



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. VIVEK SADHALE – COMPANY SECRETARY & HEAD LEGAL, PERSISTENT SYSTEMS LTD.
- MR. HEMANT PANDE – HEAD OF PLANNING, PERSISTENT SYSTEMS LTD.
- MR. RAM GUPTA – DIRECTOR, PERSISTENT SYSTEMS
- MR. PRAMOD HAQUE – DIRECTOR, PERSISTENT SYSTEMS

Moderator

Ladies and gentlemen, good morning, good afternoon and good evening, and welcome to Persistent Systems Analyst Conference Call. As a reminder, for duration of this conference, all participants lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal 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 of Persistent Systems, Mr. Hari Haran - President, Persistent Systems Inc., Mr. Vivek Sadhale - Company Secretary & Head Legal. We also have Directors Mr. Ram Gupta & Mr. Promod Haque.

I would now like to hand the conference over to Dr. Anand Deshpande. Thank you and over to you, Dr. Deshpande.

Dr. Anand Deshpande

Thanks a lot and welcome to this call. I am pretty excited because it is our first call that we are doing of this kind after listing, and we all are pretty excited to be on this call. As we go through this call, I thought I would start by giving you a little bit overview of our business and then get into the financials and then open it up for questions and ask other things.

This presentation and the materials that we are using on for today's call are all available on our web site; please feel free to download them. Our web site is of course, <http://www.persistentsys.com>. You should go to the web site on the Investor page, you should be able to find press release and also the presentation that I am using, which is a short presentation about the company and the financial details and all those numbers that you might be interested in.

Just to give a quick overview of the company, Persistent was founded in 1990 and we are established leaders in outsource product development. By that we work with Products Company and build products for these companies. We help these companies in building products all the way from concepts to end of life and across all phases of the customers' life cycle.

We have got 300 customers. Out of these 37 companies are more than a billion dollar in annual revenue. We have contributed to more than 3,000 product releases for customers over the last five years and our employees strength is about 4,600 people with offices in say, seven different countries and development centers in Pune, Goa, Nagpur, Hyderabad in India.

Just to summarize our business, our customer base is predominantly product companies and they also sell the part of their value chain or the entire product development process to us. The reason they outsource to us, the main reason is to save management bandwidth. The second reason is to reduce risk of engineering failure and to reduce time to the market. And our business engagements typically are either time and materials, fixed price, contracts, our licenses and product royalties.

We have several customers as I pointed out, we have nearly 300 customers and we do all kinds of product development activities for these companies.

We are focused in terms of areas that we have expertise in. A large amount of our business comes out of infrastructure and software systems products. In addition to that, we also work in the telecom wireless areas and in the life sciences and health care areas.

Over the last few years, we have invested in new technologies and we have built practices around enterprise, mobility, cloud computing, analytics, and enterprise collaborations.

Our competitive strengths are depth in focused areas and long-term relationships with customers. We have a highly motivated workforce, deep rooted product development culture and IP like businesses helped us in getting to the next stage of growth. In short, we are well positioned in the large product outsourcing marketplace.

With this short introduction about the company, I now get schedule to announce a few organizational changes that we have made since we filed RHP. Dr. Srikanth Sundararajan, who was the Chief Operating Officer here in India is moving to the US and he will be responsible for strategic accounts and customer management activities. He will be based out in New York.

Nitin Kulkarni, who was previously heading one of the divisions, is now going to take over as Chief Operating Officer. Hemant Pande takes over as head of planning, ERP and MIS. He is also here. Vijayaraman, who was in the US as CTO, will return to India and heads Persistent Laboratory. We have also have a focus around these four areas that I mentioned such as Cloud Computing, Analytic, Enterprise Collaboration and Enterprise Mobility, in all these four areas that we are seeing a lot of activity from customers, we have created a new business units corresponding to these thrust areas.

Now, regarding the financial performance – just let me share with you some highlights. In Rupee terms for the year that ended on 31st of March, our revenues stood at 6011.56 million or which is 601,15,00,000 in Rupee terms,

which is a growth of 1.2% over the previous year, 2008-2009. In dollar terms, the revenue for the year was \$127.30, which is at par with the previous year. The EBITDA was Rs. 1,463.71 million, which is also Rs. 146,37,00,000 as against Rs. 1787.51 million, which would have been Rs. 178.75 crores and PAT, which is profit after tax this year has been Rs. 115 crores as compared to which is a rise of 74% over the previous year.

In terms of the consolidated highlights for the quarter which again is quite important because as we had stated earlier during the last year, we had two slow quarters in the last financial year and two slow quarters in this financial year. And the last two quarters we have seen a significant growth. The revenues on this quarter stood at Rs. 1717.43 million or Rs. 171.7 crores indicating a year-on-year growth of 15.2% and a quarter-on quarter growth of 8.5%.

In dollar terms, the revenues were \$37.33 million representing a year-on-year increase of 26.07% on a quarter-on-quarter growth of 9.9%. And the EBITDA was Rs. 383 million as against the Rs. 490.06 for a year-on-year numbers and PAT was again Rs. 396.77 million, indicating a year-on-year increase of 182.1% and a Q-on-Q increase of 28.4%. This is pretty much the consolidated highlights, of course, these numbers, listen to them but as you see the numbers in a printed form, they should make sense.

I am also really happy to announce today that the Board of Directors has recommended a policy for dividend payout and we are recommending that the dividend be paid. The payout ratio will be between 10% and 30% of consolidated profit after tax, this being a policy statement. And accordingly this year, the Board is suggesting a 10% payout and an interim dividend would be Rs. 1.50 per share and a final dividend of Rs. 0.5 per share, including the first interim dividend of Rs. 0.5 declared in October. The total dividend recommended for the year is Rs. 2.50 per share.

With this, I would like to now hand it over to Hari, who is the Head of Sales and President of our US subsidiary to give us a little bit on the market outlook and what he sees in the market. And then I will finally hand it up to Rajesh, who is our CFO, who can of course answer questions of the financial kind as they come along. Hari, can you take this on please?

Hari Haran

Yes, thank you very much, Anand. Good afternoon, ladies and gentlemen. It is a pleasure to talk to you this afternoon. I have not personally had the chance to meet you face to face. I am located at our North American headquarters at San Jose, California and do travel extensively across US, Europe and Asia on various customer meetings. I look forward to meeting you face to face one of these days.

Regarding the market side, as Anand was indicating, we are seeing a healthy demand in the outsource product development market. There are some significant landscape changes in the software industry, particularly, in the area of cloud computing and software as a service model. And this has created the demand for many of the independent software vendors and enterprises to implement their application on the cloud, be it public or private cloud.

Further, we are seeing lots of prospects that want to accelerate their time to market for their products which is caused them to look at company like ours. We participate actively in their product development endeavor and we expect this demand to continue as we go into the year. The fiscal 2011, as we begin now, appears to be quite exciting as we see some of these landscape changes in the software industry and we look forward to actively participate and leverage these trends during the fiscal year. Thank you.

Dr. Anand Deshpande Yes, thanks, Hari. Let me now invite Rajesh to make any additional comments regarding the financial details and then we will open it out for questions.

Rajesh Ghonasgi Thanks, Anand. Hi, friends. I met most of you all a month ago and it is a pleasure coming back to you with the initial results after the IPO.

Anand had given a background about the business as well as some of the financial figure. At this stage, the data should be with you, we have placed the quarter-on-quarter data. Year-on-Year data for the latest quarter was with the corresponding quarter last year and of course, financial year data.

One of the things that I would like to talk about and I will be brief on that is that looking at the quarter-on-quarter data in terms of margins, we have moved our margins up from 19.5% at the PAT level in Q3 FY10 sequentially to 23.1%. As against the same data, a year ago, it was a 13.7%. And there has been a fair amount of change during that period, which we will talk about during the Q&A:

Coming out of situation where we had the global slowdown, we have moved out of the impact of the global slowdown, we have improved our cost structure, we have also invested fairly large in our sales and marketing force, which is visible in some of our sales and marketing ratios.

Before I move on to the Q&A, I would like to announce a direction to where we are going to be in the coming financial year. We look at achieving approximately \$155 million in revenues covering this period financial '11,

which is April'10 to March '11. This is again something that we will talk about in the Q&A as you raised some questions on this.

Since the data is there in front of you, I would like to move on to the Q&A and we can take it on from there. Thank you.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time, may please press '*' and then '1' on their touchtone telephone. If your question has been answered and you wish to withdraw question from the queue, please press '*' followed by '2'. You are requested to please use your handsets while asking a question. Our first question is from the line of Sandeep Agarwal of Antique Stock Broking. Please go ahead.

Sandeep Agarwal Just wanted to know about this scenario in Europe and also I am seeing the financial number, which you have given in the IPO prospectus for the period ending March last year and there is a change in that number, can you give some clarification on that?

Dr. Anand Deshpande Let us split the question into two parts. Let me have Hari comment a bit on the European part of the market, which is actually a very small part of our business. And then I will have Rajesh comment on the second part of your question regarding change in numbers. Let me have Hari answer this.

Hari Haran Yes. Regarding the market trends in USA, there is obviously USA pretty mature in the outsource product development area. What we are seeing in Europe is there is outsourcing for product development at its infancy and there is a lot of room for growth in Europe and hence, we started putting a lot of focus in Europe. And during the year, you will see heightened activity from our side with Europe. But today, our business is predominantly from North America, we expect this trend to change and above during the year.

Sandeep Agarwal Also to add one more question to the region wise scenario. I just want to know how is the pricing situation, is it stabilizing or is it improving, what it is?

Dr. Anand Deshpande Hari, can you –

Hari Haran Yes, absolutely. You are particularly asking about the pricing situation in Europe?

Sandeep Agarwal Both Europe and the U.S.

Hari Haran

Okay. Regarding U.S., we are seeing that the pricing situation is quite stable, about 18 months ago when the economic downturn was there, there was a pressure from our customers to lower the prices, but we do not see that any more, pricing is fairly stable here. Regarding Europe, since the market is fairly slow in a growth stage, and early stage, we are seeing the ability to A) surge in local currency and B) we are also seeing that there are not necessarily pricing pressures in Europe.

Dr. Anand Deshpande

Let me add one more comment here in this context. This is Anand Deshpande. This is regarding the pricing thing, during the 12 months and four quarters that we had a slowdown, we had given our customers discounts in October 2008 for a year. All the discounts that we had offered to our customers during that period were all timed out for 12 months. And these all timeouts have happened now and part of in terms of increase that we have seen in our revenues is because these discounts have expired and we are now pretty much able to bill market rates and rates are going up a bit. Let me hand it to Rajesh to answer the second part of your first question.

Rajesh

The second part of your question are about a difference between the IPO documents and the financial figures reported for last year with a current financial set. Let me just explain it. When we file for the IPO, we start with our reported figures and an Indian GAAP. And we recast all our figures based on the current accounting norms. If there is a change in any current accounting standards because of any new implication of accounting rules we go back and restate them. You will find that there is a reconciliation statement starting with the reported figures under Indian GAAP at that point of time. A list of differential and then the revised figures. There would be a change on account of certain accounting rules implemented by us in April '09 to March '10 and that is the differential. And the entire reconciliation between the revised figure and the original figure is also available in the IPO documents.

Sandeep Agarwal

Right. On the utilization part, I see the utilization going up significantly in this quarter versus previous quarter. I just want more clarification on this and secondly, on the attrition rate, gone up by 2.5% in quarter-over-quarter. Can you please give some clarification on that fact?

Dr. Anand Deshpande

Let me comment a little bit on the attrition part. Of course, the attrition rates have gone up and that is because the market in the IT industry is picking up, hence the attrition rates have gone up. Two quarters before that there was no movement in the markets so the attrition rates were very low. Typically, we think under 15% attrition is sort of where we think is a reasonable attrition level and we always hire the best people, so our people

are always in great demand. And this is a factor that we have to worry about. But we have polices and other things to hold people back. But yes, attrition has gone up and it is something we worry about. The second point was regarding utilization rate. Yes, the utilization rates during this quarter have gone up and that is partly to do with the fact that the new business has come in. And hence utilization rates have gone up. We try to operate at about 75% utilization. That is our overall desire numbers are.

Sandeep Agarwal And what is your outlook for going forward on utilization?

Dr. Anand Deshpande As I mentioned to you we like to ideally operate at about 75% utilization rate. We do have situations where this will fluctuate because at the beginning of the year when we hired new people in July we had a large number of freshers and other people who come in at that time. The utilizations will go up and down. Our endeavor is to mange at 75%. We do want them to be more than 75%.

Sandeep Agarwal And what about increment, have you given any increment this quarter something?

Dr. Anand Deshpande Yes, let me comment a bit on the increment aspects, one is last year we did not do any increment in April. We did a 9% increment on salaries on October 2009. For 2010, we will do another increment and that increment we will announce, the exact numbers will get announced in June and there will be with effect from 1st of April. We expect them to be in the 9% to 12% range at this time.

Sandeep Agarwal Okay. And a little bit of if you can give me on the verticals, how BFSI and others are doing, like what is your view on manufacturing and BFSI?

Dr. Anand Deshpande Two parts here. One is we do not really have a BFSI as a business line that we have identified. We have two lines that we talk about in terms of vertical. One is telecom, the other one is life sciences. And those numbers are clearly articulated in the presentation. It is that I see a lot of people are there waiting for other questions to ask. We could come back to you. Let us just go through some of the others on the list that we see here and as soon as we are done with those of course we will come back to you. I request the moderator to.

Moderator Thank you, Mr. Agarwal. Our next question is from the line of Rishi Maheshwari of Enam AMC. Please go ahead.

Rishi Maheshwari I wanted to understand your perspective on how do you break this \$155 million in terms of volume growth that you perceive and if you have taken any pricing increase within this target to?

Dr. Anand Deshpande Let me comment on this. Again, this is our first year as a public company. We try not to dissect these numbers a whole lot at this time in terms of giving guidance. We saw it would be appropriate to give some guidance, and we think 155 million approximately is what we think we should be able to do next year. It factors all kinds of things including our price and there is everything else that we can come up with.

Rishi Maheshwari Fair, enough, fair enough. I just wanted to have a sense of the fact that how conservative are you at this point in time with this 22% growth or is it that it takes in all kinds of deal wins that you possibly foresee in the future, and all kinds of increments that may come across in terms of realization also?

Dr. Anand Deshpande Let me comment on the following. We are in an incredibly exciting market. The market is very good. We are in the product development market. That is going to grow very well and all other stuff. In terms of the market opportunity I do not think there is any problem per se. That having being said, this is our first year as a listed company, I do not want to comment on how conservative we are. Because we have to give a number that is reasonable and we think we can beat and that is where I want to leave it. But we are in an exciting market and as we go along through the four quarters if we are able to demonstrate quarter-on-quarter growth that is strong you will see that we will modify this number as we go along.

Rishi Maheshwari Sure. Any comments that you would like to make on the margin outlook that you foresee as of now?

Dr. Anand Deshpande We had said market when we did the IPO that we think profit before tax margin of 18% is what we think is what we are trying to shoot for. We do not want to include the tax stuff because taxes will have all kinds of other implications as we go along, especially in the next year.

Rishi Maheshwari And tax rates would be at what rate are you guiding at for next year?

Rajesh Ghonasgi Next year's tax rate considering the current tax law in force, could be in the range of 9% to 10% as an effective tax rate on our PBT. This is based on the current structure of our.

Dr. Anand Deshpande It would be 1 to 1.5 basis points. Two points.

Rishi Maheshwari Okay. Thank you so much and all the best.

Moderator Thank you. Mr. Maheshwari. Our next question is from the line of Subhashni Gurumurthy of Ambit Capital. Please go ahead.

Subhashni Gurumurthy My question primarily was on the guidance. Basically, that you have come up with of \$155 million which is around 22% growth. I mean if I read this in comparison to some of the larger peers who have guided at around 18%, at a smaller base this probably still looks on the lower side. I mean are we being too conservative or is it because of the different set of clientele which we cater to?

Dr. Anand Deshpande See, again, as I have mentioned to you earlier on we have to beat our numbers and clearly, that is our goal and we have even started out with something that is modest and realistic. As we go along quarter-on-quarter as we are in a position to demonstrate that we are in a position to do better we will of course help you with better guidance as we go along. Second, I do not want to say too much more beyond this at this time. We are in a good market and hopefully things should be better.

Subhashni Gurumurthy Sure, sure. But I mean just even looking at this kind of fantastic this quarter which we have had I mean the CQGR even for the full year seems to be pretty much on the lower side around 1.5% or so. So any perspective on that? Are we seeing a slower first half and pick up in the second half or something, are we building in some scenario like that?

Dr. Anand Deshpande We are not doing very complicated stuff here. You have done an excellent job of figuring out margins, CQGR and all other things. You are absolutely right. Maybe we are doing very conservative but I thought better to be conservative today than have a miss quarter.... This is our first time right now. We think this is something that we can live with at this time. And as we go ahead more confidence in our numbers we will definitely go after them. Because we are giving you a guidance of whatever that does not mean aggressively we are not going to sell and we are going to stop working after we reach the numbers. We will keep doing what we need to do.

Subhashni Gurumurthy Sure. Just one more question. Where do you think margins can be sustained, I mean if rupee remains at the current level, what is your outlook on the margins?

Dr. Anand Deshpande We have modeled our things at a Rs. 45 per dollar number. And we have an 18% margin plan that we have worked out. Now, yeah, there is a sudden fluctuations that the rupee/dollar will see favor I must also point out that we do have about \$77 million forward covers that we have, which are at about Rs. 48 plus to the dollar. And we do have some leeway in terms of how the dollar fluctuation can be handled as we move along.

Subhashni Gurumurthy Sure. And these hedges are spread over the next one year, right?

Dr. Anand Deshpande Yes. Just let me point out how our policy is we have had a 12 month policy of buying forward covers and these forward covers are in 12 buckets. Every month we look at potentially what we maybe doing. 12 months out and half of that we are trying to buy forward covers on and these \$77 million of hedge that I have we have out for the next 12 months spread across 12 buckets. And this 48 plus is sort of what I have referred to is that the average on that. Of course, some we got and some utilize at much higher rates than that.

Subhashni Gurumurthy Sure. And just one last question, since you would have concluded basically the budget conversations with most of your clients what is the visibility in the confidence you are getting from your top ten clients currently?

Dr. Anand Deshpande All of those are good. Let me have Hari comment on this.

Hari Haran Yes, thank you, Anand and thank you Ms. Gurumurthy. From the customer perspective and clients' perspective we are definitely seeing optimism. They are projecting optimism in their business as well as they are hearing positive things from their customers. And we are seeing them aggressively going after ambitious product roadmap and that obviously translates to business for company like ours. With respect to talking to our top ten clients we are seeing positive messages and optimism with respect to what they see as outlook during the year for their product development plan.

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

Moderator Thank you, Ms. Gurumurthy. Our next question is from the line of Sangam Iyer of Alpha Accurate Advisors. Please go ahead.

Sangam Iyer Yeah sir my question is regarding the margin outlook that we are giving, although top line expectation is around 20% kind of a growth if you look at this PBT of 18% we are actually talking about a flat to decline in the profit number. Where exactly is the mismatch over here because just to kind of reconcile the optimism shown in terms of the way our clients are expected to grow and how things are moving and also with the pricing being more stable than what we have seen.

Dr. Anand Deshpande See there are two reasons why we are giving a slightly conservative number on the things. There are two issues here, one of them is specifically the dollar rupee has impact on our bottom line and that is something we do not know exactly where that is going to go. The second thing is that we have we feel that we are in a growing market and we must make some investments

hence we are looking at increasing our investments in sales and marketing and we have a model of IP lead businesses that we believe is the model for us for the future. In that model what we have been doing is we have been acquiring access and investing in products for the future that we partner with companies are and that requires some extra investment and we do want to make sure that we are able to make those investments as we go along.

Sangam Iyer What is your constant currency in EBITDA margin assumptions? Let us assume if the rupee would have been same for the full year for next 12 months then what would be in your PBT margin guidance?

Dr. Anand Deshpande Well it would have been higher by 2 to 4% percentage point if it had been exactly the same level.

Sangam Iyer Okay, and sir could you give us some breakup of you know 155 million that we are looking at in terms of how much of royalty income that you are looking at for next year?

Dr. Anand Deshpande Actually we do not want to split it like that, I can tell you that this year if you look at our royalty numbers in all the IP lead businesses they are adding up to 7.2% for their financial year FY10. We think our goal would be to try to increase that from that number. But beyond that I do not want to give you any specific guidance on that.

Sangam Iyer Can you just tell us you know in terms of your three points agenda for the next three years you know that is where exactly you see your company over next three years and what will be the major drivers for the scene?

Dr. Anand Deshpande Very briefly our focus will continue to be on outsourced product development. We believe that product companies have not outsourced adequately and new product development activities are going to happen. As that happens you see a lot of activity and opportunities in that, and according to me that is our focus and it is very much the single point agenda that we are going to go out there. Obvious thing is of course that you know we have large number of customers who are I guess there are 37 customers of ours who are billion dollar companies, the question would be how do we get more and more business out of these kinds of companies and how do we increase our footprint with you know having larger accounts. Those are all tactical activities that we are looking at. Strategically another thing that I would like to point out is that see we have over the last year deliberately chosen four areas where we think technology wise we can invest and get some rich dividend or return. These four areas would be Cloud Computing, Analytics, Enterprise Mobility and Enterprise Collaboration. I must say that

we have had an invariably good choice in these four areas. If you look at of these four two of them specifically Cloud Computing and Analytics have made it to the cover of economics, not just technology magazine. We have actually made some good partnerships and investments in all these four areas and they are our growth drivers for the future.

Sangam Iyer I mean with regards to the kind of contract that we enter into and especially being a product company, I mean what would be favorable in terms of going in for more fixed price contracts wherein we have the margin levers present with us considering that you know the pricing increments happening in this particular segment is not that easy.

Dr. Anand Deshpande Yes, see the way it works first. When you work with a company in the early stage or the product is in early stage typically you do not always have clear requirements and at that time fixed price projects do not work that well. It is a combination of things which you will know exactly what you have to build then you could do fixed price projects and it is our endeavor to get into as many fixed price projects as we can. It is not always practical to force a fixed price project. This is a combination of these two is sort of what we do. When we work with the customer we may have certain part of the engagement which is well defined and clearly articulated moving into a fixed price project while for most of the other standard stuffs we may be just doing time and expenses kind of billing.

Sangam Iyer Okay thanks a lot. I will come back for some

Moderator Thank you Mr. Iyer. Our next question is from the line of Manoj Kumar Behra of Sequoia Securities, please go ahead.

Manoj Kumar Behra Could you please give us a breakup of revenues in terms of new product development and services of existing products and maintenance?

Dr. Anand Deshpande Just to comment on this one in terms of the split at that moment we are not splitting it like that at this time but if you look at I am going to give you a qualitative answer rather than giving you a quantitative answer on this one. If you look at it in terms of maintenance and other revenues that percentage is actually fairly small for us. It is about 20% to 25%. Most of the business that we get is from current on new product development work that we get from our customers.

Manoj Kumar Behra Okay. I just want to focus on the billing rate. If you look at the billing rate it was on a peak on FY09 but it has flattened out in these quarters, for the past three quarters so can we expect this figure to remain constant for next two to three quarters or when can we expect this billing rate to increase?

Dr. Anand Deshpande See actually let me comment a bit on this one. What has happened on the billing rate is that if you look at the last year's financial year, this actually includes two quarters from the previous year and two quarters of the slow year, from October 2008 through October 2009 which is four quarters we have given discounts to our customers. And some happened in October, some happened in November, December and so on and they were all timed out for one month. During this quarter sort of we have completed the last of those discounts that were given out and moving forward new contracts that I getting signed and of course at better rates so we expect the rates to go up slowly but steadily and also to, see the new contracts that are getting signed are getting signed at higher rates but that is why we look at the small percentage of the total. They would not go up dramatically but they will inch up on a quarter on quarter basis. That is how we are getting assumption as well. The other thing I would like to point out is see we are creating this model of IP lead businesses so what we have done in the last few years is that we have been working with some of our customers and picking up products which are not strategic to our customers but still have enough revenue potential in them. And in those accounts we have been able to get better yield per person. Again, these are not you know time and expense right, I do not want to convert it into a manpower per se rate but we would issue it to look at it in terms of the yield we get per person on these things that is better than the yield we have on just like time and expenses projects. The way to look at it is the overall yield per person is something that we are focused on and we want to see how that number grows up.

Manoj Kumar Behra Thank you sir. All the best.

Moderator Thank you Mr. Behra. Our next question is from the line of Atul Bhole of Tata Mutual Fund, please go ahead.

Atul Bhole See, you have mentioned that this quarter some growth has come because of that discount given in last October 2008 has come to an end. So I would like to know how much this 10% how much came from because of pricing and how much is volume?

Dr. Anand Deshpande See the pricing growth is quite, it is not that much in this quarter. It was more in the previous quarter. If you see the last quarter we have shown an 18% quarter on quarter growth. Now this growth is about 9%. In last year last quarter which is Q3 quarter ending December first came up. This time it would may be a percent or two out of the 9.2 would have come because of growth.

Atul Bhole Majority of it is the volume growth.

Dr. Anand Deshpande Yes, there is new business that has been signed and by new business I mean new business from existing customers, see when again markets slow down some discounts are given but some projects also varied, used by our customers. Now those are coming back, existing customers are healthier today than they were a year back and they are starting to make investments in their new product lines and that is also causing some growth for us. And there is some good growth right now in this quarter.

Atul Bhole And can you comment on the new deals or new projects you are signing in terms of deal sizes or tenure of these projects?

Dr. Anand Deshpande Right, but I do not want to give names, we have signed two deals which I think may be Hari can give the names, not the names but at least we will give you the value on it. Hari, do you want to comment on it?

Hari Haran Yes absolutely. Most of the recent deals that we have signed are in the Cloud Computing area, one is without getting into the name, one is a large storage cloud company and the deal size has reached \$5 million over a three-year period and another deal we have signed is very large software application company, it is a public company to take a switch of their application and put it on the cloud and that deal spans over multiple layers as well which is anywhere from \$1 to \$2 million per year. These are just to represent a couple of deals that I wanted to tell you. Again you know piggyback again into the trends of Cloud Computing we are seeing a number of those type of activities and queries coming about from our customers.

Atul Bhole And so the first deal you said was \$5 million is per annum or it is for three years?

Hari Haran No, it is over three years.

Dr. Anand Deshpande Yeah, even I was pointing out that this is early for us. Lot of our deals stand to be relatively smaller as compared to some of the big IT companies. When you are doing product outsourcing thing EBIT sizes are typically smaller than you will see if you are doing this IT outsourcing. Deal sizes are smaller, half million to a million dollar deal usually is good deal for us. And a million dollars a year is pretty decent amount of money for us you know our top 25, 25th customer on our list would be about a million dollars. And the thing about it is we have 300 customers and the fact that we work with a large number of companies, there are multiple projects going on with them allows us to scale and grow the business. But when you win a new deal there are, the pointer of the deal at that time is usually small but the deals will, when we do this three-year deal, it is certainly not going to end with three years. It will continue much beyond three years. From that customer there will be

other business that will come along. They make a commitment they are usually sort of cautious about making these big commitments but three year, \$5 million commitment for us is actually a very good contract for us.

Atul Bhole And you rightly mentioned that the deal sizes are pretty small but if you see the client concentration, your top client is 14-15% which includes increase of 5% quarter on quarter so and they are seeing a lot of traction from that top clientele. What is your overall policy? What is the maximum size you will be comfortable with for the one or top five clients?

Dr. Anand Deshpande See again, we have as I mentioned to you we have a large number of customers, we have 300 customers. We have a large number of deals and I think we would be very happy to take two or three customers who are large and that would be something we are actually looking for. We had in the last quarter one of our customers give us a significant project which allows us to do data migration work from one platform to the other and that has grown very significantly in the last two or three quarters. That has shown some numbers here and also our large, both our, we have two customers which are actually head to head in terms of their size, both of them are very big companies. We are seeing growth in them and when we have a large customer like that we actually have multiple projects going on with that customer. It is not only one project that is as large as that.

Atul Bhole But as a policy from the risk angle are you comfortable with the type of percentage from the top client or top five clients?

Dr. Anand Deshpande See I mean if you look at our numbers I think we are very diversified. I think our top ten customers are very small as compared to the total. Top five are also pretty small as compared to the total. I do not think we are anywhere near risk on trying concentration. I think if anything I would be more concerned about the fact that our deal size is small and how do we increase our footprint in our customers. I do not think I am at all concerned about client concentration at this time.

Atul Bhole Okay sir. Best of luck and thanks a lot.

Moderator Thank you Mr. Bhole. Our next question is from the line of Anurag Purohit of Alchemy, please go ahead.

Anurag Purohit Just running through some of the data matrix this quarter onsite our revenues have increased significantly in compare to T&A as well top client has grown by 12 are all these things correlated and what should be the trend going forward especially for onsite-offshore mix?

Dr. Anand Deshpande I think you have asked a very good question and you are absolutely right both those things are correlated. This particular customer that we are starting an engagement with where we got some business. Actually our onsite component on that grew much higher in this particular quarter. We expect some of this work to move back to India in a couple of quarters down. We expect that the onsite percentage in terms of the percentage of revenues to actually go down after a couple of quarters.

Anurag Purohit And secondly on billing rates, because if you look at quarter four billing rate is at par at quarter four FY09 but overall FY09 billing rates are still way better than the one that we have witnessed in quarter four so as discounts get over into the system, should we expect downsize to happen to move towards to 12800 to 13000 kind of figure?

Dr. Anand Deshpande Absolutely we expect both the onsite numbers and the offshore numbers for next quarter to improve. The discounts are gone but see there is always a trade off you know sometimes when you sign bigger contracts the rates tend to be lower. We tend to get a lot better rates when you work with smaller startup company. The challenge though is that the deal sizes are smaller so it is a tradeoff that we have to work with. Sometimes while billing rate is a good way to look at it, profitability per account is often a better matrix for us and that is what we track internally. Yes, we expect the rates to go up for sure but that is sort of where it is.

Anurag Purohit Okay. Just an addition to that you mentioned good amount of revenues also come from startups and smaller companies, what exactly you are seeing on that front especially on the new product developments, what verticals you are looking as the new products are coming in and startups are coming in particularly in US?

Dr. Anand Deshpande I will ask Hari to comment on this in a while but essentially we are seeing a good traction as I mentioned to you. We are focused on these four areas Cloud Computing, Analytics, Enterprise Mobility and Enterprise Collaboration. Although these are now back with their wallets and trying to find new company. The small company traction is good, there is no challenge on that and areas that we are in are hot, which means there is a lot of activity there. Let me hand to Hari who can –

Hari Haran Thanks a lot, on the startup side as Anand indicated we are seeing increase amount of traction. We are seeing definitely increased activity with startups this year compared to earlier last year. As Anand indicated the venture capital is private equities have started coming back and putting more funding into many of these companies and one thing I wanted to mention over and above what Anand said is we are seeing a trend towards some of

the startups doing more end to end projects and sort of handing over chunks of entire product development to us and that is after managing their cost as well as helping with their time to market so this is boarding out well for us well. And we are seeing more, definitely more activity in the venture capitalist community.

Anurag Purohit Okay that is it and all the best.

Moderator Thank you. Our next question is from the line of Niral Dalal of Almondz Global, please go ahead.

Niral Dalal Can you help me with what has been the volume growth in this quarter and for FY10?

Dr. Anand Deshpande The volume growth has been higher than our increase in revenues and we haven't got data here but I will give it to you separately. Dollar growth has been 9.9% near double digit growth and a volume growth will be around 11%. And it is the number of nine months billed relative to the earlier quarter would be around 11%. I will give you the exact data separately.

Niral Dalal Okay fine and what would be your hiring plan going forward for FY11 and in terms of the mix of fresh, new hires so what are you looking at in terms of fresher hiring as well as laterals?

Dr. Anand Deshpande Let me have Hemant Pande who is our head of planning here to give you an answer on this question.

Hemant Pande As Anand also mentioned is that seeing the growth we are been part of recruiting and we have a plan of recruiting about 400 fresh graduates in the next three months coming up and we do have a plan of hiring laterals also and that would be skill base its a function of the demand that we have but we are looking at growing about 150 odd lateral hires in the quarter.

Niral Dalal Okay fine. Okay thanks a lot.

Moderator Thank you Mr. Dalal. Our next question is from the line of Sandeep Agarwal of Antique Stock Broking, please go ahead.

Sandeep Agarwal Sir, I just had a question on the EBIT part if you see the operating profit of Quarter 4 FY09 it was at 27% and this quarter it is 17% can you please explain reason to me.

Rajesh Ghonasgi Yeah Rajesh here. Yeah, the reason is because if you look at quarter 4 FY09 and look at the variables, one of the variables that was very-very impactful

that quarter was the forex rate. Even at Rs. 50.2 average rate for January, February, March of March 09 versus Rs. 46 in the immediate past quarter. This is a large part of the reason why the ratios look as if they reduced, so it is dollar driven.

Sandeep Agarwal Okay and second question, if I take up the FOREX income from this quarter's income then I think the margins will go down, the net margin, the EPS will come at around 6.6 or something. So is that correct?

Rajesh Ghonasgi Yeah it is correct but if you look at this we have also had a reduced rupee dollar rate, so to match that we also see that we would have had a higher EBIT last year. That is one of the differentials that will always be there and that is the reason why we have a fairly healthy hedge of around \$79 million.

Sandeep Agarwal I would be asking the last question that is on the segment, last time also I had the question on the BFSI which was wrongly framed. I think the question is actually how much impact do you see of other segments like BFSI on your segments and along with that I also wanted to know about the infrastructure systems which is a major contributor to your revenues.

Dr. Anand Deshpande I do not see our business that way is quite homogeneous. We focus on product companies and build products for them. See traditionally we have worked at the database and all these other areas. And this is where our infrastructure systems business is rather strong. We do work with banks and other banking and BSFI type customers. It is just that it is not substantially we do not do banking work for them we tend to do infrastructure work for these companies. And that is how we have classified them and when we say okay we are a BSFI company and people would expect us to have banking domain expertise. That is not where our expertise is in. Our expertise is in the infrastructure areas and that is the reason why we do not classify them as BSFI but rather classify the work we do depending on the quality of work we are doing.

Sandeep Agarwal Thank you sir. Good luck on the good results.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Subhashni Gurumurthy of Ambit Capital, please go ahead.

Subhashni Gurumurthy Hi, I just wanted to understand basically our competition is also from the captives so you know, what is the trend we are seeing as of now, you know especially post the recession and are we seeing basically, or are we gaining market share against the captives as of now?

Dr. Anand Deshpande Yeah Hari go ahead.

Hari Haran Sure. Ms. Gurumurthy one interesting fact is you know we are seeing that large companies that have captive centers in India many times their motivation of using companies like ours is less to do with manpower, it is more to do with expertise. Many times it is an issue of the expertise is needed immediately and the product mix to get out to the market quickly and they are simply don't have the resource for the bandwidth to get it done and we can provide that. We are seeing a trend back you know regardless of whether a company has a captive or not in some of these areas which are where there is need for getting a product thought very quickly particularly in enterprise mobility collaboration and fix areas. We are seeing them still looking through external partners to fulfill that goal. Anand.

Dr. Anand Deshpande I think that is correct for you and Subhashini what we do find is that when you have to react very quickly captives' are not able to do that and there is also a management bandwidth issued so while captives do compete with us actually the value proposition that we provided is quite different from the captives.

Subhashni Gurumurthy Sure, and just one last question in terms of your sales cycle I mean how has that changed you know versus the last year and the previous year actually you had like a four consecutive quarters, the bad quarters, so how has the sales cycle actually changed?

Dr. Anand Deshpande Hari you want to answer that?

Hari Haran Sure, actually there is not one answer for this sales cycle really depends on the size of the company. When we deal with startup and mid-sized companies the sales cycle tends to be short. Sometimes we are seeing deals getting done in a matter of a week, as short as a week and sometimes in a couple of months. Now when it comes to large sized companies obviously due to their processes involved and due to the numbers various players we have to touch and eventually closing a deal it takes anywhere from six to seven months itself. That is what we see a sales cycle and in some exceptional cases may be slightly even longer than that. And in terms of a trend of what we are seeing in the sales cycle in the first segment really nothing has changed, the deal cycle continues to be short, whereas in the other ones we have seen that deal cycle has shortened a tad bit and 18 months ago with larger companies we would see sometimes 9 to 12 months and now we are seeing 6 to 7 months obviously it is slight shortening in the cycle also for the larger company. Anand, do you want to add?

Dr. Anand Deshpande Yeah I would like to make other comments on this. Subhashni what we find is, point to note is that you know lot of our business actually comes from existing customers and grows on existing customers. So when that happens

actually it is pretty much you know these deals cycle can be very shortening. Somebody knows what they are wanting to do and they are already worked with us. We already have a contract with them so it is pretty fast in those cases.

Subhashni Gurumurthy Sure, sure. Thanks. That is all from my side and all the best for the coming Year.

Moderator Thank you Ms. Gurumurthy. Our next question is from the line of Niral Dalal of Almondz Global, please go ahead.

Niral Dalal Yes sir, can you explain to me what type of revenue sharing arrangements you have with your clients?

Dr. Anand Deshpande Yes, I can give you some examples of the kinds of listed share agreements we have. So for about two or three customers we build connectors. Let me give you explanation of what this means. We work with a large product company, something that has an infrastructure product and that does a monitoring of computer systems at large and what we provide for them is we have built certain components for them that allows to monitor Microsoft based platforms of this company and that particular connector we have built view on the IP on it and we get royalties from our customer every time they sell it. The arrangement is slightly different in the following sense. The connector is exclusively sold through that one company, hence we are not creating any sales team to go and sell these products that all the sales happens through that company and we are on a revenue share agreement with this company.

The other one I can point out, we have done about 10-12 such agreements of different kinds of this to get this one. There is another one where we have bunch of migration tools, every time somebody migrates they pay us royalty they buy the product from us. There is a set of products that we acquire from big strategic companies that was announced on our website a few months back. The name of the company that we acquired it is from MeadWestvaco and this is a packaging branding product that they used to earn that we have acquired from them. It has some existing revenue stream and there are opportunities to do more things with them. One of the exciting opportunities that we find in these kinds of projects is the fact that when we acquire the products like this in some cases especially two or three are the big ones, we got along with it a dozen customers who are very large companies who buy these products and it is up to us to see how we can take our entry into these companies and do more things with them. There is one benefit of the revenue stream that we have from them and the revenue share agreement and the second benefit is the fact that we can take these

contracts and go sell other things to these customers that we have inherited through this particular arrangement.

Niral Dalal Okay, so what would be an average percentage in terms of revenue share?

Dr. Anand Deshpande See again it varies a lot. In one of two cases like for example, see it has to do with the volume of sales that we are looking at but some of these customers we have on product licenses we may be having 50% revenue share and in some cases it is 30-35% revenue share. You have to understand you know what happens with these products is that these are products that are considered not strategic by our customers. Hence they hand it off to us. We have paid no upfront money to these companies when we bought these products from them and we are sort of collecting the revenues and sharing it with them and we are able to you know sustain them and get better revenues for them and that is why they find these agreements worthwhile and we get independence we are not tied to T&M rates, we can do what we want to do with it. We have opportunities to build derivative products out of this and our long term philosophy is that if we collect enough of these kinds of things, the aggregation of this can be fairly valuable and that is when other benefits that we are looking at in the long term.

Niral Dalal Okay, fine and one question on the financial side. This quarter on a sequential basis, margins have dropped by close to 100 bps, and I believe that is increase in S&M and G&A as a percentage of revenue. So you believe this increase in kind of S&M expenses would continue for FY11 and beyond?

Dr. Anand Deshpande Definitely we will continue to, I would not say we continue to increase but we are not going to reduce the percentage on S&M. We expect the percentage in S&M to be 9%, between 8.5 and 9% on next year's basis. And we believe that you know there are very good opportunities that we can exploit get and some investment, extra investment in sales would go a long way and we are consciously making those investments. Typically on the other things Rajesh you want to comment.

Rajesh Ghonasgi Yes we have already made some investment in S&M and we will continue to make but the ratio will be around 8% to revenue. The other part of the question was relating to SG&A. These are certain one-time provisions that we have made. These are not continuing provisions. However within G&A also there would be some investments and it is sort of required licenses, required inputs in terms of infrastructure etc. but there is not going to be substantial going into the future. The major investment which will continue will be in S&M.

Niral Dalal Okay so EBITDA margins will take a knock in FY11 compared to FY10?

- Rajesh Ghonasgi** There will be a not stable or improve as the volumes increase.
- Dr. Anand Deshpande** See this year again, this year has been a very unusual year for us because in the first half of the year we had a large number of people who were not billed when the rates were lower. It is a very complex year when you split this in terms of what happened on a quarter on quarter basis.
- Niral Dalal** Okay fine. Thanks a lot.
- Moderator** Thank you Mr. Dalal. There are no further questions from participants at this time. I would now like to hand the conference over to Dr. Anand Deshpande for closing comments. Please go ahead.
- Dr. Anand Deshpande** Sir can we have Rajesh make a few comments and then I close out?
- Rajesh Ghonasgi** Yeah, I just wanted to tell you out specific thanks for coming on late Friday evening. The part is me and Vivek are always available on the other side and we would like any queries that you have, any points that you would like to know, we mark towards and we will have it addressed immediately. Anand, you can take over.
- Dr. Anand Deshpande** Yeah, thank you very much again for being on this call. We appreciate your taking the time and following up on this one. We would like to invite you to come to Pune at your convenience and we would be happy to host you here. If you have any further questions you can also send them to investors@persistentsys.com and we will be happy to answer them. I would just like to summarize that we had an exciting quarter as we finished this one. I think the stiffness of the market is behind us and some of the technology areas that we have picked I think are giving us good results and we are actually very excited about the next couple of quarter and the next year as such. Thank you very much for your time and speak to you again in a quarter's time.
- Moderator** Thank you Dr. Deshpande and members of the management team. Ladies and gentlemen on behalf of the Persistent Systems that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.