



Persistent Systems Limited

Analyst Conference Call

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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

Ladies and gentlemen good day and welcome to the Persistent Systems Analyst Call. As a reminder for the duration of this conference all participants are in the 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 call please signal an operator by pressing * and then 0 on your tone telephone. Please note that this call is being recorded. We have with us on the call today Dr. (Anand) Deshpande – Chairman and Managing Director, Persistent Systems. We also have with him Mr. Hari Haran – President, Persistent Systems joining from US, Mr. Rajesh Ghonasgi – Chief Finance Officer, Mr. Nitin Kulkarni – Chief Operating Officer, Mr. Hemant Pande – Chief Planning Officer, and Mr. Vivek Sadhale – Company Secretary and Head -Legal. At this time, I would like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you Sir.

Anand Deshpande

Thank you Farah and good day to all the participants on this call. The way we will do this call would be for me to give you a very quick highlights, then I am going to have Hari speak about the sales from the last quarter. Rajesh will follow it up with financial discussion and then we get into the Q & A. Most of the discussion that we will have, the documentation of the presentation are already on our website on the investor page.

I am sure you must have already seen it but if you wish to see the detailed presentation, it is available on our Website. In terms of the quarterly highlights, I would like to point out that we had two new members joining us as Independent Directors on the board last month, Mr. Prakash Telang who is the Managing Director at Tata Motors and Mr. Kiran Umrootkar, Executive Director at Jacob Engineering.. The company's strength in terms of number of employees crossed the 5,000 mark in July this year and the number of employees as on 30th September was 5,281 as compared to 4,911 on June 30th, 325 new graduates from engineering backgrounds joined the company at various locations. We were awarded the Bloomberg UTV CXO Award 2010 in the IT chapter as India's emerging software company of the year and we are grateful for that award. We completed more than five years in Goa. An acquisition that we made in Goa of ControlNet was almost five

years back and we launched several initiatives for Computer Science students to help them track new technologies as part of Techstart II program. With short introduction of the highlights, I would like to state that our focus areas of business in cloud computing, analytics, collaboration and mobility continue to be our strength and we continue to focus on those areas. Now I am going to hand it to Hari Haran who is the head of sales and President and who is dialing in from San Francisco early in the morning for his comments on the sales side of the last quarter.

Hari Haran

Yes, Thank you very much Anand. Good evening ladies and gentlemen, it is a pleasure to have this opportunity once again to talk to you all about our progress in the market place. Q2 has been a quarter with significant market activity in the cloud computing, mobility, analytics and collaboration areas.

We are seeing a good number of traction with marquee customers and our pipeline continues to grow. I would like to give some color on the wins we had during Q2. During Q2, we opened 24 new accounts, out of which, nine were large accounts and 15 were small to mid sized. Many of these accounts have potential to grow quite well, if we mine them in a systematic fashion as we usually do. Our current pipeline shows a healthy mix of large, mid size and small accounts but gives us the indication and confidence that we are headed in the right direction of the company. Our partnership program which we have put together in place during Q2 with a couple of major players in the market have picked up a good bit of steam and were seeing healthy leads being generated through the program. One is the major cloud provider and another one is a significant device maker.

Our partnership programs with both these players have been giving us a good bit of lead. While the timing of some of the deals and the cyclical nature of one of the engagements, played into the rhythm of our Q2 numbers, thus giving us less than the growth we had planned, we are seeing enough factors that will see the smoothing out as we go through the rest of the fiscal year.

In summary, our overall confidence continues to be optimistic about the market opportunities as well as our top progress and our ability to execute

to leverage and take advantage of these opportunities presented in the market place. Thank you very much. I will pass it on to Anand again.

Anand Deshpande

I am going to hand it over to Rajesh to give you a financial analysis of this quarter's number, Rajesh?

Rajesh Ghonasgi

Yes, hi good evening friends. I will just focus on a few ratios we had discussed earlier. We will talk about market movements and revenue movements and focus on gross margin, sales marketing etc. We see our gross margins have improved from 38% - 42.2% and part of this is because there are certain retiral entries which are based on actuarial valuation. So we had the benefit of an interest rate hike, which led to some of these actuarial valuations improving our figures and if we strip that improvement out on an ongoing basis, our gross margin would still be at 41% or slightly over 41%. So that is one improvement that we have seen which should continue. Next point is in terms of sales and marketing: during the last call we had committed that we were looking at investments in sales and marketing. We are looking at two points. First one is investment in sales and marketing and slicing some expense in terms of G &A. Now if you see, we have moved from just short of 8% in sales and marketing to 9.1% which represents an investment for the future. We had certain people joining us abroad and the benefit of this will be visible in the future but this committed increase that we have implemented on the other hand, you see, there is a 1% slicing down of G&A to revenue cost, which again was in line with whatever we have stated that counter the sales and marketing upside, we will have strict control on G&A, so that is under control. The next point for this is in terms of taxation, as you can see our effective tax rate is just short of 8%. We had committed that our tax rate would be within the range of 9-10% and as we go we got some benefit in terms of slightly higher incomes in STPI units but going forward we do not see the rest of the year, actually hitting a number higher than 9-10% .so our average tax rate for the year should be somewhere around 9% plus or minus half a percent. That is as far as the financial ratios go. The other notable point is that we have been working on making sure that our working capital is controlled and I am glad

to report that DSOs have been brought down to around 60, two quarters ago this was at 67 and that is huge operational efficiency that our Operating Managers have enabled and we hope to carry this forward and improve that to some 60 days in the next quarter. Over to Anand.

Anand Deshpande

Thanks Rajesh and before we get into questions, I would like to comment on a few things that I thought would be of interest to most of us and perhaps are likely to come up in questions in any way. One was that of course we continue to be extremely optimistic and bullish about the market opportunities for us. There would be questions about growth rate that on a quarter on quarter basis which is 3.3% this quarter which is lower than what it was in the previous quarter. Just to give a color and exactly what the difference is, there are two accounts which have caused a dip specifically – both of those are ongoing accounts and will continue to go on. In fact one of the accounts which caused about 1.5 million dollars difference, has come back. There was a delay in signing off the next version of that phase account which has now been taken care of. We got it signed off only this quarter so that delay has caused small number difference out there and the second million dollar came out of IP revenue where we got an upside in the first quarter which was not there in the second one. On the IP revenue we anticipate these kinds of small fluctuations to continue on a quarter on quarter basis, but if you look at the overall portfolio of some these numbers, they continue to look quite optimistic and we believe that by the end of the year, these should not be an issue because these numbers will look better by the end of the year. Without really trying to operate on a pure quarter on quarter basis, we believe that we are very optimistic about where we stand at the moment, half way into the year and what we see is the market moving on. With this let me sort of stop here and answer any other things in response to the questions that we will get.

Moderator

Thank you. Ladies and gentlemen we will now begin with the question and answer session. Our first question comes from a line of Sandeep Agarwal from Antique. Please go ahead.

Sandeep Agarwal

The question is as Dr. Anand Deshpande has already replied to probably, I just want to know that other than this project delay, was there any other reason for this kind of revenues because revenue growth looks very muted if you compare to overall IT reporting results by the major players and smaller player till date in this quarter. They have actually reported very good growth number. We are little, surprised at the growth rate and also on the attrition rate, it has gone up in this quarter so this is something could be commented on and thirdly on Hedge Reserves, the hedge reserves have gone up to 58 million.

Anand Deshpande

So on the first question regarding the growth rate, I actually gave you answer which is really what the case is,. Yes that did happen, and that is part of the reason why the growth rate was lower, if you see those numbers and you add them, it should be pretty healthy and large. All the other accounts have done well. So we continue to be optimistic about growth rates for the next quarter. Regarding your second question about the attrition rates, yes on the annualized basis the numbers have gone up. July, August, September quarter typically has a higher attrition rate for us because there are a lot of people who have to go for higher studies. We also did a salary increase and increments , bonus payment, all those things happened towards the end of last quarter, even though they were with effect from April 1st. So normally one sees a 30-45 days lag when people do not get promoted, that is sort of when attrition happens. We do see attritions to be usually higher in this quarter. We do realize that they are higher than where we would like to see them and we are definitely working out plans to ensure that they come down lower than that but you know that is what it is at the moment.

Sandeep Agarwal

And also I will come to Hedge Reserve question again but one question on the utilization rate that has gone down significantly, quarter on quarter and also onsite revenues have gone up. So do they have an impact on the margins?

Anand Deshpande

First part regarding the utilization rates being what they are, the main reason for the utilization rate is because all the fresh graduates that we

hired during the quarter, they have been factored into the utilization number and again this a cyclical effect that you will see in this quarter every year where the utilization number, as percentage will go down because the new fresh graduates will start getting built over the next two quarters. So that causes the utilization numbers to change as can be seen in this quarter.

Sandeep Agarwal

Okay.

Anand Deshpande

Regarding your other point, which was relating to hedges I get to Rajesh to answer that question.

Sandeep Agarwal

Onsite revenues also.

Anand Deshpande

Yes, onsite revenue, we see, again a marginal increase in terms of the percentage there is no dips in rates for margins and most of our onsite revenues are at fairly healthy and similar to offshore profit margins. They are on projects where there is a requirement for people to be onsite for completing that project or for consulting opportunities where there is no reduction in margin in those areas.

Sandeep Agarwal

Well actually I have asked this primarily because when onsite revenue generally go up then probably the contract cost also goes up so is that the reason or what?

Anand Deshpande

Because the cost have of course gone up onsite as well because the number of people have gone up but the rates onsite are actually fairly favorable at the moment in the sense that we do see not any margin erosion because of onsite number going up.

Sandeep Agarwal

Okay and regarding the hedges?

Rajesh Ghonasgi

Yes, sure we had much smaller hedge reserve last quarter that is as of 30th June and it is a figure of 5.8 crores as of this quarter. The reason is more to do with maths than anything else. We continue to use our policy which is to cover between 40-60% on proactive 12-month bucket basis. We look forward 12 months and do the hedging. The only reason why this variation

arises is because if you see the June 30th closing rate - our closing rupee/dollar was 46.45 and this quarter as you know this we had a huge appreciation in the last two weeks of September, which led to a closing rate of 44.94. In very simple terms the mark-to-market for this quarter was higher because the rupee had appreciated by roughly about 1.5 – nearly two rupees over the same figure three months ago. So it is more to do with the maths than anything else. The MTM looks higher because the corresponding closing valuation of the rupee/dollar was 44.94, that is all. In terms of accounting, we continue to follow Accounting Standard 30. We follow effectiveness, test etc. So it is basically cash flow hedge accounting that we do.

Sandeep Agarwal Okay.

Moderator Our next question is from the line of Subhashini Gurumurthy from Ambit Capital. Please go ahead.

Subhashini Gurumurthy Hi, I just had a couple of questions, first one for you Anand, you have mentioned that one of the accounts which would have otherwise contributed 1.5 million dollars, there was delay in finding of the next version. So do we see this account ramp up fully in the next quarter?

Anand Deshpande Let me elaborate a bit about this particular account. This is one our larger accounts. There are multiple activities going on with this particular account on an ongoing basis. If you compare the earnings that we have on that account on Q1 and compare that with earning that we have had in that account in Q2 there is a difference of about 1.5 million dollars, and that is the difference we are talking about. It is an ongoing account and it continues to be there. We have won the next phase of that particular project and we got its intimation this week. With that intimation we know what we are doing through the years, so we expect this quarter's and the next quarter's numbers to be lot better than this quarter. I am talking about Q3, Q4 numbers to be lot better than Q2 numbers that we saw for this particular account.

Subhashini Gurumurthy Sure. And may be a little early but are you getting a sense of how the budgets for clients and panning out for the next year?

Anand Deshpande We are starting to see that happening as such and so let me give you little bit of color on this one, So some of the large companies that we work with, are in the process of making their budget, some of the biggest customer's budget come into action, starting 1st of January and many of the others. There are two big ones that start to happen around November 1st. From all the major accounts that we have talked to, we have been told that the budget allocated for us is at least what it was this financial year or rather this calendar year. Definitely what we did last year that they are saying, yes we will continue and the growth is something that we work with them on an ongoing basis which is typically how it goes on this one. But yes customers are clearly stating that they have plans for this year which are consistent and they have allocated budgets for us which are at least as much as what they had in the previous year.

Subhashini Gurumurthy Sure and one last question is for Rajesh. Could you give more highlights on the actuarial accounting which you have followed due to which the gross margin have been higher this quarter.

Rajesh Ghonasgi First of all, let me give a very short explanation of how the actuarial valuation has an impact on accounting. Every quarter when we report, we review our retiral liabilities. Now this is done by way of actuarial valuation relative to the number of people on rolls, the statistical probability of them quitting at a certain point of time and growth in terms of salary etc. Now there is one variable. The variable is the interest rate and since there were couple of interest rate hikes during the quarter. by the end of the quarter, this led the situation where the total value based on the investment we have committed in terms of gratuity and retiral funds would have gone up for the future. So in effect the variation, there was a positive variation in the sense that the total amount of liability required to provide for as of September was slightly lower than this same amount for June and the difference is accounted in salary cost. So if the differential is positive you have a charge, if

differential is negative, I mean a credit, it reverses the cost. So that is what happened this quarter and that is the reason why, while if you see our gross margin is around 42.2%, we estimated what would happen if this benefit was not available, the ratio would have been it around 40%-41%. So there is about a percentage point's worth of improvement which is built in, which would not be there if it did not have this benefit.

Subhashini Gurumurthy Sure, going forward, I mean if the interest rate hikes are not happening, we should not be seeing this difference, I mean this coming into the gross margin as such. Right?

Rajesh Ghonasgi Yes, that is the reason why, I explained that while it might not be 42% gross margin, it could be around 41%, give or take a few basis point.

Subhashini Gurumurthy Sure, so 1 percentage can be explained by this.

Rajesh Ghonasgi Yes.

Subhashini Gurumurthy Sure, thanks that is all from my side.

Moderator Thank you. Our next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Yes, good afternoon sir, congratulations on the numbers. My basic question pertains to the improvement in the profitability, though I know several questions are been asked on this. My basic understanding is, what kind of level of margin are we looking forward to, because we are expecting IP component to improve going forward.

Anand Deshpande Let me give you our stated position for the long term . We would like to make sure that by using IP and other revenue components were are able to maintain margins at the rate that we are at pre-tax. The reason we say that and we are not trying to improve margins dramatically is because we believe that the cost specifically around employees and sales and marketing will go up over the next 2-3 years and to manage those things we need to do the IP

related revenues. So I am not expecting or want to promise improvement in margins beyond 18-19% that we see at the moment.

Rahul Jain 18-19 at EBIT level?

Anand Deshpande Actually we are 18-19% PAT right now.

Rahul Jain Right.

Anand Deshpande Which of course, will change once the tax rates change.

Rahul Jain So what kind of tax rate are we looking?

Anand Deshpande I think we will match the number, this is what I am suggesting . So what I am saying is that we will maintain margins pretax levels to what they are today. The 18-19% post-tax and how much is it at pretax?

Rajesh Ghonasgi It is about 20%.

Anand Deshpande So 20% pretax is what it is at the moment, so we will retain that at 20% pretax. Now just to give you some indication of what the tax rate would look like next year and the year after that, again, this is preliminary in the sense that we do not know what is the DTC issue and this is common to all companies and not Persistent specific. But we are anticipating that the STPI tax benefits that we have at the moment and have enjoyed, will end on March 31st, 2011. Post ending of the tax rates we are expected to pay next year, regular tax rates on most of the income, that is not out of the SEZ and that is expected to be 33.2% or thereof. So net tax rate next year will be about 31% or so.

Rahul Jain So 31% would be effective tax rate.

Anand Deshpande Yes, 30% in that range, you know, of it will move to SEZ but only new business can and it is ramping up, so it will be in that range. Post DTC again, this is all subject to what gets approved in the parliament. But as it looks right now the DTC tax will come down from 33.2% to about 30%. So we should see a dip of about of 2-3% on the tax rate post DTC which is for FY13.

And this is pretty much consistent with what you ought to see with pretty much all companies. So this is not Persistent specific.

Rahul Jain True. And I may have missed on it but any comment on the guidance?

Anand Deshpande Actually, let me say that I have no real comment on the guidance. Clearly the guidance that we have given at the beginning of the year is USD 155 million and 18% net margin. So those are two numbers that we stated at the beginning of the year. Clearly we have done USD 80 million in the first half and we are giving you a fairly optimistic outlook in some sense and profit margins are already at 19% thereof and we do expect them to stay in that range. So you know, I do not want to say much. As we had a discussion on this on the Board and the board did not encourage us to say any new numbers at this time.

Rahul Jain Okay, but we have a confidence to reach that level for sure.

Anand Deshpande Yes.

Rahul Jain Okay, that is it from my side. Thanks.

Moderator Thank you. Our question is from the line of Srivathsam R. from Spark. Please go ahead.

Srivathsam R. Rajesh, I just wanted to understand the accounting for the actuarial bit? On a quarterly basis is it just a salary line or is that what the accounting standard is as such?

Rajesh Ghonasgi Yes, it is a salary entry and it cannot be mixed up with any other heads. So that is the reason why we wanted to explain this. This actuarial figure is a salary figure. It is remuneration. On the other hand, lets say the interest rates go down and there is an increased liability. They would still call it salary and say that it is the effective salary line item, this is effective ratio and if it needs to be addressed, we need to be operationally more efficient to be able to address that issue.

- Srivathsam R.** It did not get a pension obligation in some form?
- Rajesh Ghonasgi** Yes, it is pension obligation and hence it is classified as remuneration and which is the reason why we classify it as the salary cost.
- Srivathsam R.** Sir, why will you have an option to adjust it directly to net worth ?
- Rajesh Ghonasgi** No, not under Indian GAAP and not under IFRS also as far as I know. It has to be reflected in the P&L in the operating expense part of the...
- Srivathsam R.** Adjusting for this in spite of this kind of account addition we would have seen salary cost going up.
- Anand Deshpande** Yes, that is correct, so if you dont include the actuarial impact and the gratuity staff, the number of people have gone up and hence correspondingly salaries have gone up.
- Srivathsam R.** Okay, sure, Anand couple of quarters back you had mentioned that the ramp up on onsite was due to some specific couple client accounts and you should see some ramping down on onsite levels after two quarters down. Is that something you still hold on to? We could see onsite revenues ramping down may be from next quarter?
- Anand Deshpande** Actually this particular account that we are working on has continued to stay the way it has on the onsite side. So at least for this quarter, I am not seeing any reduction in the onsite numbers at the momentWe are trying to ensure though and this is something we are trying to do as to ensure that we are able to charge at a reasonable rate onsite and hence do not compromise margins despite the onsite percentage being higher than what it is traditionally being for Persistent.
- Srivathsam R.** Okay thanks a lot.
- Moderator** Thank you. Our next question is from the line of Sagar Rastogi from Credit Suisse. Please go ahead.
- Sagar Rastogi** Sir, could you tell me what percentage of headcount is onsite?

- Nitin Kulkarni** Around 6% of our population is onsite.
- Sagar Rastogi** And how does that compare with the last quarter and your earlier trend?
- Nitin Kulkarni** It is in trend. We have around 5-6% of our population onsite and it has been the same this quarter.
- Anand Desphande** Last 2-3 quarters, I would say our numbers onsite had been steady. About a year back, if you were to look at the number of people onsite that would have been significantly lower than what it is today. But right now, there is a big account that we are working with which is our number two account at the moment, where there is requirement for us to have people onsite.
- Sagar Rastogi** Okay, and Sir you mentioned that you are keeping onsite rates high so that this high onsite proportion does not hurt your margin. That is true for this particular account or are you saying in general your business model is such that onsite-offshore ratio does not hurt you too much?
- Anand Desphande** No see again, I am going to have Hari also to comment on this question as soon as I give you this answer. But see the overall belief that we have in the context of people doing onsite is to not fill in onsite with low cost or just contract features at the low end. We are doing onsite, where we are very clear that we are adding value and there is a necessity for doing onsite. So if you look at our quarter-on-quarter onsite rates we are charging USD 12,500 per person per month on the US onsite deals and with that billing we are able to maintain margins consistent with what we have on the offshore site.
- Hari Haran** Yes, I just wanted to make a mention of onsite in similar lines that Anand is saying. See what we are doing in the market, when it comes to onsite there is a couple of things. One is there are some projects, there are some engagements where the onsite engagement is necessary which may be in the beginning of a project for some consulting requirement, analysis,, and also for certain ramp up, . This is necessary and that is part and parcel of the business but our philosophy around onsite is pretty simple. This is not a mechanism to add the top-line. This is purely a mechanism to a) Keep the

quality high and keep the customers satisfaction high but b) Which is more strategic is that the right type of onsite resource and we almost call them consulting resource which is typically done face-to-face. These are strategic in the sense they can be a vehicle to bring us even more business because, they are engaged in the right parts of the organization as they are getting build and typically because of the value these people add, the margins or the billing rates are also higher for these people. So we are not so much worried about the offshore versus onshore mix, our view is, let's make sure that the margins are high, let's make sure that the billing rates are high but let's manage the business in a way that is right for the customer and right for the business in terms of margin.

Sagar Rastogi Okay thanks. That was very helpful. Could you tell me hedges outstanding and the average rate?

Vivek Sadhale Yes, we had around USD 72 million in hedges running down 12 months from October 10th to September 11th at an average of USD 47.49 per dollar.

Sagar Rastogi Okay, Thank you. That's all.

Moderator Our next question is from the line of Harpreet Batra from Kim Eng Securities. Please go ahead.

Harpreet Batra I wanted to understand how much proportion of our revenue is contributed by the new segments of cloud computing, analytics, etc., and can you please provide some commentary on how these businesses are shaping up?

Anand Deshpande Okay, let me give you a commentary first and Hari has the numbers as well and I will let Hari also add to it. So here is what is happening in the market – clearly cloud computing has a lot of buzz, large number of companies are trying to move to the cloud. We are getting good business from two kinds of things very roughly, one is companies that are building out the infrastructure for going to that cloud and you can name all the top cloud vendors and we are working with all of them and trying to help them build the cloud infrastructure. The second piece is that we are getting a lot of

traction from these large cloud infrastructure manufactures or builders to help their customers move to the cloud. So these are companies who want to run their application off the top clouds that you can name of, so that is where a lot of the action is on the cloud side. Mobility again, new platforms are coming in specifically the iPack then you have the IOS which is all the iPhone related stuff, lot of activity on Androids and also we will start to see more on the Windows 7 area as well but definitely iPhone and the Androids platforms are definitely the ones where we are seeing a lot of activity. Hari you want to add a little bit on that?

Hari Haran

Yes thanks Anand. So if you look at the numbers actually, last quarter we did roughly about 40% coming total from our new initiatives which is collaboration, cloud, mobility as well as analytics. And this quarter that overall percentage jumped up by a couple of points roughly okay. So what that shows is our new initiatives are growing and our numbers and percentage of the revenue coming from these new initiatives is indeed growing up which is good, it shows that there is good market uptick for these things. Now I am specifically getting into cloud itself that number has stayed flat from quarter-to-quarter, these numbers keep varying but generally the overall trend in these new initiatives are going up and it is 9-10% what we have got out of cloud computing and as Anand indicated we keep seeing inbound request through our partners on request to access the application, analyze the application, evaluate application, to put them on the cloud and to re-architect them, etc., etc., so we see a number of activities and work coming in that area.

Harpreet Batra

Okay, that is it from my side. Thank you so much.

Moderator

Thank you. Our next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan

Yes thanks for taking my question. Our growth has been tapering down over the last few quarters, this quarter obviously 2.6% you said that is one because of USD 1.5 million contract and there was one-time IPs related sales which happened in quarter I. But overall the trend, if I see over the last few

quarter has been tapering onto low single digit whereas some of our competitors even the Tier-1 companies have demonstrated a strong growth in OPD and PES space. So are we losing markets share when compared to the larger players or some of our competitors?

Anand Deshpande

See our market is quite different from their market so it is not that we are losing market share in the same markets. I do not think that question directly relates to the thing. What you pointed out is definitely an area of concern and we think that we have certain things going on and we are quite optimistic and we could get better growth rates for the next two quarters. But if you look at the quarter-on-quarter growth rate, the last years two quarter numbers part of them were because of price changes as I mentioned in the last call. About a year back we had a significant decline on quarter-on-quarter basis because the market pretty much changed in the US side and those also resulted partly in rate decrease across those things. When they came back you saw 18% and 12% growth rates that happened last year. I mean 5, 6, 7% growth quarter-on-quarter should be expected, unfortunately this quarter it is not there and we expect that should happen in the next few quarters. If you look at it on a yearly basis, it should be there.

Hari Haran

This is Hari, I just wanted to add some more color. So as Anand indicated in the OPD market itself we are seeing the market growing and we believe we did better than the market. So I do not think somebody else is eating our lunch but the IT market is somewhat different than the space that we operate in. We operate in the product development market so we do not see this as a sign of anything about the market or about our execution. This is just the nature of the product development type of business which sometime tends to be lumpy when there is a completion of project and then there is this start of project, etc., etc. So I would not take this as analytics or harbinger or something to come.

Shashi Bhushan

Sure, I was referring to product engineering and OPD, service line only, I was not talking about it over after all, yes but that was pretty convincing. Also on the margin front, over the last three years, if I see, you know quarter two or

quarter three are generally peak of our EBITDA margin. So is there any one-time payment which we get in this quarter or why it tapers down again in quarter three or quarter four or would this is just anomaly which happened in the last two years and will not be repeated in this year?

Anand Deshpande

No, see what happens actually is not quite that way, what happens is first quarter, typically our margins are lower partly because of the Provision. Second quarter they change partly because of the fresh graduates that join in. Third quarter onwards the provisions start to become more real and overall the margins as a percentage of total without really factoring in all the ForEx and everything else, actually will improve on a quarter-on-quarter basis. So that is the trend that we have seen. Now of course, if we go and do another round of salary hikes, that would change the equation but that is not contemplated at the moment. So we expect to maintain margins over the next two quarters as well.

Shashi Bhushan

Sure Anand, you indicated about the IT budget which will kick off in the next calendar year, but for second half of FY11 you know how does deal pipeline looks like when compared to the quarter I and II?

Anand Deshpande

Actually, it has never looked as good as it has looked in the past few years and the confidence that we see from our customers today is lot better than what we saw last year, even two quarters back. At the beginning of the last quarter there was a little bit of anticipation and all of those kinds of things but unfortunately or fortunately for us, we have not seen any real impact of that slow down as such and people who were hesitating last quarter, they are far more bullish this quarter than they were last quarter, is all that I can say and that has reflected in the pipeline and the quality of discussion. Hari may be you can add a little bit more on this.

Hari Haran

Yes, thank you Anand, from a pipeline perspective, if I were to do a strict comparison of what my pipeline looked last quarter versus this quarter, yes there is growth in the pipeline and as I indicated during my opening comments, part of the growth that we are seeing in the pipeline is also because there is some campaign and some partnership programs we have

started. This is we have signed with a couple of big players, certain programs by which they are generating leads for us which is and I should say more than these actually it is a qualified opportunities for us, that is playing into our pipeline in a positive way. And in the coming months, we plan to sign more of these partnerships, that we expect to breathe even more volume into the pipeline. So we continue to see a growth in the pipeline as we look at the trend.

Shashi Bhushan Any quantitative feed on that Hari? It was 20% higher or 5% higher or high double digit or ramping of that sort?

Hari Haran Let's say that it is definitely double digit.

Shashi Bhushan Okay, that is all from my side.

Moderator Our next question is from the line of Priya Rohira from Enam Securities. Please go ahead.

Priya Rohira Yes, hi good evening to the management. My first question is to Anand, while you gave us a little feedback on the budget and what you are saying is it at least looks the same as last year and you have to work for growth. Could you little bit help us on the top 10 accounts on how their IT budgets look and how would the offshore trend you know pan out for you?

Anand Deshpande Yes so what I am referring to is definitely our top 20 accounts as such and we have been talking to all of them in the last two quarters and as they are starting to firm up their budgets, we have been assured by pretty much all of them that they continue to look at us as strategic partners and they expect to maintain or increase their budgets in terms of their spend with us. So we see consistent response at this point of time. But again in the business, yes that is the good news we know we get that but it terms of specific growth projects we are in discussion at the moment and what they will commit to at this time and that is quite difficult. This year is to at least make sure that what they are doing currently is protected for the year and the next. Budgets will happen at the end of the budget cycle towards the end of the

year and that is when we will know about the growth projects and that is pretty typical. Last year on the other hand when we were at a similar situation we did not get this kind of a guarantee.

Priya Rohira

Sure, and Anand just one thing that your telecom vertical per se for you contrary to the trend has shown quite strong improvement and that typically would be the case that you would see an uptrend earlier compared to the other guys. Is it sort of a signal that it is more of a comeback in terms of IT spends?

Anand Deshpande

I must say that on the pipeline side on the telecom equipment providers both, on that side and on the mobile side of the business which get counted in our telecom business, yes we are seeing a lot of interest in that.

The uptick that you see at the moment is predominantly because of the mobile handset based programs that we have written. So these are all the mobile applications that are causing the uptake at the moment. But on the pipeline we have other deals which are more pure telecom related as well. Definitely we are seeing far more interest than we have seen in the past.

Priya Rohira

Sure. Thank you very much.

Anand Deshpande

Also we are seeing very good discussions on the Life Sciences field as well.

Priya Rohira

You know you did refer to attrition and salary hike, any thought process on that front?

Anand Deshpande

See we are not planning to do a full-fledged salary hike across the board at this time. That having been said, we have traditionally had a special skill allowance that we have leveraged depending on what skills get to become very attractive at this time and this has to be done on an ongoing basis to control attrition and what trends we see in the market. So, some of that will continue but there is no across the board salary hike that is planned. We are also doing some of these small promotions that will happen as the business is grown where certain people get ready for it, but there is no mass scale number either for promotions or salary hikes planned in this quarter.

Priya Rohira Sure and in terms of the strong additions which we have seen for the sales and the business development team this quarter and also continuation in the past 2 to 3 quarters, these are purely all account hunters, would that be fair assumption?

Anand Deshpande No, that would not be a fair assumption really. It is a mixture of various kind of things and one of the things that we are trying to do across the board is to grow our business with our existing accounts where we think we have actually very good set of customers and how we firm existing customers is going to be a very significant sort of way how we see growth for us. So lot of sales people are not just pure hunters they are reasonably technical, farming evangelist technology type guys and also some of the new additions had been aligned to these four thrust areas like, we now have a explicitly and identified person for cloud, for analytics, for mobility, and for collaboration on the US side who are co-ordinating and selling and these guys are very hands on technical people and not just pure sales guys and a lot of the lead generation that we pointed out to you especially in these four areas is coming to us through partners. So, the strategy that we have seen work in the last quarter and we see more of that in the next quarter that is our partnerships gave us leads and these people who have reasonably technical background who understand technology and understand solutions for businesses actually go and work with the customers to close the deals for us.

Priya Rohira Sure that is really helpful and wish you all the best.

Moderator Thank you. Our next question is from the line of Amit Agarwal for SPA securities. Please go ahead.

Amit Agarwal One single query that I had, we raised money with the IPO and we said we would be doing some Mergers & Acquisitions, are we planning on something or do we have something on the table as of now?

Anand Deshpande Let me say the following, we are looking at them and we would continue to look at them. We are much ahead than the others but I do not have anything in the pipeline at the moment and in some sense we have not done

a deal in the last quarter, I must say that. I cannot tell you for sure whether we will do one in this quarter or not. But again you know it is a tricky one and we want to deal with this but we want to make sure that we want to do the right one.

Amit Agarwal

Okay, thank you.

Moderator

Our next question is from the line of Mohit Jain from Alchemy. Please go ahead.

Mohit Jain

Hi, I have just one question. Can you please remind me the break up of the revenue impact where you said there was an impact of, I guess 2.5 million from two accounts in this quarter?

Anand Deshpande

Yes, as I mentioned to you, we have, again I am sharing with you some sort of direct information about what is happening on a per account to two account basis. We analyze where has the difference been in terms of Q1 to Q2. We found that there are two accounts where we did. One million and 1.5 million in two accounts specifically that did not happen in this quarter.

Mohit Jain

One million is on the IP front?

Anand Deshpande

One of this is IP related business, the USD 1 million and USD 1.5 million is the project that entered but the next one did not start fast enough. we just signed it up last week, it should have really happened in the last quarter

Mohit Jain

Both the accounts are back now in this quarter?

Anand Deshpande

Yes, I mean in the first one, the USD 1.5 million accounted I am saying is that it is an ongoing account, we had significant revenues from that account last quarter as well, but we had USD 1.5 million more than what we had this quarter rather the Q2 quarter in Q1.

Mohit Jain

Do they happen to be in the top 5 clients?

Anand Deshpande

The USD 1.5 million account is in the top 5 clients, yes.

- Mohit Jain** Sir, this is Anurag here. Does this mean that this USD 2.5 million would be in extra in revenues which would be beyond what you would have expected in quarter 3?
- Anand Deshpande** See unfortunately they do not translate like that. So, it does not mean that this money will necessarily come in the next quarter; it is not that it is just going to get added like work was done but we did not get paid, it is not of that kind, work was not allocated, in the sense of SOWs and the contract closure did not happen. We were waiting for the project to start. It is the customers' discretion that this particular account the way it was set up, that it did not happen. Well, it is bad luck. It should have happened, but it did not happen, that is a fact. So, yes, we are responsible for that and that is what USD 1.5 million is cost the other USD 1 million is IP lead revenue and it will happen sporadically and that is unfortunately, there will be lumpiness in business and you will see some plus and minus on that.
- Mohit Jain** My next question is for Rajesh, if you could break up – 1% was the impact because of the pension cost adjustment but the remaining 3% increment that we have seen in gross margin cost, most of the margin we were traditional must have moved against us, so if you could break up the 300 basis point positive impact?
- Rajesh Ghonasgi** See, the 300 basis point is also an account of the actual cost expected that (Rs 1.8crores) has been removed; it is the actual cost that we got as a credit. . To explain, last quarters cost was revised downwards and we had an excess reversal and that reflected to 1% that I talked about. The balance amount on going forward on like to like basis, we won't have an additional cost, in effect last quarter we had an additional cost which has been removed
- Mohit Jain** This is related to what sir?
- Rajesh Ghonasgi** This is gratuity and retirement benefits.
- Anand Deshpande** Let me give you a sort of little bit of very specific on what happened in the quarter on quarter basis. We will give you a subjective analysis on it. Clearly

we have seen a 3% or so growth in terms of the topline which is very clear. Now, 325 new people were added which added to our cost. Most of these people were junior people meaning fresh graduates, so the relative cost per head is not as high as it would have been if they were all experienced people. Yes that has happened, as you know there is some attrition and there is a net addition as well. So that has added to some employee related expenses. Some extra costs have gone up because of sales cost having gone up. The percentage analysis has absolute numbers also and the overall margins are maintained because one through operational efficiency and the fact that the top line has gone up. Relatively, the cost comparison has not gone up as much as we get most of the people that got added were more junior people. So, by and large if you see the numbers are reasonably flat. Now the actuarial things, the exchange gains will create whole lot of additions, subtractions on a quarterly basis, all these MTMs, quite obvious let us see how this works but that is how it is.

Mohit Jain

Thanks and all the best.

Moderator

Thank you. Our next question is from the line of Kunal Sangoi from Edelweiss. Please go ahead.

Kunal Sangoi

Thanks for taking my question. My question is with regards to the two revenue items that you highlighted due to which the growth rate was impacted. Given the fact that you know these were one time in nature but the rest of the portfolios seems to have grown by almost 9.5%. So, given that such events do not occur and the pipeline and the outlook that you have given, continues to be as robust. Should we expect high single digits, because you know you did earlier mention 5, 6, 7% kind of quarterly growth, does not that seem conservative given the fact that you have mentioned all the wins and the pipeline.

Anand Deshpande

See, you are absolutely right, but the only challenges are, we still hold ourselves responsible for not having covered the losses that we had. Clearly, if these accounts go down or they are going to go down whatever else we have to factor those in and actually compensate for it by growth in other

areas. So, that is how you have to run it and yes next quarter we expect to grow good numbers but again you know I do not want to put any numbers at the moment but your calculations are very true.

Kunal Sangoi

I just wanted to update myself with regards to FY12 tax rate. Did you mention this is 31%?

Rajesh Ghonasgi

I will just explain it brief again. Current tax rate is around 9% to 10% as if it looks we will have a total annual tax rate around 9% considering the tax benefits we get on the major part of our off-shore revenues. Going forward next year, as you know the direct tax bill is applicable from the year after that - for Fiscal '13. So, for Fiscal '12 we presume that the same rates as are applicable right now will continue but there will be no STPI benefits. We will have some SEZ revenues and if we take the weighted average of our SEZ profits, our US profits and the rest of the Indian profits put together, we estimate that the tax rate will be somewhere between 30 and 31.5%. Let me say that the tax rate will continue at 33.22, but since we have SEZ revenue and SEZ profits we expect the tax rate not to be 33.22 but at around 30 to 31%. Going forward the next year, that is Fiscal '13, the tax rate overall drops from 33.22 which is the current tax rate plus surcharge. At this point of time, we will also expect that our SEZ revenues will increase hence the share of profits from SEZ will increase and the effective tax rate will moderate from 30%- 31% to a lower percentage of 27-28% and improve it as we go along.

Anand Deshpande

Also, there is MAT credit that we would be able to use for next year. Yes, it is another complicated thing but you know we have to work out all the impacts once we get the real bill, but there is a MAT credit discussion that is going on and I am sure you are tracking that. Max, we could get credits for the next year and what is going to happen for MAT and SEZ so we will see how the bill actually pans out?

Kunal Sangoi

But is there any chance of accelerated ramp up of the SEZ?

- Anand Deshpande** No, see it is very hard to do that because the SEZ business has to be absolutely new and needs to be fresh business and it will be as much as a new business that we can get and executed from SEZ.
- Kunal Sangoi** Okay, that was helpful, thank you and all the best.
- Moderator** Thank you. Our next question is from the line of Sanjeev Hota from Share Khan. Please go ahead.
- Sanjeev Hota** One question, could you break up of Forex gains in the quarters in sense of MTM?
- Rajesh Ghonasgi** I will just give you a picture of the total other income. Last quarter we had a total other income of Rs. 12.3 cores and the current quarter it is about Rs. 5.94 cores and within this Forex gain last quarter was Rs. 9.1 versus Rs. 1.8 cores this quarter. The variation is because the Forex hedges were at a very high rate at Rs. 49 per dollar last quarter versus the 48 this quarter, plus of course the average Rupee-Dollar was also a lot higher this quarter. So we got that benefit on the top line and hence the ForEx gains were lower. Now that is as far as the ForEx goes. Your second question was?
- Sanjeev Hota** That's all from my side.
- Moderator** Thank you. Our next question is from the line of Abhiram E from BNP Paribas. Please go ahead.
- Abhiram E.** Hello, good evening. My question relates to the tax rates, which was asked earlier. Now most IT companies in India are guiding around 25% sort of tax rate next year. We are talking about 30%, have you been conservative what I am missing here?
- Anand Deshpande** I do not know what difference from there is, but the main difference could be what percentage of your business actually moves to SEZ . So, in some sense we are fairly conservative in terms of what business we are moving into SEZ and that could be the reason why it is so different.

Abhiram E. I remember from our earlier discussions, again the tax rates were looking more like low 20s that now you are talking about 30%?

Anand Deshpande Yes, one of the reasons why that has changed you know when we were discussing with you last time, the DTC tax rates at that time was expected to be 25% but now through the new revisions or whatever the current versions of DTC, it looks like that the tax rate is not going to be 25% but actually be 30%. So that has caused that thing to go up. So the other thing was we were expecting the MAT on SEZ also to not be there, so now there is a 20% MAT on SEZ as well. So, that tax also will have to be factored in and the third piece is the fact that there is an interim of one year which is the FY12 next year where the DTC bill does not kick in but it only kicks in FY13, but STPI benefits actually end in FY11, so FY12 we do not get either of those. So we are on the regular tax benefit and all that. But again we will try to work out as it comes out on an actual number and perhaps being a little more conservative, I do see that about 8-10% of our business moving to SEZ for the next year and that will grow as business coming out of accounts that have moved to SEZ grows then the effective tax rate will come down.

Abhiram E. Okay, thank you very much.

Moderator Thank you. Our next question is from the line of Debashish Mazumdar from Techno Shares & Stocks. Please go ahead.

Debashish Mazumdar My question is related to realization, we have seen the onsite and offshore billing rate in a growth or constant level, where realization has decreased 5% sequentially, so any specific reason for that?

Anand Deshpande Yes, that is the fact that because of the utilization going down during this quarter and the reason why the utilization goes down in typically the second quarter of the financial year is because as it is traditional with all other IT companies we tend to hire a lot of fresh graduates who show up in the month of July and August, start to get accounted for as billable resources and hence come into the denominator of the utilization factor and that causes this number to move in this quarter also. Next, quarter some of

these people will start to get billed, typically we expect people to start getting billed after 8 weeks or so and more effectively after 3 to 4 months.

Debashish Mazumdar Another thing just want to get an idea as per my calculation your gross inflow addition would be somewhere around 550-560 people in this quarter, is it a correct calculation I am doing?

Rajesh Ghonasgi Yes, that is correct calculation.

Debashish Mazumdar And amongst that 325 people you are saying are freshers right?

So your full year guidance would be 1,400 people and amongst that 400 people is fresher, so you are still holding that guidance as of now?

Anand Deshpande Actually, the number of total inflow is going to increase. We think we will hire about 1,600 people during this financial year.

Debashish Mazumdar How much of that from freshers side?

Anand Deshpande See, there are two parts to the freshers equation, so first is fresh on campus that number is pretty much can only be done once a year and that will be near 400 people and the second piece of it is that we expect to hire 2010 graduates, we will not hire in campus. As part of the rest of the 1,600 also 1,200, I would expect 200 to 300 of them actually be 2010 graduates who did not join off campus, but get recruited because they joined somewhere or they did not have a job or whatever but we recruit them through the year.

Debashish Mazumdar Okay, that is it from my side.

Moderator Our next question is from the line of Sangameshwar Iyer from ALF Accurate Advisors. Please go ahead.

Sangameshwar Iyer Most of my questions have been answered. I just wanted to know, when you said that most of the budgets for the next year would be flattish with respect to what your clients have spent this year. In terms of the total

budget spend by the client whatever was allocated was it spent or is there any holding back as yet?

Anand Deshpande

Let me first clarify that the budgets are not flat and I do not get to know all the details on the budget. What they are telling me at this moment is that whatever they spent with us last year, they continue all the existing projects to continue as it is or grow but definitely not shrink. That is what they are telling me. Now, the fact is, see at the end of it I do not always get the detailed information on what percentage is the budget they did not actually spend and what percentage got spent. My cases you might be able to find out, by and large that information is not that easily available. I can talk about what I am doing right now with those customers and ask them saying; okay we are doing all these projects. We have so many resources allocated on projects for you, should we keep those or what is going to happen to them. All of the cases that we have had discussions, every one of them has said that yes please keep all of these, we will continue to invest in technology and all of the resources that you have working on our project should continue to work on our project.

Sangameshwar Iyer

Sir, with respect to this particular client with whom there was no billing last quarter that is USD 1.5 million though your employees are still there in that particular project, so should not one see margin improvement coming in just because of that itself in the coming quarter because you would be billing them, from that perspective?

Anand Deshpande

Yes, absolutely but it would be little bit hard to factor that in just like that. Yes, there will be some improvement in margins because of that but again, it is little more complex. Some of these people were not on that project and some of them got reassigned to other projects so it is not like all of them are sitting idle, there is a little bit of flux on that area. The other thing is overall as the utilization improves you will see improvement in the margins let me say that. Clearly next quarter utilization will be better than this quarter, utilization partly because of particular reason that you pointed out and also the fact that we had more freshers in this year.

- Sangameshwar Iyer** Sir with respect to the guidance for the coming quarters, an outlook that you gave of high single digit, for the next quarter would it actually include this new client that would have already come in or is it excluding that new client that you are looking at on like-on-like basis?
- Anand Deshpande** I would like to include everything, but that's the way this is, as I mentioned to you earlier, see what was lost in the last quarter is completely gone and lost.
- Sangameshwar Iyer** I completely agree.
- Anand Deshpande** The new accounts that are now in the same business have come back this quarter and that would be made up during this quarter.
- Sangameshwar Iyer** What I meant was basically if we look at USD 1.5 million coming back this quarter are we saying that the 6% growth that we are looking at is on the USD 40.5 million will it last quarter or which would in fact mean that if we add this USD 1.5 million we are just looking at very single digit growth on like-on-like basis.
- Anand Deshpande** I get your question, but you know really honestly I don't think I want to answer it to that level of detail. I know what you are asking for and I get it completely
- Sangameshwar Iyer** But would you say that it is more on the positive front. I just want to know the trend I don't want to go too deep into the numbers as yet. But I just want to see on a positive trend, how one should be looking at it in the coming quarters.
- Anand Deshpande** Hari, you want to say something?
- Hari Haran** Let just leave it as double digits and it is a positive trend let us put it that way.
- Sangam Iyer** Okay. Fine great.
- Anand Deshpande** I think Hari is talking about pipeline.

- Hari Haran** I am talking about the pipe line. Thank you for the clarification Anand. I am not talking about numbers of the quarter.
- Sangam Iyer** Okay. Thanks a lot.
- Moderator** Thank you. Our next question is from the line of Karan Taurani from PINC research. Please go ahead.
- Karan Taurani** Sir, I just want to know that break up of your revenue to dollar terms growth which you have 2.6%, is there any currency impact on this? What is the volume growth exactly, will give you the number?
- Rajesh Ghonasgi** You see the revenue growth in dollar terms, actually it strips out any rupee-dollar impact. Rupee-dollar is given in the line which is 3.3%. Our volume growth in terms of percent month based is around 2.8 to 2.9%. It is in line with the revenue growth in dollar.
- Karan Taurani** Pricing anything? It is flat rate?
- Anand Deshpande** let me say the following that we are seeing improvement in prices on new accounts that we are signing up and for accounts that are with us, which are up for renewals.
- Karan Taurani** Yes, because even earlier realization, you all said by the end of the year 3% revision will be possible?
- Anand Deshpande** Yes, it is happening on deals that are coming up for revision.
- Karan Taurani** Then why is it is slow on the sequential terms on the dollar revenue?
- Anand Deshpande** I mentioned to you the reason why it went down. It is specifically those two accounts that caused it on a sequential basis if you analyze.
- Karan Taurani** So by end of FY11, what would you see the pricing in the volume if you could see going by half year number?

Anand Deshpande No. You should compare numbers typically from year-on-year basis for what the average rates that you see, you should see a 3-5% increase on a yearly basis. So, if you were to compare from one year. So let us say what you saw at Q1 and at the end of the quarter, you should see of 3-5% increase on rates.

Karan Taurani Okay, in terms of geography, in Europe, it did not do well. The Europe there was a degrowth of 5%. I guess most of the other peer companies have also had a cross currency impact and Europe has recovered for some of them. So what is your concern regarding this for the Europe geography?

Anand Deshpande No, actually most of our business is North America based and 85% of our business comes from North America. Europe has not changed the whole lot. We have not seen too many new deals or we have not seen shrinkage of deals. Most of our focus has been in North America and we are seeing growth in North America, so well we are looking at Europe, as a percentage of total or impact on percentages; I don't think it is anything significant.

Karan Taurani Okay Sir, and Telecom vertical 10.9% is very good growth. Where do you see this going forward, is this one-time thing or do you think this is sustainable based on this revival in telecom vertical as a whole?

Anand Deshpande It's again hard for me to tell you how much growth we will see right now. The pipeline on the telecom side is good and most of the growth that we saw during the last quarter on a quarter-on-quarters basis was in the mobile handset related, so applications on iPhone mobility-related application. Now, we are going to see the same number, I would not be able to comment on that.

Karan Taurani Thank you so much. That's from my side.

Moderator Our next question is from the line of Jay Kumar Doshi from Equirus Securities. Please go ahead.

Jaya Kumar Doshi Hi, Good evening, thank you for taking my question. Anand, when I look at other mid-tier companies, I don't think any other company is so focused on

cloud computing and the other new initiatives that we have. So, from strategy prospective, are we looking at offering these services to clients, US corporate customers outside of product development, I mean from mid term to long term perspective?

Anand Deshpande

Yes, I think your question is very good and the answer to that is yes. The strategy that we are following for doing that and where we are starting to see some traction is through the partnerships that we have with some of the major cloud providers. So as you are fully aware, we have been in the product development space and we have not been selling to enterprises directly, but we find that some of our partners who are these big product companies who sell in the cloud, are taking us to enterprise accounts where we are meeting their enterprise base requirements, so potentially our enterprise accounts will go without actually selling to them directly.

Hari Haran

Yes, at this point, I wanted to add some more comments to what Anand said, so definitely, as Anand indicated the answers is yes. Initially, we started our cloud computing with helping independent software vendors to put their applications on a cloud, but now we are seeing cases where our partners take us to an enterprise and an enterprise will ask us to take most of their existing applications that are sitting in the server to put them on a private cloud, so we are seeing those things. Example on mobility, initially you were seeing handset makers or independent software vendors asking us to make some of their applications mobile. These days we are seeing partners taking us to enterprise where enterprises directly ask us to put some of the specific applications on a mobile device. So, we see that trend to continue and we intend to capitalize that.

Jay Kumar Doshi

Thank you and my next question is for Rajesh. Rajesh, could you please help me math direct cost to personal expenses because in absolute numbers direct cost is gone down quarter-on-quarter. Now, I understand one of which is because of actuarial differences, but what other components would have gone down?

- Rajesh Ghonasgi** The entire amount largely is an account of actuarial and retiral changes. In addition, we provide for certain bonuses which might have got reduced in this quarter, but with large impact on account of actuarial changes. Now, out of this, we stripped out the bonus impact we got, in the sense that when we look at the movement across quarters, there is reduction on account of liability being low and there is reduction because we had over provided effectively in the earlier quarter. If I strip out the over provision made earlier, that is around 1.2% and that is the impact that will not be carried forward into the future. The balance if everything else remains the same our cost-to-ratio should remain the same, stripping out that at 1.2%.
- Jay Kumar Doshi** Thank you so much. That is from my side.
- 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** Sir, I would like to just thank you all for taking their time to be on this call. We appreciate the questions and your insightful suggestions. Wish you all a Happy Diwali and thank you all for attending this call.
- Moderator** Thank you. On behalf of Persistent Systems that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.