go ahead.

Jaykumar Doshi:

Do we have any more promotions or wage hikes in the coming year or do we it on 1st of April only, is it all done for this year?

Anand Deshpande:

I think there will be another round of small amounts of promotions that might happen in October or so. Regarding wage hikes, we will watch the market and take a call on half yearly basis. It is very hard at this moment to make a statement that it will be done or not done at this. We will just watch and see.

Jaykumar Doshi:

Okay, thank you so much. All the best for the quarter.

Moderator:

Thank you. Next question is from Mohit Agarwal from Equirus Capital. Please go ahead.

Mohit Agarwal:

This is regarding the attrition rate which has seen spike from 12.4% to 16.3%. Just wanted to understand if you break down this attrition, is it largely at a fresher or a junior level attrition or is it a senior or a mid level attrition that you are seeing and what is the trend of attrition going forward and why there has been an increase despite a salary revision and a hike?

Nitin Kulkarni:

This is Nitin here. The attrition overall in the market as we know has gone up big time and most companies are trending at 22% plus. We are trending at

around.16% as if now. And we are taking a lot of measures to ensure that we maintain and try to reduce that attrition rate. Primarily, our attrition has been at the lower levels, you know at the junior levels. So that is what the bulk of the attrition is there. We have seen extremely less senior level attrition.

Anand Deshpande: There is just another point I would like to add. We work in an industry where our business in Persistent, our skills is in very high demand. So in general, we are always addressed potentially if someone were to look for a job from Persistent, he will find one very easily and at a higher price. We don't believe that people only go after salary and money and we have our distinct approach to this problem and there are many things that we do to ensure that people stay at Persistent and have a long term career and we have good track record on that. That having been said, market is definitely very hot. The skills of people that we have are really good. So this is something that we always worry about.

Mohit Agarwal: Thank you.

Moderator: Thank you. Next question is from Bibhash Asar from Moneybee Securities. Please go ahead.

Bibhash Asar: I have a question related to your client engagement size. Can you give us some comments on how you are breaking up the revenue segment in terms of the client engagement size looking ahead and also there does not seem to be any increase in the trend in terms of increasing the number of clients, whether it is the large size, medium size, or the small size. So can you give us some comments on that?

Hari Haran: As I indicated, our engagement sizes when we start a new project I am giving an average number of half a million dollar, it varies, some of them are much smaller than that. Some of them could be as small as 50,000 or 100,000 depending on the size of the projects, size of the clients, type of engagements, etc. We have not seen any patterns or any trends of how these average engagements size would change our trend in anyway. We were seeing the

same pattern compared to last quarter. The trend that we are seeing is, we are seeing more engagements, more customer wins and so on and so forth.

Anand Deshpande: The other thing I would like to add here, this is Anand just couple of things here. We have about 31 customers who contribute to more than a million dollars per on a run rate basis at the moment and the trend or rather the focus that we have is to see how we can engage and get the footprint of what we are doing with these 31 customers to go up. So we have created a group around key initiatives and key accounts where we are going after these 31 customers which are already a million dollar customer for us to see how we can increase our footprint in those accounts. So definitely that is the plan. When new accounts start, they start in the small account category, they usually start less than a million dollars and you have to work with them for a couple of quarters before you can take them to the next level.

Bibhash Asar: Thank you for the information.

Moderator: Thank you. Next question is from Sandeep Agarwal from Antique Stock Broking. Please go ahead.

Sandeep Agarwal: I have a question on Schedule #13. If I see Schedule #13 as you rightly mentioned that there is a 12.5% hike in the salaries. But I see a very high percentage growth; expenses have gone up significantly for the software professional charges and gratuity. Can you give me some light on that?

Nitin Kulkarni: The gratuity charge is based on the actual evaluation that we get from actuary. Since there has been a pay hike, the pay hike is considered for future gratuity evaluation and that is a differential because this has been pay hike that led to increased cost. Now if you see our financial report, the financial reports this information is clubbed into the employee related expenses which is where our gross margin comes from. So these costs whether it is software contract charges or whether it is gratuity charges, all of it is clubbed into the direct cost called technology resources.

- Sandeep Agarwal:** Part of my question is answered regarding the gratuity, it is based on actual evaluation and since the pay hikes have happened, this might have gone up from 2.63 to 50 points but I don't understand how the software professional charges go up to such a huge percentage?
- Rajesh Ghonasgi:** See software professional charges are charges paid for software professionals whom we have contracted. Now these are full time equivalents in lieu of employees, so we would have use these people and hence they are a part of, okay I might just say that we have people onsite. Sometimes we acquire resources from outside for short term projects and if these were not on our rolls if these are on our rolls they will be consultancy costs. Normally looking at the cycle or the requirement of people, we choose to either to acquire people or we sometime require specialists towards specialist jobs and that cost you have to classify as personal expenses because they are full time equivalents.
- Anand Deshpande** As I pointed out, we had an abruptly high requirement of onsite resources for a particular project for the last two quarters and since these are onsite requirements, we have partnered with the company to get resources onsite and some of them are on contract. So this is why you see that professional services going up as compared to salaries.
- Sandeep Agarwal:** Okay. Thanks.
- Moderator:** Thank you. As there are no further questions, I would like to hand the floor over to Dr. Anand Deshpande for closing comments.
- Anand Deshpande:** I would like to take this opportunity to thank all of you for attending this call and asking not just questions but good questions. Thank you very much for spending the evening with us and wish you all a happy quarter ahead. Thank you.
- Moderator:** Thank you Dr. Deshpande. Thank you gentlemen of the management. On behalf of Persistent Systems, that concludes this conference. Thank you for joining us and you may now disconnect your lines.