“Persistent Systems Limited
Q4 FY-20 Earnings Conference Call”

May 6, 2020

MANAGEMENT:

Dr. Anand Deshpande
Chairman & Managing Director

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

Mr. Sandeep Kalra
Executive Director & President - Technology Services

Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Mukesh Agarwal
Chief Planning Officer

Mr. Saurabh Dwivedi
Head, Investor Relations

Mr. Amit Atre
Company Secretary

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Persistent Systems Earnings Conference Call for the fourth quarter and financial year ended March 31, 2020. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 today on the call Dr. Anand Deshpande, Chairman and Managing Director; Mr. Christopher O'Connor, Executive Director and Chief Executive Officer, Mr. Sandeep Kalra, Executive Director and President, Technology Services Unit; Mr. Sunil Sapre, Executive Director and Chief Financial Officer; Mr. Mukesh Agarwal, Chief Planning Officer, Mr. Saurabh Dwivedi, Head of Investor Relations; and Mr. Amit Atre, Company Secretary. I would now like to hand the conference over to Mr. Christopher O'Connor. Thank you and over to you, Sir.

Christopher O'Connor: Thank you very much and everybody Welcome to our hour of spend about our performance. We had a very productive year this past year with a lot of dynamics, a lot of changes, and growth. We crossed the $500 million market for the first time so half a billion dollars in our pocket at US $501.61 million for the year, that in Indian Rupees is 5.9% growth rate and we are solidly pleased with our performance. In terms of fourth quarter financial performance revenue, revenue was at US $127.05 million that was traction, 1.8% quarter-on-quarter, however, growth was 7.1% year-on-year. As for margins, EBITDA stands at 13.8% while EBIT stands at 9.2% and PAT is at 9% and we remain focused and have work to do in that area. For our full year performance, revenue as I said it was US $501 million growth, US Dollars 4.3%, in INR 5.9%, EBITDA at 13.8%, EBIT at 9.2%, and PAT at 9.5% and Sunil will cover more of these details at a much more granular level then I will here. As for the business, when we focus on business, in quarter marquee wins continue to be a part of Persistent. We continue to grow inside of our large accounts. Likewise, we continue to find new business and we are adding several hundred new logos to the Persistent ranks as customers and clients of ours. We continue to do great work with Salesforce, building a COVID-19 care response solution for their healthcare systems. This was highlighted in work and articulation by the CEO of Salesforce, Marc Benioff. We continue to scale COVID-19 solutions or scaled COVID-19 solutions as it became needed delivering CDC deploying SaaS solutions for healthcare providers, and likewise, we rolled a patient engagement engine sort of a digital front door with Salesforce at one of the largest pediatric healthcare providers in the United States, so our focus and our work around healthcare and our pivot as COVID develop throughout the quarter became a part of our business as well.

We, likewise in the pharmaceutical industry, launched the patient-relationship management solution, again using Salesforce as the base platform. We delivered in addition to that other solutions and other types of tools well into the industry, we delivered a new secured digital voice authentication mechanism for banks and credit unions, again extending our digital reach into the industries. We used IVM, ELM tools to give access to critical oil and gas data within hour instead of days in terms of being able to call that information and provide it in useful format and we provided work around cyber security products as well as multiple internal applications for a global leading supplier of semi-conductor and infrastructure software products. Our client list continues to remain robust, our focus across different industries such as healthcare and banking continues to be strong. We continue to find business with our alliance partner and continue to expand that goal. We did see a drop in our royalty revenue and as we all know, a drop in royalty revenue goes straight to our bottom line and turns out how the market looks and that was a primary driver in some of the places where our margins are not where we want it to be.

We focused on plan to make this businesses more profitable and I will talk a little bit more about that in the Alliance section just below when we come to that. Likewise, we put a keen focus on large levers and we were in a year of transition this year, it would be probably one of the best things to state. We created a bubble of change and a bubble of change does cost money and that does hit on the bottom line, we were through that change and we have the management team. We have the people we want to have, we have the sales leaders we want to have, we are done with the re-branding exercise which was an endeavor that had real expenses and those are behind us and we start to hear in most parts in a positive position compared to 2020 and compared to 2019 from a total expense point of view and many of our categories that we are tracking, so we have got a strong pipeline in front of us, we have got a strong view of how to go after that pipeline and we are in the middle of COVID-19 just like everybody else is. The units themselves, Technology Services, grew strongly and Sandeep will take you through the story of what worked there and what not worked there, it is a great story. We grew at 14.7% year-on-year, Sandeep will provide you all the details.

In the Alliance businesses unit, we had ups and downs, while we saw strong growth in certain categories and continued to grow in the reseller business, year-on-year we saw change in our royalty structures that continued to be something quarter-on-quarter that we have to work about. Full year revenue is about 4.7% down from last year and that is a continuous remain work item for us. COVID related, so everybody wants to know about COVID and what it is doing to some. First, we brought 11,000 people home in a week. The last day of us bringing people home was the first day that India had its lockdown, so we saw this coming, we brought our people home. Our clients were with us in bringing people home and nearly across the board, all of our clients were in full support mode of their work continuing as we brought everybody home. We did have one or two cases in financial institutions where we had to make some adjustments and some regulatory compliance items, but for the most part we brought all of our people home within a single seven day period of time. We were done bringing our people home just as the lockdown in India started and everybody was at home with productive means of being able to do work on laptops that had been secured, that had been joined to the networks, and approved by our clients in all of this situation, so we are home, we are safe and we are secure, and we are productive.

We have very good peer communications with our employees. We talk to our employees on a regular day basis. We have started a coffee break for all the 11,000 employees everyday and we all gather on a single channel to be able to share stories about how we are doing. COVID-19 while unfortunate and not something we want to see in world has presented opportunities for us to be more together while alone and we have engaged in that. These coffee breaks are fantastic as sometimes thousands of the employees and myself and Anand and the executive team gather to have coffee for 15 minutes every day on a virtual channel where we can share pictures and stories. It is kind of amazing to see. We are also in communication with, I would say just about everybody. One of the things that the phenomenon with COVID-19 is everybody wants to know what everybody else is thinking and it has been a fantastic door opener to have the opportunity to talk to analysts, to talk to consultants, to talk to our customers in particular and talk to our peers in the industry and find out what are you doing, what do you see, what works and what does not work and what suggestions you have and so I will tell you one of the artifacts of COVID-19 is a tremendous door opening exercise. I myself, my executive team, my sales team have never been more busy talking to clients. It is not always in a method of new work, often it is just in terms of sharing stories, but the opportunity to be a part of that environment and for them to be a part of ours is absolutely fantastic and we built several models to go along them. We have built a model on a V-shaped recovery and elongated V, the U shape. We anticipate some degree of the U-shape recovery in terms of how COVID is going to run. We think to quit down and up is behind us and not going to happen. It is going to be some degree of go down, bounce around the bottom for a short period of time, short period being several quarters and then come back up.

The key question I think on everybody's mind is without a vaccine as well as will there be a second wave as countries, geographies, and regions reopen slowly and figure out what reopening means and what we would anticipate now with everybody else. The good news is our clients want to stay home for the most part, our clients are going to follow Governments and municipalities, our clients are not restaurants, our clients are not parts in anything like that, so as those reopen our clients will stay home and in many cases our clients are with us and have told us you guys stay home too, stay productive and we will follow in the following weeks once we see what that does, once we know it is safe to come back. We do have customers at times asking us for a discount, we do have customers starting to ask us in some cases to delay new phases or second phases and we are expecting there will be some impact on our business. We have not seen any large-scale degradation of our business, but we do have a rolling list of impact that you would categorize in any individual and a small, but you add them up and aggregate and there will be impact. On the same token, we are finding new business, Sandeep will talk about this, I will talk about it in the Q&A section, but we do see new business out there in the industry and we are pursuing.

We have found new business in the Alliance business unit, likewise, we have some new business in TSU as well, both new logos seeking our skills, healthcare provider for example have signed with us on April 1st in the middle of all this, this absolutely needing our digital front door as a capability. In that example also, the existing clients asking us to do more given their satisfaction with our services, so as we judge the quarter, we definitely have put some takes and we aggregate that together and to us not being panicked or not being overly concerned, however, there is concern and we do have to watch this situation daily and we do have to understand that the quarter is not over and our clients have the capability of continuing to ask for things, but where we sit today is with the set of puts and takes that give us the belief that with management prudence that we can work as a team and be solemnly through this, and will be able to see what the total is whether that is a little up or little down, that remains to be seen as we work into the future.

We are maintaining a strong focus on our margin and EBIT. As I mentioned, we had the goal to get all the team changes, all the work we wanted to do is one-time work things like rebranding done last year and we accomplished that goal. We have a set of levers that we put in front of ourselves around EBIT and some of those have been pulled and would have been pulled COVID or no COVID in terms of how we are going to do that and we are maintaining a focus also on levers that we can pull around all this. Myself, the Board, my senior executive team have all taken a pay cut between 25%-20% and likewise we have catalogued and looked through our team in the rest of the world and we do have levers in the rest of the world that can be utilized and we have started to utilize those in certain geographies. These pay cuts would be temporary and obviously based on recovery-oriented scenarios as we do them. Likewise, we have scenarios and leverage that we are pulling around how we manage the expense that we having keeping people at home, certainly our travel goes to the positive side, but we do have increased IT cost and so we are squeezing in all those areas and there is room to squeeze it all those areas as we look at the work that we do at the same time.

We did our sales kickoff, we had all of us around the world 300 people gathered on their phones doing our sales kickoff virtually, it was an overwhelming success in terms of the way we did it, we did one day a week for about four weeks and we gave home work assignments, , we had sales people shooting videos of themselves, we had McKenzie, we had other people come and speak and provide us insights on what is going on. We got I think some of the best reviews of this sales kickoff both in its nature, the fact that it was endearing over a four-week period of time and it really provided a degree of confidence and encouragement that is one of the ability to double down on our top accounts and make real account work sessions and opening sessions in the face of COVID to be going for the go after business and new business. We remain strong in the areas that we advertised to you earlier around BFSI and healthcare life sciences. If you recall, we started showing those numbers, those numbers remain strong, Sandeep will speak more of the strength in banking in particular as we go into his section.

Jiani, President and leader for the Alliance Business Unit could not be here due to time differences, so I am going to cover her section. Right now, in this brief discussion, I am going to talk about the Alliance business. The Alliance business continued to see some headwinds. We were able to push aggressively to try to make the business more profitable and that work needs to continue. We did receive IBM Gold Partner status which given our size and our scope was a significant achievement. We are the number one reseller in some of the product areas where we work with the royalty products and we are the primary reseller along with being the primary mechanism for that product being constructed and that was the new miles that achieved this past year as well and we had that as we entered the quarter. We are likewise continuing to balance the variation of how we do work with our largest clients. We are building more services revenue with them and we are leveraging the IT relationships we have to be able to open more doors around the services businesses. Likewise, the skills and knowledge we have on some of these clients have let us open up doors with other ISVs and other system providers and we have announced and expanded partnership with the systems and you can see that press release happen in the last several days over in Europe and so now we are the sole systems provider of capability and service in both North America and in Europe and we anticipate results out of that.

Likewise, we continue to be strong IBM partner and we pivoted to focusing on Red Hat as well. Red Hat is very hot in the industry, a lot of need for the capabilities and because we are building Red Hat capabilities for IBM products, it makes us the prime capability to take those same skills and use them in the industry with IBM customers which we have started to do. We have starting to close deals in this past quarter around the Red Hat expansion and we think that is the seam of balance that we provide in the alliance business unit particularly as we look into 2021 as well, and quite frankly, it gives us the ability to come back cloud from a different point of view with a very solid capability that Red Hat is taking to market, so we have got not only registered with IBM, but we are also registered with Red Hat now as a prime provider of service and working in that environment. We see a healthy pipeline there as we look at that and also IBM's clients are striving to live in a hybrid cloud environment. In other news, we as a part of COVID-19 contributed 25 crores or US $3.3 million to relief efforts that will be distributed around the world. We continue to pivot our business and we are seeing recognition from analyst funds like ISG, like Constellation and like Zinnov, Sandeep will provide some more details on some of the work done with ISG and Zinnov in particular. It is good to see the recognition, it is good to be a part of those communities as we do our work. With that, I am going to hand it over to Sandeep, our President of the

Technology Services Unit, who will provide you an update on that business and after that Mr. Sunil Sapre will speak on all of our financials.

Sandeep Kalra: Thank you, Chris. Good Morning and Good Evening to you all, hope you are all keeping safe. I will just give you a brief commentary on the TSU Q4 and a little bit on the current situation. From a TSU perspective, the Q4 came in pretty strong as Chris alluded to. We exit the year also on a high note. The Q4 highlights were the revenue being \$93.7 million, this came as compared to \$90.3 million for the last quarter giving us a sequential growth of 3.7% and this 3.7% comes on the back of 6.4% growth in the quarter before, so that should show you the strength of the TSU business and the consistency of growth.

On a yearly basis, we came at 14.7% growth compared to Q4 FY ’19, for a full-year comparison for FY ’20 versus FY ’19, we came in at 12.1%. Some of you track the digital revenues and services revenues and we had said that we will stop reporting that from the next quarter, but for this quarter if you were to look at the digital revenues, we grew sequentially at 7.1% quarter-on-quarter, and if you are looking at the COVID scenario and a lot of people talk about how in the COVID scenario people would tend to become more digital and in the post-COVID world digital and all these forward-looking technologies will play a bigger role, that should give you some amount of color on our capability and our might to address the demand as it comes.

From a technology services booking perspective, the quarter came in pretty healthy. We do not report the bookings numbers, but we can only tell you that over the last few quarters this was one of the best quarters we had from the booking perspective. From an industry vertical performance, BFSI led the pack one more time and our quarterly growth in BFSI came in at 5.5%, this was followed by software, which is basically the ISV business and high-tech with 5% growth. The healthcare life sciences segment came in relatively flat as compared to last quarter and that is where the three verticals panned out from a horizontal service line perspective. On the service line side, Salesforce business that we have, the Salesforce service line continued the growth momentum with the labored 13% quarter-on-quarter and we also saw a very strong traction in our cloud and infrastructure service line. We have a fairly strong pipeline in the cloud and infrastructure business as well. From a customer quarterly performance perspective and the numbers that I am going to talk about are TSU specific, so please correlate to that. The top customer TSU grew by 3.9%, the top five grew by 4%, the top 10 by 2.28%, and top 20 by 3.84%, that should show you that there is a secular growth across the top

20 accounts and the secular growth is built on the back of cross selling, upselling, on our services that we can provide to our customers. Increasingly, we are seeing wallet share in our customer base become higher based on the strong service lines that we have built and the strong position that we have built over the years

Let us talk about the deal wins in BFSI and healthcare etc. and I will not talk much about that, but I can answer your question in the question-and-answer session. From a largely pipeline perspective, we have a fairly decent pipeline of large deals and when I talk large deals, we are talking about multimillion dollar, multi-year kind of stuff. The number of deals are also offshoots of our conversation on proactive proposals with our top customers and a number of these are coming from different channels that is our regular business development of the sales team that we have or the private equity channel relationship that we have formed over the years or advisors that Chris alluded to, this includes the likes of Zinnov, ISG, and references from people like Constellation Research and many more.

In Q4, TSU saw a strong traction with analysts for competitive positioning including, we had ISG name us as the top 50 sourcing standout, you know people in the US, it is basically America's Booming 50 category, that is a validation of our pipeline buildup of large deals over the last year. They also recognized us as the Salesforce in the leader category as compared to the rising stars before, that ringing forces are foray in our and move forward in the Salesforce business. From a Zinnov perspective, we saw that Zinnov zones come out for engineering and R&D services and we are proud to say that for the seventh consecutive year, we were rated as the leader in their engineering and R&D services which basically talks about the might that we have and as compared to some of even our larger peers, we were ranked much higher on our capability and expand. With this, I will hand over to our CFO, Sunil Sapre, and will be happy to take any questions as we go along. Over to you, Sunil.

Sunil Sapre: Thank you Sandeep and Chris, and Good Evening and Good Morning to all of you, I hope you are all safe and doing fine in these difficult times. Now that you have heard the business updates from Chris and Sandeep, let me take you through the margin movement and the financial performance for the quarter and the year. Before we just get there with the financial details, I just wanted to mention that as a result of the outbreak of this pandemic and the lockdown, and furthermore, we also had new auditors appointed during the year. We needed some more time to complete the financials and the audit and hence the audit related part of the Board meeting which we had on 23rd to 25th was postponed to May 5th and which was concluded yesterday, so let us now move to the financial part and I am glad to mention about the fact that we crossed the much awaited milestone of half a billion Dollars during FY '20. The total revenue came in at 501.61 with a growth of 4.3% in Dollar terms and 5.9% in Rupee terms. As you know, the fourth quarter for us is seasonally soft in terms of IT revenues, so while you see good growth on the services revenues, the drop in IT revenues resulted in a QOQ decline of 1.8% at 127.05 million in fourth quarter, which was a growth of 7.4% on YOY basis. In Rupee terms, the revenues were Rs. 90-Rs. 64 million, growth of 0.4% held by the currency on QOQ basis and 11.4% on YOY basis.

The linear revenue grew by 4.2% quarter-on-quarter, the fact that Q3 is a seasonally strong quarter and Q4 is a seasonally weak quarter reflecting the decline that you see in the IP-led revenue which declined by 24.3%. This also has an element of the reseller portfolio, which had an impact particularly during the month of March, as you know most of the new license deals happen during the month of March or the third month of any quarter, we had some setback over there because of the COVID-19 situation. On the linear revenue, the offshore linear revenue grew by 5.1% comprised of a growth in volume by 4.9% and billing rate increased by 0.2%, while the on-site linear revenue grew by 0.8% constituted by an increase in billing rate by 3.1%, while there was a decline in volume by 0.2%. In terms of the unit as Sandeep mentioned, the growth in technology services during the quarter was 3.7% while for the whole year the growth was 12.1% and we have dealt with the comments with respect to the growth in different verticals during the year. The sales and marketing expenses came in lower this quarter by 1% as we had few exits during the end of last quarter and some of the effect of adjustments that Chris talked about in his opening comments.

SG&A expenses remained in the same range as last quarter except that we have also to factor the expected credit loss in the context of COVID-19 situation and we have made a provision particularly in the respect of small customers who may face liquidity crunch and the extent of this provision made in the books is about Rs. 30 million. You will recall that we have deposits of Rs. 430 million with IL&FS and we had provided about 8% of that till the previous quarter. We have now provided the balance amount of Rs. 48.5 million taking the provisions to 100%, so we are now fully provided for this exposure. The EBITDA came in at Rs. 1277 million with an increase of 3.4% over the previous quarter, the EBITDA margin was 13.8% as against 13.4% in the previous quarter and the currency benefit during the quarter was 50 basis points. The full-year EBITDA was Rs. 4930 million at 13.8% of revenue as against 17.2% in the previous year, so if you look at EBITDA split between direct cost and SG&A, you will find an increase of 2.4% in the direct cost and that must be dipped in the gross profit and about 1% increase in the SG&A and that contributes to the dip in EBITDA . Some of the investments made in sales and marketing which Chris talked about had significantly higher sales and marketing expenses in the first half of the year, but these are now got optimized and we have that change behind us. The depreciation amortization was nearly at the same level and came in at 4.5% of revenue as against 4.6% in the previous quarter. EBIT was Rs. 857 million at 9.2% as against 8.7% in the preceding quarter and for the full year the EBIT was Rs. 3270 million at 9.2% of revenue as against 12.6% in the previous year.

The Treasury income for the quarter was steady at Rs. 229 million as against Rs. 232 million during the previous quarter. As you know we had dividend payout during this quarter that is Q4 both the first interim dividend of Rs. 9 per share and the second interim dividend of Rs. 3 per share. The foreign exchange gain was Rs. 44 million as against 102 million in the previous quarter primarily on account of the mark-to-market loss on the hedges that stand in the books, which were taken last year. For the next quarter the hedges are in the range of 72.50 to 72.80 and that is why you will find that mark-to-market loss existed against the gain that is recorded against realization from customers and hence the foreign exchange gain is lower as compared to the earlier quarter. The PBT was Rs. 1130 million at a margin of 12.2% as against 12.4% in the previous quarter. The ETR for the quarter was 25.9% as against 22.9% in the previous quarter and this is primarily because of the fact that the foreign exchange gain which is accounted in the Indian book has a direct impact on the tax liability and that is why you will find that the standalone profit for the quarter is significantly higher.

PAT for the quarter was Rs. 838 million at 9% as against 9.5% in the previous quarter and for the full year PAT came in at Rs. 3403 million at 9.5% as against 10.4% in the earlier year. The operational CAPEX for the whole year was Rs. 523 million, the cash investment on the books amounted to Rs. 14,796 million at the end of this quarter as compared to Rs. 13,779 million as at December 31, 2019. The value of forward contracts we have is 125 million at the close of the year with an average rate of 74.03 per dollar. One update that you would have noticed that we had filed on the April 23rd when we had the Board meeting that Mr. Praveen Kadle has been inducted as the Additional Director on the

Board, he is an independent member of the Board with effect from April 23, 2020. With that, thanks everyone and I hand it back to Chris.

Christopher O'Connor: Thank you very much Sunil, thank you Sandeep, so at this point in time, we will turn it over to the general population that is all here with us today and we will be happy to take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, congrats on a steady execution in this tough environment. Sir, most of the companies are giving a hint on how 1Q would be and how bad it can be, so do we also expect kind of a single digit kind of a deadline or what are the areas where we are seeing weakness, can we quantify anything on 1Q?

Sandeep Kalra: As you know, we do not give forward looking guidance, what we can tell you is as Chris alluded in his comments that we are seeing a mixed bag, there are some customers which are in the smaller category which are coming and asking for some discounts and some accommodation, but we have also see when offering us more business as we have go along. As of this point in time, we remain cautiously optimistic about our quarter and so we do not want to give any forward looking guidance. We are on the execution part, we are in very close touch with our customers whether they are at top 25, top 50 and we will give an update as we go down, but we would not give a forward-looking guidance.

Christopher O'Connor: I think the only thing I would add to it we are busy. We have never been this busy, it is good to see, it is depth in clients, it is new relationships and it is working with clients around current problems, which in some cases could have a negative earnings in fact negative revenue at the same time, so as I mentioned, we are in the middle of a whole group of puts and takes and it is positive in the fact that all of puts and takes are taking place, there is lot of activity and the activity we view every piece of activity is an opportunity to strengthen or broaden our relationships, we had one client ask us to take a revenue trim and of course they are great clients, so we said yes, but along the way they asked us if we looked at three other things and so we are also looking at three other things with them right now as well, so I think that is the best way to say it, I think cautious optimism and our ability to float neutral and minimize any significant downturn and I think that is the best way to see it right now.

Madhu Babu: Second question is on the, we have a lot of project-based work on Salesforce and some of this platform implementations and all, which currently we have a travel ban across most of the countries, so is that leading to a lot of pushback and discretionary spends and my last question is on a possible buyback, because the cash on balance sheet is now at a very strong level, so last buyback we completed in August, so would we look at a buyback post August this year?

Christopher O'Connor: I will let Sunil talk to the buyback and I am sure we do not have an immediate plan. The second part of your question about Salesforce, we see good strength in the land around Salesforce projects that are in the interest of connecting clients together digitally as a part of the extension of that value and so Salesforce has areas where it could be discretionary, some of the work we are doing particularly around hospital systems, around patient care, around digital front doors for healthcare and non-healthcare institutions is absolutely the pivot that clients are making in COVID-19 and Salesforce is a prime platform and that is well, so we are out marketing opportunities around these solutions to clients around digital front door right now and Salesforce is one of the components that we bring along and we organize that as an option and from that perspective Salesforce is helping, so I do not have a negative downturn to say about Salesforce in general in terms of how we see that business for us.

Sandeep Kalra: I admit what you said and Madhu if you look at it Salesforce is a SaaS-based platform, so in any which ways in a business as usual, time as well not just COVID, a number of our people on the execution side can work remotely, so from an execution perspective that is not impacting our ability on the demand side Chris has made the comments, so hopefully that answers.

Sunil Sapre: Madhu, we do appreciate the fact that we have cash on the books and we have to look at the best use of it. Honestly, we had at the start of the quarter couple of acquisitions that were in the pipeline, but as we know with the evolving situation, they have been on the backburner right now, so we will take a fresh look at it as quarter rolls by and as you rightly said, we have the cooling time which we have to take a look and the Board will take a call on that in due course.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions, one is on the top client, now you specified in the opening remarks that you have got some contracts with Red Hat or you have started working with them, so from a quantification perspective, do you think that the decline in top client is sort of done with and we can have a fresh start this year in FY '21?

Christopher O'Connor: In a normal business environment I would tell you that certainly is our plan. In a COVID-19 environment, our top client has partnered with our largest client is dependent on their ability to navigate COVID-19 as well and so there is some vulnerability that we are measuring in that and so while we see gathering services strength with our top clients and their customers because we have opened up channels through them to their customers, they have a transactional revenue number to hit of software that is far, far bigger than ours and that drops down into some of our royalty agreements, so that will push on us potentially as we work through the quarter and depending on how well they do that will translate into how well we do as well around that total top line. We have taken several steps to offset new partnership so that expands into Europe for the first time and we have deals that we are working with to sell in that geography to-date. Likewise, the Red Hat partnership let us not only sell Red Hat capabilities inside of our largest clients as they migrate all their products to be based on Red Hat, it allows us to sell those in the general enterprise leveraging our relationship with our largest clients and we have built a healthy, healthy multiple digit million to dollar pipeline on that and we are working away through that right now in the COVID world, so in a normal world I would tell you we are strongly on that path and a COVID-19 world there is some risk.

Mohit Jain: So from our performance perspective because COVID will hit everyone in the industry, so our performance from here on will be more aligned to how our top line does versus earlier situation where we were like falling off or declining faster than what our top line was reporting?

Christopher O'Connor: I think we are in a good neutral to better positive position right now and I think we have the pipeline to be able to work multiple assets, particularly around alliance business unit. Overall with the company, we have got a lot of these in areas that we are working to open up and that presents lot of opportunities for us as well.

Mohit Jain: Second is on services, now you have stopped disclosing that split between legacy and digital services, but as a total unit, what do you think in terms of your orientation is more towards digital business where the impact potentially is lower or you think it is more discretionary in nature, and therefore, your impact would be little higher in FY '21?

Christopher O'Connor: I will talk for a second at the company level and then have Sandeep give us kind of a really good introspection around TSU. Across the entire company, Red Hat work and the sell work included just about everything we do has a digital flavor and focus. When I arrived at the company a year ago, one of my first questions I asked the company was I do not understand why we have this delineations and the story and the work that we all talked through was multiple years ago when the cloud was a question, people understanding what was on-prim and what was cloud was the key question and back in 2015 and 2016 that was an interesting question to ask, but now it is 2020 and Persistent has continued to focus on partners that leverage new technology and new capabilities, so for example even around the sell system it has come out with an online digital manufacturing system and we wanted to apply integrators being able to convert people to that new digital capabilities, Red Hat is all about hybrid cloud and being able to pick any cloud vendor and put hybrid capabilities on top of it and leverage any application base you want with that hybrid capabilities that is digital as well, so the world has really shifted and a lot of the new project of value to be digital and that has been where Persistent is focused. As you know, we do not run large IT datacenters, we do not do conversion projects on old code on legacy systems that is just not who we are and so we as a company are keenly focused and if you look at our key partners focus on digital partners and digital expansion in that whole march of cloud present. Inside at TSU, I think that is even stronger, and Sandeep over to you for a few words on how TSU is navigating.

Sandeep Kalra: As Chris said, if you were to just step back and look at our business mix versus what our competitors do. We are not focused on any of the legacy platforms, we are not focused on this thing, we are not focused on Oracle or SAP production support and so on, most of the investments that Persistent has done over the last year and I would even say over the past are forward-looking technologies. We have always been the first to predict the trend and ride the trend to some extent. Now, if you look at our investments in cloud, our relationship with AWS, Azure, Chris talked about Red Hat. We look at our relationship with SFDCs of this world, the data companies or the platform companies that we work with, so the intelligence business automation companies like Appian, OutSystems and so on. If you combine that with our progress that we have on traditional product in and around which morphs itself in today's world to application development and maintenance, the entire story is about the forward looking side. Our investments in security, identity, access management platforms, we work in more remote environment, we have become more digital, all of that is very relevant in this current environment.

Mohit Jain: You are talking about the 32 mn$ dollar business right?

Sandeep Kalra: I am talking of the TSU business overall. If you look at it TSU business comprises of all these things, TSU is 73% of the company.

Mohit Jain: I was looking to which you used to disclose in the earlier classification where digital was more like 32 million, services was 62 million, I was referring to the 62 million?

Sandeep Kalra: Mohit, that is what we trying to clarify for you that while you may think as services being traditional services compared to our peers, the services that we deliver even when we say services that is more digital-oriented services. Now, if I was just to put a thread for you, what we are doing is we are looking at more if you look at our services growth, if you look at TSU specifically, our growth for the first quarter to second quarter was 3.5%, second to third was 6.4%, third is 3.7%, so that should tell you that we are not discretionary project dependent kind of a company otherwise these growth situation that growth is not possible, so that is coming on the back of larger multi-million dollar growth and those are sticky businesses, platform development at scale, product development at scale, application development at scale and so on, so in short our focus will remain more in the forward-looking technology, our focus will remain on the larger pieces of the pies in our top customers and otherwise and even in our new accounts, hopefully that answers.

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

Sandeep Agarwal: I just want to congratulate on a very good performance in services, so I have only one question to the whole management team that we have now revived very strongly our services piece and it is showing up in numbers for last couple of quarters or three quarters, is there a way you know we can also probably fix the balance piece which is the IT led piece and I know probably it will be very difficult to do a quick fix, but that piece is basically pulling our overall growth and margin quite substantially and have you thought something on that front and if I can squeeze a small piece of another question, is that this quarter also second time in a row that we are seeing beyond 10 doing reasonably well, so can we assign that the top five clients, top 10 clients all are being pulled down by single client and that is more due to COVID-19?

Sunil Sapre: Thanks Sandeep, your question is very valid that there is a 22% business in the alliance unit and about 4% business in the Accelerite unit and put together that is 26% and the rest 74% comes from TSU which is growing. It has grown by double digit this year as to what we are doing to manage the drag on the overall growth of the company, so what we have done actually is the fact that these relationships need to be leveraged on a complete crosssell mode, so today if you look at the alliance business, there are two business with IBM is one piece where we are dependent on their performance partly due to the fact that what they outsource to us and partly due to the fact that the sales product of which we have revenue share, but the third relationship that we have is with respect to the several logos that we have opened in both industrial and high technology kind of company and we are making a very conscious effort to leverage that into TSU growth as well where we can take these offerings of Persistent which are outside of the alliance unit mainly on the new technologies to these customers, so you will see more and more that kind of a leveraging of business while the dependence because of you can say tag-along effect which is there of the partner revenues will be there to some extent and to the extent Accelerite is concerned, we have blended Accelerite based on the underlying competency with TSU business, it has now been fully integrated with respect to data security, cloud products which we had in the Accelerite portfolio and will cross those accounts as well with TSU offering, so that is what I would say and we can also have a offline chat because there are several in the queue, but I think that would be my perspective.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir, I wanted to understand that our operating margins are consistently falling from around 25% levels in FY ’14 to around 14% this year, so first of all what is the reason for this and if you like a structural downturn, do you expect now margin to finally stabilize at this level or further there is going to be a fall because you are saying that customers are asking for discount?

Sunil Sapre: Just if you reflect back on the construct of the business that was there in 2014, you would find that essentially we had a significant portion of the revenue coming from the ISV business which was largely offshore. The percentage of people who were in the high cost geos were not more than 7% to 8%, but that business had a limitation to grow and when we started to grow in the enterprise side of the business, we started with the partnership approach, which kind of partnership whether it is Salesforce or the low -code/no-code players and so on and as well as the Oracle piece of it, so as years progressed you would find that our onsite presence has increased from 7%-8% what I talked about to about 17%-18% today. The other fact which has happened is also the fact that in 2017 and 18, we had significant thrust on building the new technology and the fact that we find today what you call place where we can navigate and fixed to the customers, so what we can do for them in this kind of a scenario of COVID-19, there is a lot of work that has gone in building those and as you know we have not been capitalizing any of the R&D or accelerator that we create, we charge of to P&L, so there is a 2% kind of an investment that has gone into building of various new technologies, the accelerators both in Salesforce, healthcare and BFSI whether it is a digital bank and so on will bring both license and services revenues for us, and remaining part of thing is the fact that, if you look at the sales and marketing expenses we were at 6%-6.5% kind of level and that is at an elevated level right now, so definitely there are levers that we have that we will pull and improve the margins on a sustained basis.

Keshav Garg: Also wanted to understand so that since all A travel is shut now and we do not know till when, Sir I mean what happens to your on-site side of the business wherein you send your employees to work abroad at the clients location?

Christopher O'Connor: I will give a brief answer to that and then we will move onto the next question. Our on-site people are home on-site just like all of the employees of that same company, so everybody has moved to a work-from-home environment very productively and everybody has moved to a work-from-home environment and if that company is home as well right now across the entire United States, so there is no place for them to go to work and that company nearly all cases have figured out how to keep projects and work going and team meetings and everything else using virtual system quite fantastic to watch, but they are home as well, I hope that helps.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.

Girish Pai: I just had two questions, one is regarding the opening remarks that Chris you made regarding the change in the royalty structure, is that the reason why IT revenues are down about 15% year-on-year in FY '20?

Christopher O'Connor: Let me be very clear, we did not change the structure of the royalty, the amount of royalty revenue arriving has been what is changed, quite simply the amount of royalty revenue do to us was not quite what we expected in some cases and that is why that change comes from.

Girish Pai: What is the outlook for FY '21 on IT?

Christopher O'Connor: The products remain essential in many, many cases, and so the basic component of those products which is around service and support of software already sold remains there and viable for us and some of those products that is three-quarter to 90% of the revenue we receive is royalty, in some of those products it is 50%, so the other component besides service and support of software that adds up to royalty is new sales, new transactions and the new transaction component is where we will have to watch carefully with our largest clients to see how they do in their worldwide and global sales and that is what could be at risk or suspect around the COVID-19 oriented impact, but the base component of service and support we anticipate to remain very healthy and strong which is from 50% to 90% of the revenue we receive in a royalty format.

Girish Pai: Just one last question regarding spending in FY '20, it was indicated there have been some one-offs in terms of branding and recruitment of sales and probably even recruitment of people in the technology side, how much would you quantify that one-off as?

Sunil Sapre: In terms of the amount actually spent as one-off is $1.5 million on the branding exercise particularly which is one-off.

Christopher O'Connor: I think that is reflective, Sunil, of the branding exercise, I do not think that accounts for all the overlaps and personnel that we transitioned.

Sunil Sapre: Yeah, that is only on the branding exercise.

Christopher O'Connor: We likewise at the same time had a tremendous shift inside of our leadership team and in all of those shifts, they were done with overlaps in most cases meaning a new person was coming in and old person was transitioning out and whether that is in form of a payment or whether that is in form of just meeting the legality of the geography where that transition took place, they were transition cost as well that went into the unit expenses of both alliance business unit as well as TSU, but that was also substantial one-time shift that we see, we think we are largely with those transitions.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBI CAP Securities. Please go ahead.

Deepesh Mehta: Two questions, first to Sandeep, Sandeep just wanted to understand for Technology Service Unit, what will be the mix of business between annuity and project dependence business, and how you want to shape up our Technology Service Unit, may be over next three years between these two mix? Second question is about operating case generation this year, in FY '20 we have a relatively weak conversion to case and considering now some credit period extension request which we made is from client, FY '21 would also seems to be having some challenge so if you can provide your perspective how one should look or see of conversion into FY '21?

Sandeep Kalra: Deepesh, we do not disclose the numbers, but I will take a shorter cut, I will give you an approximate number and when we talk annuity, our annuity business would be let us say defined by contracts which are multi-year contracts. Customers who have been with us for many, many years who give us annual contracts, but these are basically you can think of them as extended tools for our customers who have been continuing for maybe in some cases two years, five years and even 25 years, so if we were to look at those mix of long-term views versus long-term customers, I would tend to believe 65% to 70% of our business on the services side is based on that and then there is business that comes in on project basis and that project could also be six months, 12 months, 18 months whatever and could also be the combination of business that we do and as we go along, we are on the journey of increasing this every quarter so that is where you will see the consistent growth come in the news and we have been announcing so.

Sunil Sapre: On the operating cash generation, yes, we can provide you more details, but probably I do not have it right now handy, so we will connect off-line and give you and we have a good idea of how it will happen. On your question about the extended credit period etc., I do not think the impact is going to be so heavy or something like that and we are trying to balance that along with the discussions that we have with clients with respect to getting more work as well, so it is not just, we are very conscious about the fact that we will not give extended credit in a way that has a net impact on the business as such.

Moderator: Thank you. The next question is from the line of Shruti Dhumal from ValueAdd Research & Analytics Solutions. Please go ahead.

Shruti Dhumal: I had one question regarding the BFSI segment, while your peers are showing negative growth I mean decline in the revenue, how is your company coping up with the COVID situation in the BFSI segment, and how is the outlook going forward?

Sandeep Kalra: If you look at our business mix, Shruti, compared to our peers and competitors whatever you want to call them, number of our programs are forward-looking and even when we talk about the COVID situation what are the discussions we are having with our banking customers. The discussions are more about how the world will become more digital and that is where Chris alluded to we have the strategy of what we call digital mosaic, which are basically re-composable portions we can bring to there and they can built on some partner solutions which the things like bank in a box where it could be layering the AWS, a Mambu and a few other components, putting it together in a rapid manner. Now, if you look at those kind of things, that is where we believe the Dollar spend will be more and more and the erstwhile negative kind of application etc. will get squeezed, so the way we look at it from our vantage point, but obviously we will see as COVID progresses, so we are cautiously optimistic about our foray in banking and similarly in other sectors as well.

Moderator: Thank you. The next question is from the line of Devesh Jhawar from Jhawar Tradecom LLP. Please go ahead.

Devesh Jhawar: Sir, I have read the news that Persistent Systems is awarded an order of US $5.2 million from US military, so you can throw some light on it and whether it is one-off type of order or there would be more such orders in the short-term?

Sandeep Kalra: We would not want to comment on any specific deal wins and I do not know what your source of information is, but we would not want to comment on this at this point in time.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.

Sandeep Shah: Just a question on the services side, at the one end we say that most of our services are forward-looking which is good, but basically which is important for you would be also important as a priority for the clients, so do not you believe this forward-looking projects can to some extent get deferred where client's current focus would be more in terms of business continuity and run the side of the business rather than change the side of the business, so in that scenario what makes you cautiously optimistic even in the 1Q and 2Q as a whole, so are you believing that even in a COVID situation most of these change side of the business or digital side of the business is more defensive?

Sandeep Kalra: Two-three parts to it, number one when we talk about forward-looking technology, we are talking of not just change the business, but even supporting our parent technology customers for example in their current things and most of our technology customers are product companies which are delivering latest generation cutting-edge technologies and so on, so our work is with them on both their current generation, it is also for a lot of our peers maybe the next generation and when I talk about the enterprise side of the house, everyone when we are talking about resiliency are talking about building these now, it is not about changing the businesses, it is about their survival. If they have to survive in a COVID world or post-COVID world, the digital front door that Chris referred to is their pathway to accessing their customer base, so a lot of the work that we are talking about building for them is essential for their business survival and is no longer going to change the business kind of a scenario, so that is where we are cautiously optimistic and we have the enough traction to be able to say that, obviously in the COVID world nobody has got a crystal ball to firmly say this number and so on, but that is where our traction is.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: I just wanted to understand that if I look at your margin compression in FY ’20 over FY ’19 that is mainly on account of employee expenses and change in marketing, while I understand that there were lot of initiatives that were taken and that now accounts almost 61.5% of your revenues, so going forward do we see this proportion to be maintained or do we see this to reduce that is one? The second is in the post-COVID-19 era, do you anticipate much larger proportion of your workforce working from home as compared to a pre-COVID era, these two questions?

Christopher O’Connor: We anticipate that the come back to work is going to happen very gradually and it will be accelerated in small all the same time. We intend to follow the lead of our clients in most cases and work with them on the desired work format that they would like and make sure we can do. There is benefit to being able to get back to the office both offshore and onshore in terms of teaming, new onboarding, internship in some of those capabilities and while we have put in place measures to account for those items, sometimes there is nothing better than working lives together. Our clients for the most part are moving at a speed that is comfortable for them and not at the same speed as perhaps Governments and States in North America are moving, in fact in some cases our clients are telling us they intend to deliberately move more slowly in terms of coming back to work, and in some cases our clients have even out of social well-being encouraged us to stay at home and that has engendered an entirely next-generation of what processes and procedures fantastic focus on being able to concentrate on the digital aspects of how to do work which is yielding a new productivity and will also yield shift in travel and a shift in business in terms of how it is done. In the long-term effective this will be a partial permanent change, think of this as if COVID shoved us three steps forward into this work from home environment, we will take one or two steps back to what was normal, but I do not believe we will go back 100% to full normalcy or where we were. The new norm will be a much more partial environment and it will take multiple, multiple months for us to even be at a non-restrictive point of view to see what that norm is. The good news is we are home and we are productive and clients are productive with us right now just across the entire organization.

Sunil Sapre: In terms of the specific initiatives on managing the direct cost, we have levers which we are working on and you will see how things pan out going forward, but the fact is that at least 100 to 150 basis points is something that we have specific initiatives and progress on.

Moderator: Thank you. We take the next question from the line of Sudhir K. from Motilal Oswal. Please go ahead.

Sudhir K.: If you look at the yields reported in the presentation, there is a sharp sequential decline of around 6%, this is despite the fact there is a 3% odd sequential increase in the yield of global delivery centres, I do understand that the billable person month in India showed a higher increase than in global delivery centres, but even if I take a weighted average, I am not able to reconcile the sharp decline in the blended yield, so is there any other factor at play here?

Sunil Sapre: Possibly Sudhir we will connect off-line because I do not have this one, it will be better to just go through that and we can help you with that, you can connect with Saurabh off-line who will help you with that.

Moderator: Thank you. We take the last question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Basically, I want to what understand the strategy for the alliance business, I mean we have taken several actions in the recent past, but it seems that problem is not anywhere closer to getting stabilized, so what is the real roadmap, what are the hope element in the business, what are the variable aspect on the cost side in case it does now, so how it looks like both from growth as well as profitability perspective?

Christopher O'Connor: Great question, as some of you may recall, we have gone through a set of transitions in the alliance business unit with our leadership there as well and that has given us and presented as all transitions do the opportunity to thoroughly examine that business and I think you said it very well in that we have cost variables that we can go after as well as we have revenue acceleration that we can go after as well. Several things, on the revenue side, we are in the process of extending our relationships to new sources of revenue that we see based on the skills that we have acquired, out of that we think are unique, valuable skills in the industry around industrial sector. Our partnership with the system as evidenced in our press release several days ago is part of that where we have expanded our ability to work in Europe as well as in North America with the systems and that will yield a much stronger services to software ratio than our largest partner has yielded with their products, we see evidence of that already.

The second thing is we have looked into our largest client and looked at how we penetrate to their customers not just with their client as an ISV, but to their clients as well as enterprise solution building using the digital mosaic that Sandeep so accurately described. This is more in our partnership with Red Hat, which is an independent partnership from our largest client and opening that channel up to work with the world of clients that are implementing open shift and Red Hat-based technologies to do hybrid cloud. In the alliance business unit we will leave that charge as well into that environment and we think that is an active segment of the market and it fits in our vertical and horizontal strategy across the company rather well, so we do see new revenue avenues there to go after. I would like to note that our reseller business with IBM was on target to do extremely well and in the last month of our last quarter, they were not down by COVID-19 in terms of new sales not taking place so while we had been tracking at 20% quarter-on-quarter growth for several quarters, our fourth quarter in the month of March took a severe hit of revenue there and so we will continue to see that avenue as well growing more services and more clients there. We did add around 60 new clients in the alliances industry solution in the last quarter despite this as we grow, so that is the revenue story. On the cost story, you will see us continue to focus on cost. We have a widely distributed team around the world, we work with our largest client on location and size and expertise, there is an opportunity they could derive some consolidation and we will execute on that consolidation as 2021 goes through and you will see us move to a different cost equation as well, which I think will benefit the overall unit business results and outlook, so we are working both levers, hopefully that gives you an overview.

Moderator: Thank you very much. We take that as the last question. I would now like to hand the conference back to Mr. Christopher O'Connor for closing comments.

Christopher O'Connor: I want to thank you all for your questions, the world is an exciting place right now. It is full of discussions and opportunities, we will absolutely, I believe that as the world is and the society emerging in a slightly different spot then when we went in to COVID-19. We maintain excitement around all the questions and all the activity we see was our existing clients and new clients and that excitement hopefully come across to you when you hear words from us like cautiously optimistic. We see and we feel and can help many of the questions that clients are asking and it is exciting to us, there are not enough hours in the day for us to be able to work through and all the activities that we see out there, so the market is highly active and while the word shelter in place are used around the symptom of the disease, our clients certainly are not sheltered in place in terms of having conversation to asking us, challenging us, and presenting to us discussions of all types and in that we will work through the quarter, we will continue to update you and with that I want to thank everybody for the call and we will see you next quarter and if you have other questions, you can certainly contact us offline so onwards and everybody be safe and thank you.

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