“Persistent Systems Limited Q2 FY21 Earnings Conference Call”

October 26, 2020

MANAGEMENT:

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Chairman & Managing Director

Mr. Sandeep Kalra
Executive Director and Chief Executive Officer

Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Saurabh Dwivedi
Head, Investor Relations

Mr. Amit Atre
Company Secretary

Moderator: **Ladies and Gentlemen, good day and welcome to Persistent Systems' Earnings Conference Call for the Second Quarter of FY '21 ended September 30, 2020. As a remainder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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, Persistent Systems; Mr. Sandeep Kalra – Executive Director and Chief Executive Officer, Mr. Sunil Sapre – Executive Director and Chief Financial Officer, Mr. Saurabh Dwivedi – Head of Investor Relations and Mr. Amit Atre – Company Secretary.

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

Anand Deshpande: **Thank you, Margaret. Let me first wish all of you attending this call Happy Dussehra and all the greetings for the upcoming Diwali season. I hope all of you are staying safe and taking precautions for COVID-19 and business continues to be well for all of you. It is my pleasure to announce and to welcome Sandeep Kalra, who the Board has decided to take over as the Chief Executive Officer of the company with effect from the weekend. Sandeep is not new to this meeting; he has been part of the companies since May 2019. And he has been attending and leading many of the discussions for the last several quarters. So I don't want to make a formal introduction but just welcomes Sandeep in his new role as the CEO, and hand it to him to share the highlights of the quarter and answer the questions.**

So Sandeep, welcome to the new role and let me hand it over to you to take it from here.

Sandeep Kalra: **Thank you, Anand. Good morning, good evening, everyone. Before I get into my prepared comments for Q2, I would like to take this opportunity to sincerely thank Anand and our Board for entrusting me with the CEO role. I, along with our 11,000 strong Persistent team, will continue to endeavor to take our company forward on our growth journey.**

Now coming to the Q2 results:

As you would have noticed, we delivered yet another strong quarter with Q2 revenues coming in at $136.09 million dollars versus Q1 revenues of $131.02 million. On Q-on-Q basis, this comes with equation growth of 3.9%; and on Y-o-Y basis, this comes to 8.4% in USD terms. In Indian rupee terms, the revenue came in at Rs. 1,007.7 crores, a Q-o-Q growth of 1.7% and Y-o-Y growth of 13.9%. This quarter saw us reach the significant milestone with both the revenue and the PAT crossing significant milestones of Rs. 1,000 crores and Rs. 100 crores respectively.

From a customer revenue growth perspective, our top 1, 5, 10 and 20 customer categories grew by 14%, 6%, 7%, 7% Q-on-Q respectively, thereby showing a very healthy, broad based growth. From an industry vertical perspective, at a company level, tech companies and emerging verticals led the growth at 4.7%, followed by BFSI at 4.2% and healthcare life sciences at 1.4%. From a service line performance perspective, we continue to see a strong traction in our product engineering services, as well as cloud and infrastructure service lines. Sunil will be covering our financials in much more detail a little later in this call.

Now, let me give you a colour on the performance of our two business units – the Technology Services and Alliance business:

On the Technology Services side, the Q2 revenues came in at $105 million, this gave us a sequential growth of 4.2% and a year-on-year growth at 16.6%. We won a number of large deals in the quarter in TSU across our existing customers and net new customers.

To give you some examples; in the technology companies and emerging verticals, we want a large deal with a global media solution provider. This is a multi-year multi-million dollar deal to establish a Center of Excellence, to expand data and analytics capabilities, as well as to provide engineering and support for their flagship platform. For a leading cloud based voice video messaging platform, we won in large multi-year multi-million dollar deal to set up a global technology center where we will be putting a number of engineers towards the fast tracking of the product development and optimizing their costs.

In banking, financial services, we won multiple large deals. To give you examples; for a large, tax technology company, we won a multi-year multi-million dollar deal to set up a global technology center, to help them develop and support their products at an accelerated pace. For an innovative multibank trade finance network in Europe, we won a multi-million multi-year deal to provide operational support, including IT services and onboarding for end customers and traders.

Moving on to healthcare life sciences:

we saw a number of large deals, including one with a large multinational medical technology company, wherein we won a multi-year multi-million dollar deal for rearchitecting their flagship product from legacy to a modern component based architecture. For one of our existing customers in the scientific instrumentation space, we won a multi-year multi-million dollar contract across new business units to build newer reporting applications.

Moving on to Alliance business:

The Alliance business came in at $30.85 million against the Q1 revenues of $30.06 million, thereby having a sequential growth of 2.6%. In this business, there have been efforts to improve the profitability as well. And these have yielded in new royalty contracts with growth products, enhanced level of service contracts with new and existing resale customers where we resell certain products, like CE, CLM and so on. And we were also named a partner of IBM for their financial services cloud.

In addition to our largest customer, Alliance is seeing a strong traction in services with other end customers, further yielding better prospects for revenue and profitability going head. The presentative deals won in the quarter included setting up a RPA Centre of Excellence in Mexico for a large technology company to meet their near-shore requirements for their end customers. We also won a deal with a large agricultural technology company where we are implementing blockchain and helping improve biosecurity on farms with IBM Food Trust solution.

In summary:

We are seeing growth in our large deal pipeline in the Alliance business, with a number of multi-million multi-year deals across services, Red Hat,

cloud and T&M businesses. We are excited about the partnership with Red Hat, where we are seeing growth across opportunities worldwide.

During the quarter, we also raised our partnership level with Red Hat to advanced build, and saw us expand our Red Hat go-to-market with opportunities in both Europe and Asia back, in addition to us. As you would know, our largest customer in the Alliance business announced that it will be splitting into two companies by end of CY '21. We believe this should be positive for us over a medium to longer term. Majority of our current revenues come on the core IBM side and a smaller proportion on the newco side, and this gives us opportunities on both sides as the company splits into two.

Over the past two months, I have spent significant time with our Alliance team in understanding the contours of the business. I am optimistic that the team is headed in the right direction under Jiani's stealership, who's the president for that business unit. We are hopeful that our Alliance business will turn around and become a growth business over the next few quarters. I am also optimistic about the opportunities and cross collaboration across our Technology Services and Alliance business as we simplify and integrate the service offerings and harmonies the way of working across the business units.

Moving on to the industry analyst recognitions. This quarter saw us get one of the proudest achievements for any analyst kind of award. This is for ISG Star of Excellence Awards. Let me take a few minutes to tell you why we are proud about this. So the ISG Star of Excellence Awards, these are based on the customer feedback. The customer feedback is about the service providers quality of services based on multiple different parameters, such as collaboration, innovation delivered, the quality of governance, quality of execution, among others. This was the first time we as Persistent had participated in these awards. And I am very proud to say, on behalf of our team, that we won the highest number of awards against the leading peers in our competition globally. We win the global ISG Star of Excellence Award, which basically means that we out beat 24-plus of our competitors, starting from the biggest in the US, Europe, India and so on. We won the North American and APAC regional awards. We also won global awards for banking, financial services in healthcare, life sciences, industry verticals. These awards should showcase to you the

strength of our customer engagements and the appreciation from our customers for the good work we deliver for them day in day out.

Apart from ISG recognition, we also win multiple other recognitions, including Forrester Wave strong performer award, or recognition in digital process automation service providers for Q3 2020. On the marketing front, you may have noticed we revamped our digital presence and brand expression with our newly launched website, in line with our branding.

Coming to the M&A side of the house:

You would have noticed we announced the acquisition of CAPIOT, strengthening our data integration capabilities in MuelSoft, TIBCO and Red Hat space. This acquisition is well aligned with our go-to-market strategy with one of our most as a partner Salesforce, and this will help us expand the footprint with our Salesforce customers. Going ahead, we continue to evaluate potential candidates from an M&A perspective and hope to accelerate the inorganic growth over the next several quarters.

With this, I would like to hand over to our CFO, Sunil Sapre, for his comments on our financial performance. Sunil, over to you.

Sunil Sapre: **Thank you, Sandeep. And thanks to Anand and Sandepe. Good evening to all of you, and hope all of you are safe and doing fine. And even if any one of you have been hit with COVID, I hope you have recovered and are taking precautions to stay safe. Coming to financial performance, Sandeep has apprised you on the business outlook and various dimensions of our verticals and the market perspective. Let me take you through some financial information for the quarter ended 30th September.**

The revenue for the quarter at $136.0 9 million at a Q-o-Q growth of 3.9% on the back of 3.1% that we grew in the first quarter, and Y-o-Y growth of 8.4%. In INR terms, it was Rs. 10,077 million, growth of 1.7% and 13.9% on Y-o-Y basis. The H1 growth in terms of Y-o-Y growth for H1 came at 9% in dollar terms and 16.5% in INR terms. As Sandeep mentioned, in the vertical space, we grew at 4.2% for BFSI, 4.7% for technology companies and emerging verticals, and healthcare was slightly softer with a growth of 1.4%.

Coming to the composition of revenue:

The linear revenue grew by 5.3% quarter-on-quarter. The growth in linear revenue, as you know, is net impact of COVID in form of discounts and ramp downs that affected us more in Q1, slightly lesser in Q2 and we see the impact further reducing in Q3. The IP-led revenue had a dip of 2.9% Q-o-Q due to the seasonality in reseller business where we had some higher reseller deals during the previous quarter. However, in terms of the composition of IP-led revenue, we had higher royalty income, while the reseller business was lower, the higher royalty income helped us in the margin profile of that business.

On the linear revenue front, the onsite linear revenue grew by 1.8% consisting of volume growth of 2% and declining billing rate by 0.3%. The offshore linear revenue grew by 7.7% comprising of increase in volume by 7.8% and small decline in billing rate by 0.1%. The utilization improved to 81.2% as compared to 78.5% last quarter. Attrition was lower at 10.6% on the trailing 12 month basis as compared to 12.7% in the previous quarter. We planned to do salary increments effective 1st November across the board for all employees.

Higher linear revenue, the improved utilization and better royalty income are the three important factors that helped us to register improvement in gross margin, despite currency movement being adverse during the quarter. The gross margin came in at 34.7% as against 33% in the previous quarter. Sales and marketing expenses came in at 8.9% of revenue as against 8.7% in the previous quarter, more or less holding steady. Admin and other expenses came in at 8.1% of revenue, slightly higher than the previous quarter which was at 8%.

Provision for doubtful debts is in the same range as in the previous quarter, mainly due to the provision for expected credit loss given the requirements of COVID-19 reporting. Significantly improved customer collections took care of the backlog that we had in the previous quarter and helped us to have very good operating cash flow. The DSO, you would have seen, has reduced to 63 days as compared to 69 days at the end of June.

On the CSR spend, besides our regular CSR spend, we had an additional spend on COVID related donations during the quarter. These included

medicines, PPE kits, financial support to hospitals for treatment of COVID-19 patients, donations to PM Cares Fund, Chief Ministers Relief Fund, donation to North American charity as well as to IISER Pune, for the sero-survey that was conducted in Pune. So the total CSR spend was Rs. 71.57 million, accounting 0.7% of revenue as compared to Rs. 95.40 million, which was about 1% of revenue in the previous quarter.

With this, total SG&A was about 18.3% as against 18.2% during the previous quarter. So the benefit that we had in gross margin with SG&A remaining almost in the same range, the EBITDA improved to 16.4% as against 14.8% in the previous quarter. Depreciation and amortization accounted for 4.4% at the same level as in the previous quarter. And with that, EBIT improved to 12.1% as against 10.4% in the previous quarter.

As you know, this currency impact we had during this quarter, the unfavorable currency impacted margin to the extent of 70 basis points. So, the improvement in margins is after the currency headwind. The treasury income for the quarter was lower at Rs. 208 million as against Rs. 279 million last quarter. We had benefit of mark-to-market gain on mutual fund investment due to the yield movement that happened in the last quarter, that is where we had higher treasury income. FOREX loss came in at Rs. 51 million as against Rs. 88 million in the previous quarter. Profit before tax was Rs. 1,375 million at 13.6% as against 12.3% in the previous quarter. ATR for the quarter was 25.8% and PAT came in at Rs. 1,020 million at 10.1% as against 9.1% in the previous quarter.

As Sandeep mentioned, this quarter saw these two benchmarks of Rs. 1,000 crores in revenues and Rs. 100 cr in PAT for first time. The operational CAPEX for the quarter was Rs. 263 million, part of which was essentially to enable all our employees to have their own Persistent provided equipment while they have continued to work from home.

As you are aware, we have announced the CAPIOT acquisition and their respective numbers will flow somewhere during the course of Q3 after we closed the transaction. The cash on the books amounted to Rs. 16,933 million as at September 30, as compared to Rs. 14,939 million as at 30th June. The forward contracts outstanding as at 30th September were $129 million at an average rate of Rs. 76.30 per dollar.

So with that, thank you everyone. And I hand it back to Sandeep.

Sandeep Kalra: Thanks, Sunil. So we can take questions. Moderate, please go ahead.

Moderator: Thank you very much. We will now begin the question and answer session. First question from the line of Sandeep Shah from Equirus Securitoes. Please go ahead.

Sandeep Shah: Congratulation Mr. Sandeep Kalra, well deserved. So, just wanted to start with the Alliance and the IP business, also Sandeep, coming under your leadership. You also in the opening remarks said that in the couple of quarters it would be a growth driver for the company as a whole. So, what exactly the changes you are driving which gives you the confidence that it would be a growth driver in the next couple of quarters?

Sandeep Kalra: Sure. So, first of all, thank you. And see, if you look at our revenue profile in the Alliance business, there are multiple pieces to that. There is the IP business that we have, there is a sell-with component with our biggest customer and there is a sell-to component to the bigger customer. Now, if you trifurcate these and go at these things in a different manner, there are avenues of having growth in each of these things. And last but not the least, if you look at it, there are avenues where if you simplify the organization structures, unify the organization structures and take the service lines across, there are many things that we have not necessarily taken to our Alliance business customers, which are service offerings that can be taken from our Technology Services across. And similarly, from our Alliance business there are many services and strengths that can be taken to Technology Services customers. To give you an example, the Red Hat story that we have, which is a very strong story emerging for us in the Alliance business, can be taken to any and every of our larger customers on the Technology Services side. Similarly, there are many things on the Technology Services side that can be taken to the Alliance side. So, we are pretty hopeful that this, and we have already started seeing traction, we are already seeing a number of deals surfaced by doing this. Plus, the margin profile of Alliance definitely can be optimized and we are working on doing that as well. So both on top-line and bottom-line there are multiple levers. And I want to keep my answers short so that we can cover many more questions, but happy to take it offline as well.

Sandeep Shah: Okay, thanks. And just last question in terms of margin, how sustainable is the 12% EBIT margin? Because wage hikes will start kicking in, the

purchase and the royalty cost is also likely to be at seasonal low which will improve going forward. And travel related project travel related costs may also actually start going up once the pandemic, to some extent, is stabilizing as a whole. So how confident in terms of our earlier aspiration to improve the margins in the near-term as well as beyond FY '21?

Sandeep Kalra: **Sunil, please go ahead.**

Sunil Sapre: **Yes, sure. So, Nitin, this margin that you have seen, you have to also look at the fact that the complexion of business in terms of VIP revenue, right, which had higher royalty revenue this quarter will continue in the next quarter. So Q3 is a seasonally strong quarter for the Alliance business as you know. The second important thing is that, a large deal that we had announced in the first quarter, now that is entering a phase where we will significantly move the resources from onsite to offshore and that will give us a release of cost. The third aspect is definitely the fact that the discounts and ramp downs that impacted us in first and second quarter, more in the fall slightly lesser in the second, but are definitely going to reduce in the third quarter. So we have, you can say, multiple livers, besides what Sandeep referred to, that is optimizing the delivery headcount in the IP portfolio across various products that we work with. And you would have seen that the IP person months has been coming down over a period of time, you would have seen over one year's time the headcount is down by about 300, there we are repurposing these people for other opportunities where we are growing in the product engineering and other areas. So multiple reasons are there for this to give us the confidence that while we are doing the wage hikes the same will get absorbed by all these levers and we will be able to hold margins at the current level. I hope that helps.**

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

Nitin Padmanabhan: **Congratulations, Sandeep, on the elevation. My first question is on, see, if you look at the client buckets, our $5 million plus clients have increased by five, to 16 in the last two quarters. And I think that has been a part of our strategy to improve annuity business. So I just wanted your thoughts on how the annuity business has improved as a percentage of the overall portfolio versus what it was earlier.**

Sandeep Kalra: **So yes, as you rightly saw, it's a stated strategy. And we have been very diligently following through on the execution of the same. And if you look at even our committee today, the kind of deals we are announcing are whether they are existing customers or new customers, we are trying to book larger deals, long-term deals, and all of these will layer up to your quality of revenue and the quality of customers in each bracket increasing. In terms of percentage, etc., we don't share that with the street. And going ahead, let's say about two quarters from now, we plan to share both, the order booking as well as certainly more colour on these things. So if you can hold off for two quarters, because we are in the process of harmonizing the processes across Technology Services and Alliance business, measuring these metrics and giving you the metrics as you go along. So from the next financial year perspective, you will see a lot of these numbers being shared.**

Nitin Padmanabhan: **Sure. And from what I picked up with the initial comments, I think the current situation where we have the PSU business showing good growth and the Alliance business being relatively weak on a year-on-year basis, that situation should sort of incrementally change sometime next year. That's a fair kind of understanding, am I right?**

Sandeep Kalra: **Yes, that's a fair understanding.**

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

Sandeep Agarwal: **Congrats to Mr. Kalra. Also, wish good health to everyone. So, I have only one small question, Sandeep, we have seen a very good performance in last six, seven quarters on the services side, while the Alliance side still is not as per our expectations. So, will it not make sense, and I am just trying to get some colour on that, but the way the proportion of Alliance is getting down in overall scheme of things, will it reach a level where it will become non-strategic for us or is it already non-strategic? And do you think that we can have some strategic gains from this part of the business, or you think that at some point of time, probably, it will be better to some way separate this part of our business, either through a divestment or through some other strategic action? Because it is kind of camouflaging our good performance on the services side.**

Sandeep Kalra: **Sandeep, there are a number of questions on that, so I will try and address it in a holistic manner. So, first and foremost, is it a strategic business for us? And do we see it as a strategic business going head? I would say, absolutely. And look at the mix of that business, that business is a healthy business working with one of the largest technology companies in the world, amongst other components of that business. And we are seeing a shift in strategy from one of the largest customers that we have, we are definitely seeing a rejuvenation at multiple levels at their end as well. Obviously, it has to play out over the next few quarters and years. Coming to our perspective on that, we are hopeful. And I have spent significant time over the last two months with our team, what I have seen and what I am working with the team on, I am pretty reasonably confident it can be a good strategy part of our portfolio going ahead. So I don't think there is any thought in our mind of any kind of divestiture of this business, not even discussed ever, and I don't even think we have that on the anvil. Now, the other side of it, from a growth perspective, we are definitely seeing green shoots of the opportunities from there, whether it is on Red Hat side with the customer, with the customers' customers, with our other customers and so on. So there are multiple different things that we are looking at. And I would say, give us two to three quarters to report back significant progress on that. And I am pretty optimistic that that can be done. So I will take a pause. Hopefully that answers you.**

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

Madhu Babu: **Just on your acquisition strategy. So now that that around Rs. 1,700 crores is the net cash on balance sheet, would you look at a sizable acquisition on the enterprise verticals where there are gaps like we are strong in BFS and healthcare, so maybe we want to add another vertical there? And what are the thought process from the board level on that? Just your views on that. And second, on the amortization, which is almost like 3% of revenues. So that was supposed to, I think, likely to come down in FY '22 and FY '23 and be a margin kicker. So just on the amortization also if you can help. Thanks.**

Sandeep Kalra: **Sure. So I will take the first part of the question and I will request Sunil to answer the second part of the question. So Madhu, on the first part, look, from an acquisition strategy perspective, so we are focused on making**

sure that we become more sharper in our value proposition. So if you may think of it as the service lines that we take to market, so that's one angle on which we are going, second is the industry vertical, third axis is basically the geographic diversification. So we are looking at the cusp of these three, and you will see us do slightly bigger acquisitions than what we have done before. But we are not looking at acquisition just for the sake of revenue aggregation and so on so forth. So for us, if it makes meaningful sense, in basically getting sharper on a service line, or deeper in a vertical, that's the first and foremost. And obviously, Europe is a stated goal for us to expand revenues there. Sunil, if you can talk about the amortization piece, please.

Sunil Sapre: Yes, sure. So, you are right, that the parts of the acquisitions that had happened in Accelerite, most of them have been amortized. The amortization release that is likely to happen now in this coming second half of the year will be in the IBM business that we had done. So you are right, that will release some amount that is sitting in amortization at the juncture. So, from FY '22 onwards, the amount will be actually seeing the full impact of that. But it is moving down one quarter for a certain piece and another quarter for certain piece.

Madhu Babu: So margin swing will happen in FY '20, one, because your provision for this COVID related and all will not be there and amortization will also come down. Is my reading right?

Sunil Sapre: Yes, that is right. You are correct.

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

Mohit Jain: Two question. One is on the onsite offshore mix. So we guys are broadly at 60% kind of an offshoring. Do you think that there is a scope for further increase in the enterprise business? Or do you think we are pretty much there and therefore hereon onsite offshore will be same, or similar?

Sandeep Kalra: So there is definitely a scope for improvement on the onsite offshore mix. And Mohit, this is driven by multiple factors. This is driven whether by the cost side of it, or more importantly now with visa regulations, etc., as well, so even the customers understand this very clearly. And COVID, interestingly, has been a different pivot also. So in COVID times, earlier,

even the customers who had objections about offshoring, or even within onshore they were hung up about they wanted people to be working from their sites, even their own employees are all today working from home. So the acceptability of offshore, combined with some other challenges, I definitely believe there is a certain amount of flooring that will also increase because of this.

Mohit Jain: **So is there a target in your mind, like, can we move like 3%, 4% there, or do you think it could be even bigger?**

Sandeep Kalra: **I wouldn't want to sight a target number. But we are definitely seeing more openness. And in fact, in some cases, the customers themselves are wanting to have more offshore. I would not want to put a target percentage and use that.**

Mohit Jain: **Okay. And the second thing was our performance in Europe, was way different from our peers, or what you would generally expect versus US. So any specific gap in Europe? Or do you think it was more like a client specific thing wherein you guys suffered more than others?**

Sandeep Kalra: **So there are two pieces to it, one is the specific current quarter-on-quarter nuance, let me answer that, and then I will complete overarching part. So quarter-on-quarter if you look at it, we had two large deals in the reseller business in Europe last quarter, which obviously which don't happen every quarter, so they are one-offs that happen and then they get renewed maybe a year later and so on. So that caused the swing from a quarter-to-quarter perspective. Second part, which is an overarching part for us, see, Europe, for us is a mix of two things. One, what we do in the Alliance business; second, what we do in the Technology Services business on different service offerings, including Salesforce and so on. Now, our intent is to take the services part across both these businesses higher. And that's where when I even talk about acquisitions and otherwise, the European part has been weaker for us. And hence, since it's focused on a few small components, our performance comes out different from our peers or competitors, whatever you may call. And that is one place, which over the next few quarters and years, you will see us focused more on, and we would like to have a bigger mix in Europe as a part of our performance overall. And hopefully that answers your question.**

Mohit Jain: **Sure. Lastly, Sunil, did I hear right that 2Q margins are sustainable over longer term, is this what you meant?**

Sunil Sapre: **Yes, Mohit, that is true.**

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

Girish Pai: **Congratulations, Sandeep, for the elevation. Sandeep, just want to ask you some medium-term strategy questions. How would your strategy be different from your predecessor from outlook on growth and margins over the medium-term?**

Sandeep Kalra: **So first off, let me say this, my predecessor was here for a short period of time, he came in, he did some very good work, and he decided to pursue other interests in life, so we would like to wish him the best. Now, even from that perspective, I have been in the company for last five quarters, so it's not that we were not doing something on the strategy front in the last five quarters. So we had set a certain strategy for the Technology Services side, we have seen some results from there, as you would notice, in the last four or five quarters we have had decent momentum on our side. Where I would want to focus is twofold. Number one, one of the charters for us as a management team is to make sure that our Alliance business, as you would have noticed from the earlier questions as well, starts turning in the same direction as the Services business is, and we bring growth into that. So, we are looking deep and far into that business and seeing what are the avenues, how do we bring one Persistent approach, how we take services or the strengths that are there in that business across other customers within Persistent and vice-versa, and even add certain things to that in terms of investments, whether it is Red Hat and so on. So, in the short to medium term, you will see that. In the medium to longer term, we are embarking on our own strategy. We are working internally on our next big thing for the next four years. We want to target a growth of $2 billion over the next four years, and we will come back to you as analysts in the next one to two quarters and talk about our strategy there. So far now, our biggest focus is to keep the momentum going, streamline, harmonies across the organization, bring Alliance to a growth, and put all this together towards a $1 billion plan, including the inorganic plan that we have talked about earlier in this, bringing it all together and executing over the next three to four**

years towards that goal. Hopefully, that gives you a flavor. And in the next one to two quarters, we will do an Investor Day as well, where we will come and articulate all these things.

Girish Pai: **One question on margins. This 12% number was something that you articulated a few quarters back. Now that you have hit this number, do you think that the number can move higher in the coming years?**

Sandeep Kalra: **So, I will just make an overarching comment, and then I will let Sunil talk about it. So for now, I think we are comfortable with this number. Can it move higher over the years? Yes, we have other levers to do that. But right now, our focus would be on sustained growth. So if we can sustain the momentum and build it up from here, that is our first priority. And getting to growth versus priority, growth is the higher priority. Margins at this level are good. If we can deliver better than that, absolutely we will try and do that. But with that, I will let Sunil also add a flavor to it. Sunil, please go ahead.**

Sunil Sapre: **No, I think I would echo that. The more important part that we should not allow margins to slip and be consistently chasing everything that needs to be done on all the operating levers to hold and grow. So if we are growing top-line with sustained margins, that is the first priority. Improvement in margins should not be at the cost of growth also is an important thing at our stage. So we will go with that and have the objective to ensure that the margins are sustained here.**

Moderator: **Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.**

Dipesh Mehta: **Congratulation on a strong execution. Two questions, first about, if I look at BFSI and healthcare growth, BFSI growth seems to be very skewed, top client in BFSI driving most of the growth. So if you can provide some perspective, how you plan to make it more broad based compared to one client explained large part of the growth in BFSI? And second is, healthcare seems to be relatively softer compared to industry, as well as overall the way market is shaping up in that side. And our capability side, if you can provide some perspective?**

Second question is about IP airlines business. Typically we see Q3 is seasonally strong, but last year it not played out. So how you expect, because last year H2 was weak.

So if you can give some perspective how you expect this H2 to play out? Thank you.

Sandeep Kalra: **Right. So on the first question first. In the BFSI part, you talked about the 4.2% growth, and you talked about it being skewed by one customer. So let me put it this way. I don't think it is skewed by one customer, it is a broad based growth. And yes, there are larger customers within that which obviously, if they have to grow at a certain clip, they have to contribute a certain amount of growth as well. But rest assured, the BFSI growth and some of the deals we talked about, so for example, we talked about a large deal, multi-year, multi-million dollar deal with a large tax software company, like that there are many other deals which are there. And so the BFSI growth is also broad based. And we are very focused on making sure that it becomes even more broader based as we go along. On healthcare life sciences, while the quarter may have looked a little softer as compared to the competition, the details behind it are, there was a one-time IP deal in the quarter before, which contributed roughly about $700,000, $800,000. So normalizing for that, this quarter also came in at a decent clip, because those IP deals don't happen every quarter. So you have to first fill the void cost by that and then grow. So I am not that worried, can it be better? Absolutely. And rest assured, we are focused on making sure it grows faster. Obviously, there are efforts to be done in that side. On the IP business in the Alliance part, last year compared to this year, from what we have seen so far, we are relatively confident there should be a little bump up in this Q3 part of it. But again, it is not done till it is done, so we will have to wait for the quarter to pan out. And we will be happy to report as we go ahead the progress of the same. Thank you.**

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

Rahul Jain: **Congratulations, Sandeep. So, do we see that the opportunities for the company has changed meaningfully in light of the digital exploration thought processors, improved deal, scale up on that aspect, and also from a better growth potential that we have seen in the Alliance business. So we will appreciate your thoughts from aspirational perspective, not like guidance kind of a thing.**

Sandeep Kalra: **See, from our perspective, if you look at it, we are being absolutely focused on executing in the last four quarters. And we have seen the**

early results of that. And we hope to harmonies, as I said before in this call, the go-to-market across different business units, take the best of the business unit and service lines across. We are hopeful of continuing the journey on services, bringing the same over the next two to three quarters on the Alliance side. Overall, we are cautiously optimistic. And like COVID came from nowhere, I am just hoping that the COVID impact does not come back again at a much bigger level and so on. Barring such events, barring any geopolitical things we are on a reasonable momentum, and that's where the whole team is focused on. Obviously, we will have to execute over the next few quarters the same way we have done, but that's the trajectory. And give us two to three quarters to report the progress on the Alliance business as well.

Rahul Jain: **Right. So, so I of course understand, and that's why the question is not about how the next year looks like, because we used to grow, like, well ahead of our sized peers, with 12%, 15% kind of a global till FY '16 and FY '17. And then all of a sudden, we have seen significant change in that. So, what I am trying to understand is that the next benchmark is your own. I mean, you will not have to say a number, but where we see the way opportunities are, or let's say, what ex of the market growth, if not individual growth, that you would aspire, growing like how much higher than the industry or at industry or whatever will be your thought process?**

Sandeep Kalra: **So, as of this point in time, Rahul, what I would say is this. We have a decently defined strategy between organic and inorganic growth. We would love to be in the top quartile of the industry growth, if not better than that. So let me just part it there. Otherwise, it will be like pretty much giving forward-looking guidance.**

Moderator: **Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.**

Abhishek Shindadkar: **Congrats on a good quarter. My question is regarding an extension of what someone asked earlier, and you attributed to harmonies the organization across both TSU and the Alliance business, as well as create selling opportunities. So just wanted to get your perspective that, based on your interactions for the past two months, what were the top two reasons for not cross-selling such opportunities in the past? Was it organizational silos or sales strategy, anything if you can elaborate, that could be helpful? Thank you.**

Sandeep Kalra: So, Abhishek, it's a good question. See, post mortem is always easy, and hindsight is always 20-20. So I would not want to try and find faults in what was done or not done. I would want to say that there are good opportunities going ahead, and the team is good. The team is good, they are very open, they are very open to taking newer things from across the organization. And similarly, bringing their best foot forward to collaborate with the Technology Services to take the Alliance offerings into Technology Services. I think there is a lot of good things that can be done and there is a happy medium for the next three, four quarters to take a lot of things from one business to the other and spread them across the company. I would rather look at that bigger opportunity ahead of us rather than what was not done. So I am very optimistic that, that can be the good part going ahead. And that can also fuel a good amount of growth across the two businesses.

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

Sandeep Shah: Sandeep, just wanted to understand. One of your software major in the Europe has recently downgraded the guidance, both for the licenses on-prem as well for the Software as a Service. So this is largely because of the extended lockdown or second phase of lockdown, which is coming. So are you witnessing this in your client discussion? Because we also do a lot of package implementation work related to cloud software. So are you cautious about the second half in terms of deal pipeline, elongated conversion and delay in decision making or closing of the pipeline?

Sandeep Kalra: Sandeeo, from our perspective, we have a decent pipeline. We are not seeing any of those things as of this point in time. Europe, the Salesforce business for us in Europe took a little bit of pause in the initial part of COVID, but it's also coming back. So from our perspective, whether it is Europe, whether it's overall, we are seeing a reasonably decent pipeline. We are not much into packaged software, as you may know. So from our perspective, so far so good. And we will keep reporting the progress as we go along. So no softness from that perspective, as you are alluding to, but we will keep an eye on that.

Moderator: Thank you. Next question is from the line of Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad: Congrats, Sandeep, for the elevation as well as the numbers. Just one question. So on the four year, $1 billion number, so what's the inorganic threshold or scale or anything around that? If you can give an indication that will be helpful.

Sandeep Kalra: So, Apoorva, if you give us a quarter, we will do an investor meeting, either in person if the COVID Gods allow or like this, and we will be very happy to play out the contours of all those things. I think it's a little premature for me to comment on that, although we have a blueprint, but I would rather come in one go along with our team and present to the team on this call and others. So if you can just hold off for a quarter at max, we should be doing something like that.

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

Madhu Babu: Sir, just on the buyback, what is the possibility? Because even if it were inorganic I think the cash is sufficient. So just on the buyback and capital allocation policy.

Sandeep Kalra: Sunil, you want to go ahead?

Sunil Sapre: Yes. So, Madhu, you are right that we have a good amount of cash on the books. But actually, if you look at the quantum of that cash, it's also not something that is so big that a significant amount can be allocated to buyback plus acquisition. So now that, you can say, we are seeing the effect of pandemic sort of reducing, we have a little more, you can say, understanding of where we want to go in terms of the $1 billion trajectory that Sandeep talked about, there is some more work to be done internally. So we are parking it for a while. It's not as if the buyback if off our minds or something like that. But it's probably some time before the Board can take a view on that. So, please bear with us for some time, we will come back on this in a little more, you can say, with better thoughts after some time.

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

Girish Pai: Sandeep, Persistent has had a problem of not having enough service to sell. How are you kind of handling that? So in terms of horizontal and vertical areas that you would want to focus on over the medium term,

what are the new ones you would kind of focus on? And when would these be visible in terms of critical mass on your P&L?

Sandeep Kalra: **Right. So I don't think that we have any dearth of services to sell. I think we have a decent service portfolio, right from our product engineering services which we take as application engineering to enterprise, to the cloud, data security, Salesforce, intelligent business automation, and a few more. So I think it's not a dearth. From our perspective, today if you look at it, if we have been able to execute impeccably over the last four or five quarters, yes, we could have done even better. But that should give you the confidence that we have enough meaningful things for our customers to work with us. The ISG part as well, the thing that came out in terms of the awards that we won, that I talked about earlier, should also tell you that the customers look at us very meaningfully. So I think it is about making sure that we are, at any point in time, ahead of the curve in the services that we have, whether it is on the cloud, data security and many others that I talked about, and are the sharpest technology folks in the industry vertical that we choose to, we have enough to grow and more. And with the acquisitions that we talked about, even if you look at a small acquisition that we did, the CAPIOT acquisition, all of that is aimed at becoming the best in the services that we take to market. So if Salesforce expands and buys MuleSoft, we want to be as strategic to Salesforce before that acquisition, as after the acquisition. And that's the trend that you will see. So, I don't think you need to see more. Sometimes less is more and I think the focus that we bring to market helps us differentiate. And that's where we win against the largest of the competition, whether it's global or it is the India based size and so on. So, I think making sure we are relevant, we are deep, and we continue that cutting edge expertise, both horizontal service lines and verticals, is where you will find us at, not necessarily trying to splash more and more. So hopefully that makes sense to you.**

Girish Pai: **Okay. One final question to Sunil. For the quarter, it seems on a quarter-on-quarter basis the lesser cost connected with your royalty seems to have helped in terms of margin expansion. Why is it that the increase in utilization and the higher shift to India or offshore has not helped your gross margin? Have the wage hikes kicked in, in the last quarter?**

Sunil Sapre: **No, Girish, actually the last quarter also had the benefit of pay cut that we had implemented, if you recall. So actually, what has happened in this**

quarter is that, besides the currency headwinds which took away 70 basis points, this quarter did not have so much benefit of the wage cut, last quarter we had that benefit. So the margin improvement that you see is actually coming on the back of both the items being neutralized and margin growing from what it was. So both the items have been neutralized, despite there is also this headwind of some of the discounts and COVID related impact that we had in second quarter as well, though slightly lesser than the first quarter. So there are multiple levers why we feel that we can absorb the impact of the wage hike in the third quarter.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Just want to get some sense about the subcontracting. Our subcontracting costs remain elevated for last two quarters, so if you can provide some perspective about resource planning and how one should look at these line item?

Sandeep Kalra: Sunil, you want to comment on it?

Sunil Sapre: Yes. So, Dipesh, the thing we have on the subcontracting side, while we do understand the cost arbitrage between a subcontractor and the own employee, many times we have to do a trade-off between the longevity of projects and the ability of people to move across the regions within the US as well. Now, while we had initiated a program to reduce the dependence on subcontractors, after the COVID breakout we felt that it is not something that we should right now try to push. One, being the fact that we were not in a position to kind of move people from India in that kind of a program that you need to do that. And second is, some of the new engagements that we have won, so suppose you take the newer wins, we were required to fulfil the gaps because of the fill gaps that exist. So there is definitely a focus on bringing down this number. It is taking longer than we would have you know liked to work towards, but it's on the radar definitely.

Dipesh Mehta: So it should trend down broadly over medium-term, rather than stabilizing here?

Sandeep Kalra: You are right. It should trend down in the medium-term. A couple of quarters from now it should turn down.

Moderator: **Thank you. The next question is from the line of Neerav Dalal from Maybank Kim Eng Securities. Please go ahead.**

Neerav Dalal: **I had a question on the utilization. So, if we see, our utilizations are back to pretty high levels, so what do you see from here on? And then employee additions, what should one expect going ahead?**

Sandeep Kalra: **So from the utilization perspective, right now if you look at it, we are roughly at about 81.2%, blended. And we think that's a reasonable utilization to be at. We are not targeting much higher than this. From an employee headcount perspective, our headcount additions happen in waves. If you look at the last two quarters, we had added a good number of net new headcount there. For this quarter and next quarter, we do have a plan to add anywhere between 300 to 400 people on a quarterly basis. So you should see that come in, and that should support our revenue growth. And also, a little bit of utilization may move here or there. Hopefully, that answers your question.**

Moderator: **Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Dr. Anand Deshpande, for closing comments.**

Anand Deshpande: **Thanks a lot, Margaret, for coordinating this call. And thank you all for being part of this. We will close this call now and follow-up with you next quarter, at the end of the next Board meeting. Thank you.**

Sandeep Kalra: **Thank you.**

Moderator: **Thank you. On behalf of Persistent Systems Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your line**.