“Persistent Systems Limited
Q3 FY21 Earnings Conference Call”

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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 Third Quarter of FY 2021 ended December 31, 2020. As a remainder, all participant lines will be in listen-only mode. 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, 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 Mr. Sandeep Kalra. Thank you and over to you, Mr. Kalra.

Sandeep Kalra: **Thank you. Good morning, good evening, everyone. It is good to be with you once again. I hope you are all keeping safe and 2021 bodes well for all of you.**

Coming to our performance for the quarter gone by. We are happy to share that we delivered yet another strong quarter with significant progress on all major business metrics. The revenues for the quarter came in at US146.15 million, giving us a growth of 7.4% quarter-on-quarter and 12.9% on year-on-year basis. In rupee terms, the quarter's revenue gave us a growth of 6.7% quarter-on-quarter and 16.5% year-on-year basis respectively. On the margin front, all the margin parameters right from EBITDA to EBIT showed considerable improvement. Our EBIT for Q3 translated into 12.7% in rupee terms and gave us a growth of 12% quarter-on-quarter basis, 69.2% year-on-year basis.

For the nine months year-to-date, the total revenues came in at $413.3 million, which gave us a growth of 10.3% over nine months of FY 2020. In rupee terms, the year-to-date revenue growth was at 16.5%. The EBIT margins for nine months year-to-date came in at 11.7% compared to 9.1% for the nine months of FY 2020. This translates into an EBIT growth of 49.6% through the year-to-date period.

In terms of employee numbers, we had a net addition of 1,600 plus FTEs in this quarter. This is the highest number ever added in a quarter in our history. 70% of the gross addition in this quarter came from lateral hires, the rest are freshers. Our attrition came in at 10.3% compared to 10.6% in the last quarter on trailing 12-month basis. We implemented the salary increments for our employees effective November 2020. On account of COVID related uncertainty, this salary increment had got delayed by a few months from our normal increment cycle which is effective July. However, compared to the rest of the industry, we are happy to say that we were the first few companies to have implemented the wage increase. For clarity, the increments are in line with standard practices and have not been impacted due to the COVID related uncertainties.

A number of you have been asking us about the order bookings. So starting this quarter we are announcing the order bookings. For sake of clarity, the order bookings that we will announce from here on are total contract value across all kinds of deals, small to large, renewal and new.

For this quarter, we came in at $302 million in TCV terms, which is one of the healthiest from the time we have started measuring it over the last five quarters. This includes new business in new accounts, existing business, renewals in existing accounts, new business in existing accounts, for the sake of clarity. We had a pretty strong quarter from a collections perspective. The collections through the quarter came in at $150.4 million. This brought the DSO down to 57 days, which is also a pretty strong DSO in the last few quarters that we had. The cash on the books ended at $258 million, roughly about Rs. 18,800 million.

Our Board has recommended an interim dividend of Rs. 14, and Sunil will give you more details later in this call.

On the M&A front, we completed the acquisition of Capiot Software in the first week of November. As a result, 200 Capiot employees became part of the Persistent family and we also added to our capabilities on MuleSoft, TIBCO and Red Hat platforms. We are seeing pretty good traction for these capabilities in our existing and new customers. We are pretty confident on this acquisition boding well for us and our new Capiot team members along with our customers.

Now, moving on to giving you a little colour on the vertical performance and service line performance. On a quarter-on-quarter basis, technology and emerging verticals led the growth at 13.2%, followed by healthcare life sciences at 6.4%. BFSI vertical declined slightly by 0.8% quarter-on-quarter. This is attributed mostly to cost control by a couple of large customers in terms of furloughs and some intermediate ramp downs. We do expect this to get normalized and BFSI vertical will revert to its traditional growth in the near-term. Just to remind you, on year-on-year basis, the BFSI vertical grew by 9%. And for the first nine months, the BFSI vertical grew by 18.4%.

Moving on to the service lines, we saw good traction across all service lines, product engineering, cloud security and Salesforce led the pack. And pretty much there was a secular growth across the board. From a geographic perspective, we saw a secular growth across North America, Europe, India and the rest of the world. North America is the biggest volume for us and more than 80% of our business comes from there. And I am happy to state that that grew by 5% quarter-on-quarter. Europe, India came in at pretty high growth percentage wise, although they are lesser contributors in volume terms for us.

Changing the track to two organizational units that we have, Technology Services continued to grow sequentially at 6% kind of rate for this quarter. The revenues for Technology Services came in at about $111.6 million. The acquisition of Capiot basically gave us about $1 million in this quarter in that $111.6 million. Alliance business came in at a revenue of $34.6 million, with quarter-on-quarter growth of 12.1%. This growth was driven by seasonality in IP revenue, as well as there were some upticks in the reseller revenue, both contributing nearly equally to the growth.

Let me give you an additional colour on the progress of Alliance business. I am sure a number of you are looking forward to it. I am happy to share that we are seeing pretty good traction in the Alliance business, as we have been sharing in the last few quarters. We are confident this business will return to significant growth in the coming financial year. To give you a little bit more colour, we continue to expand our relationship with our largest customer, IBM, and are strategically aligned with their new leadership's vision in the pursuit of hybrid cloud market. Last year, we were one of the named partners in IBM's financial services cloud.

This year, we have expanded it to include IBM's new telco cloud, and that includes some of IP from our side as well. We are deeply aligned with IBM strategy in cloud packs, including being a development partner for cloud pack for data, cloud pack for integration, cloud pack for multi-cloud management. We have also created cloud pack deployment services in order to you know help IBM in their deployment in enterprises. We continue to grow key IBM businesses in security, automation. data and AI and Watson Health. We have also become an advanced tier partner with Red Hat. And we are helping to drive modernization mission across ISV and enterprise markets globally.

Finally, from a pipeline perspective, we are seeing good traction on large deals in our Alliance business. In fact, we won some large deals in the Alliance business which are ramping up and we pretty much expect it to come to revenue starting the Q1 of next financial year. And that gives us the confidence of a healthy growth trajectory in Alliance business going ahead.

Now, in terms of client wins. Our press release has a significant number of client wins, I will just focus on a few of them. In banking, financial services and insurance we won a large multi-year deal to deliver a solution for regulatory compliance, customer due diligence, data quality and test automation for one of the top five banks globally. We will be helping the bank to comply with the rules issued by U.S. Financial Crimes Enforcement Network, FinCEN through identification and verification of beneficial owners of legal entity customers and so on. Broadly, the theme that we saw in banking, financial services was driven through compliance, modernization, launching new products in digital banking, making new digital products more secure and so on.

From a healthcare life science perspective, the theme that we saw came across digital front door, which is basically the consumer experience on one side in terms of providers. On the instrumentation, medical device kind of companies, we saw acceleration of product development roadmaps given the COVID opportunity in terms of providing services and products for them. And we are very well aligned to their strategy. We also saw some wins in doing AI, machine learning work. For example, for one of the leading chronic kidney disease kind of companies, we are doing AIML platform in healthcare.

On the software, hi-tech and emerging verticals, this is the traditional stronghold of Persistent, and we continued our journey in terms of larger, longer-term wins, including with large U.S. based software company where we are doing the engineering and support of core and mature security products. We are working with a telco software company on 5G communication related VoIP related test software and so on. So pretty much a healthy growth across board in all these segments.

Now moving on to the analyst recognitions. So this quarter boded well for us in terms of analyst recognitions as well. There were a number of those, including the ISG's Booming 15 Global for the sub $1 billion category. We were the only provider recognized consistently for the last four quarters. Why this is important is, this means we are being consistently seen by people like ISG in our category, in larger deals that are being fought by people like us in the enterprise space. On the Zinnov side, we won the recognition as a leader in Zinnov's ER&D services report. We were recognized out of 50 plus providers as the top three in consumer software, enterprise software and platform engineering. That bodes well for us in terms of our consistent recognition in the market. Also, this is the segment where we have the highest percolation from a capability and a customer space perspective. The average group recognizes us as a major contender in Salesforce, healthcare services peak metrics for 2021 based on the strong offerings we have in this market space. We continued our journey with the likes of AWS, winning or achieving the AWS financial services competency status. We also won an award from Saviynt for helping their customers use the next generation identity governance solutions. We were recognized as a Rising Star for 2020.

I am pretty sure a number of you are curious about our work from home, work from office related progress. So we are happy to say we have our facilities open in a secure manner, we are starting to implement a hybrid working model. We are encouraging our employees to come partially to office. And we are hopeful that with time, as the COVID things settle down, more vaccines are rolled out, we will come back to a little more number of people working from office, and we will keep reporting on the progress as we go along.

With this, I would like to hand over to Sunil for a detailed financial commentary. Sunil, over to you.

Sunil Sapre: Thank you, Sandeep. And good evening, good morning, everyone. First of all, wish you a very happy New Year. And hope you all are keeping safe and doing fine wherever you are working from. The business outlook, deal wins and trends in the segments that we saw has been covered by Sandeep, so let me now walk you through some more details on the financial performance for the quarter.

Very quickly, the revenue was $146.15 million with Q-o-Q growth of 7.4% and Y-o-Y growth of 12.9%, and in INR terms it was Rs. 10,754 million, a growth of 6.7% Q-o-Q and 16.5% Y-o-Y. And for the nine months ended 31st December, the revenue came in at $413.26 million, a growth of 10.3% and in rupee terms Rs. 30,745 million, with a growth of 16.5% Y-o-Y.

Coming to the composition of revenue this quarter, as you know, it was seasonally strong for the IP-led business which grew by 19.8% Q-o-Q, whereas the linear revenue grew by 5% quarter-on-quarter. The growth in linear revenue is despite the impact of furloughs, as Sandeep mentioned.

Coming to the industry verticals, BFSI had a marginally soft quarter with a dip of 0.8% given the seasonality factor, while healthcare saw good growth of 6.4% Q-o-Q and technology companies in emerging verticals registered very good growth of 13.2% Q-o-Q. In terms of the linear revenue, offshore linear revenue grew by 8.9% comprising of volume growth of 11.5% and declining billing rate by 2.3%, essentially because of the lower number of working days. The on-site linear revenue decreased by 1% while there was an increase in volume by 0.2%, and the billing rate declined by 1.2%. Again, basically because of the impact of furloughs.

Sandeep mentioned about the pay hike which we did effective 1st November, 2020, for all the employees. So broadly, we had planned about this and mentioned about this in the earlier call. The significant growth in revenue that you saw, and continued cost optimization on several fronts helped us absorb the pay hike impact, which was close to 200 basis points. And the gross margin for the quarter came in at 34.3% as against 34.7% in the previous quarter. As you know, the currency movement was little adverse this time and it impacted margin by about 20 basis points.

The SG&A expenses were 17.3% as against 18.3% in the previous quarter, with very good collections that happened during the quarter. It resulted in lower provision for doubtful debts as compared to earlier quarter, it helped margin by about 0.4%.

The CSR spend was also lower during the quarter. As you know, we have contributed significantly in the first two quarters towards COVID related donations. So this time was slightly on the lower side this quarter, primarily because we expect some more spend to happen over the next few quarters to complete our committed Rs. 25 crores that we have committed for COVID relief. So with this, the EBITDA for the quarter came to 17% as against 16.4% in the previous quarter.

On the depreciation and amortization, it is in range at the same level at 4.3% like last quarter, the increase that you have seen in absolute terms in amortization is mainly because of the Capiot acquisition. With that, the EBIT was 12.7%, a growth of 0.6% over 12.1% of the previous quarter.

Treasury income came in higher at Rs. 288 million as against Rs. 208 million in the last quarter, primarily on account of higher mark-to-market gain on mutual fund investments. And also partially because the increase in the underlying treasury size.

FOREX loss was much less at Rs. 2 million as against Rs. 51 million in the previous quarter. The profit before tax was Rs. 1,650 million at 15.3% as against 13.6% in the previous quarter. ETR for the quarter was 26.7% and PAT was Rs. 1,209 million at 11.2% as against 10.1% in the previous quarter. And for the nine months, PAT came in at Rs. 3,129 million at 10.2%.

The operational CAPEX for the quarter was Rs. 265 million. Sandeep has already mentioned about the cash on the books, so close to about $258 million in dollar terms. The DSO was 57 days as against 63 days in the previous quarter. So you would have seen a spike that had happened in the DSO in the first quarter due to the COVID impact. We have been significantly able to improve the collections over the last two quarters which has resulted in very good cash conversion. Forward contracts outstanding as on 31st December was $128 million at an average rate of Rs. 76.93.

And as you have seen, the Board has declared an interim dividend of Rs. 14 per share.

With that, thanks everyone. And I hand it back to Sandeep.

Sandeep Kalra: **Thank you, Sunil. So from here we are open for questions. So please go ahead.**

Moderator: **Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.**

Sandeep Shah: **Congratulations on a very solid, consistent, strong execution quarter-on-quarter. Just Sandeep, wanted to understand how to read this robust employee edition of 15%, of which you are saying close to 70% of them being lateral. So is it fair to say your growth momentum could be even stronger than what we have witnessed in the third quarter in the coming quarters as a whole? Because most of the addition being lateral as a whole, and that is also reflective in the order book where a book-to-bill has been about 2x as a whole.**

Sandeep Kalra: **Sandeep, good question. And yes, from a hiring perspective, obviously, we are trying to hire ahead of the curve. And we are trying to do a few things. If you look at not just this quarter earnings, if you look at the last few quarters earnings, we have been announcing larger deals. We have been announcing multi-million-dollar multi-year kind of deals. A number of the hiring that we have done goes towards fulfilment of earlier deals, ramping up the deals that we are doing or we have announced in the last quarter, and the anticipation of what we expect over the next few quarters. Out of the thing that we talked about, 1,618 hires that we talked about, roughly about 600 are freshers, which will take about six months to get productive. The other 1,000 people are the ones who are getting deployed over the orders that were booked in the last few quarters and this quarter. Also, keep in mind that a number of our peers are also announcing good results. What that means is there could be a potential spike in attrition going ahead. So we are being prudent in hiring a little ahead of the curve, making sure that we are able to fulfil our commitments to our customers. And yes, that should give you some confidence in overall the growth trajectory.**

Sandeep Shah: Okay. Thanks for starting disclosure of the order book numbers. But how do you read it, because it includes all kinds of deals and on a book-to-bill it is a 2x, so is this trend generally, you remain at these kind of a book-to-bill ratio every quarter or this is at a very high rate and may not continue going forward?

Sandeep Kalra: So, book-to-bill ratio, Sandeep, if you are talking about annual contract value kind of things, right. So total contracts can be over three years, five years and so on. So this overall number is basically across all kinds of things. If I was to say going forward what we will also try and do is give you the backlog for the next 12 months in terms of executable backlog, so that is also something that we will start announcing overall. If you were to look at the new part of it, roughly you can look at about $175 million out of this TCV was new, in existing customers or new customers that should give you some this thing. And again, there is no average that can be consistent over quarter, so I don't want to put an average duration to this. But going ahead, in the next few quarters we will also start the next 12 months executable order book as well.

Sandeep Shah: Thanks. And just last question on margins. Looking at this quarter, despite wage inflation and such a robust lateral employee addition, the employee cost has just gone up by 4 percentage Q-o-Q. So is it fair to say the employee cost would have some headwind in the coming quarters, because that might have been added at the end of the quarter and the margin may not sustain at the current level? And what is an outlook over medium to longer term on terms of margins?

Sandeep Kalra: So I will take the first part, and then I will hand over to Sunil for that. So I don't think you should read it as a headwind for the future quarters. So look, what we are trying to do is this, we have a number of orders that we have booked, we are trying to kind of fulfil them and we are trying to hire in time. And even when you hire, you take a little bit of time to deploy. That's a natural business cycle. If you look at our utilization, our utilization has not suffered, despite our bringing people over a period of the quarter and so on. So I don't think you should read it as headwinds, you should read it as more fulfilling in time and maybe being proactive about hiring and being prudent about any potential spikes in attrition that might happen. Sunil, over to you for the rest part.

Sunil Sapre: **Sure. So, Sandeep, what you mentioned about headwinds can happen only, these people do not actually get built, which is not the case because of the deals that have been booked. So, it is just the week-to-week deployment and billability efficiency which we track internally, which should ensure that there is no impact out of the employee addition. The other part that just to note is the pay hike that we had was the effect was for two months, so to that extent only the full pay hike impact will come in the next quarter. But with the efficiencies on multiple other areas, if you have seen the overall employee cost, we have been able to manage with utilization staying in the band of 80%, 81%. We have also still some operating levers. And as you know, this quarter gone by had seasonality like furloughs and other things which should not impact us in the next quarter. And to that extent, there are some levers which can help us continue the approach on margin expansion.**

Moderator: **Thank you. Next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.**

Susmit Patodia: **Great performance, Sandeep and team, this was really great. My first question is, from a medium term perspective you think the best of attrition and cost is behind us and now this will become a challenge again? And I understand that you have probably advanced your hiring in anticipation of this, but how do you see this landscape evolving?**

Sandeep Kalra: **So see, from an attrition perspective, I don't think it will be a huge uptick or anything, but look, the overall IT environment or overall the environment from our peer perspective also, everyone is reporting good results. And it bodes good for our industry, and I hope it remains the same way. And if that is the situation, then obviously the good talent pool comes under pressure. So while we believe we are a very strong company to work for, a lot of our employees are long-term employees and so on, there may be a little bit of blip here or there. So that's where we have been prudent in making sure we are well staffed for the demand that we have. Now, a small bit attrition here there is a healthy thing any which ways, because that also reflects on the overall demand environment. So that is where I will leave it. I don't want anyone to be overly concerned about this. The other part, if you can ask again, I will answer that. Cost part, what exactly did you mean by that?**

Susmit Patodia: Basically what I wanted to understand is the best of the margins done in Q3, because you have 100 basis point savings from travel, as you rightly said, attrition will slowly pick up and some resources may be under pressure. So, I am just trying to understand, is 17% EBITDA pretty much optimal from your perspective or are there more leverage left? Because at some point travel costs will also come back.

Sandeep Kalra: Right. So from our perspective, the 17% that we have achieved, we believe there are some more levers, as Sunil earlier referred to. While the cost may come back in terms of travel, facilities, etc., as things open up, and we wish they open up faster than otherwise. But we do believe that revenue acceleration that we have brought, the kind of deals that we have won, the kind of pipeline that we have, will help us keep the revenue momentum going higher. And that should also help us in various ways in margin improvement. Outside of this as well there are a few other levers, whether it is in our Alliance business, IT business, wherever else that we are exercising, which will also help us optimize the cost. So we are reasonably okay at this point and we believe there is a more room to go.

Susmit Patodia: And my last question is on capital allocation, now that you have DSOs which are probably best in class in your peer set, so cash flow would not be a problem. What is the Board or the Management thinking about the Rs. 1,800 crores, Rs. 1,900 crores of cash?

Sandeep Kalra: So the high level answer to that is, we announced the dividend, which we increased from the last year. That's point one. Point two, we are actively looking at acquisitions. That would be the way to go. Given the market where it is, it doesn't make sense doing any buybacks at this point in time. And we are more inclined towards giving return to shareholders through our growth, that would be the strategy for the near-term.

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

Mohit Jain: Sir, I have two questions. One is on the Alliance business. Sir, in the opening remarks you spoke Alliance business growth picking up significantly for FY 2022. So, where do you think this could be, can it match up to the company level? Or do you think it will still be lower but much better than what we have seen in the last two years?

Sandeep Kalra: Again, I will not make forward-looking statements on the company level growth and all. All I would say is it would be better than what we have seen in the last few years. We already have booked some deals, we have a pretty good pipeline, we are seeing very good traction with the biggest customer that we have in all the pockets, sell-to, sell-with, sell-through. So we are fairly confident it will come up and hopefully it will be in line with the company average.

Mohit Jain: Okay. And second is on the IP-led revenues. So we saw positive momentum after a long gap. So given our portfolio of IP products, now there were two observations here, one, of course, this revenue decline which has completely stopped. Second was, its impact on margin was not visible on a sequential basis. So going forward, from an IP perspective, do you think we will see more stagnation rather than decline, given your portfolio of offerings? And second, what impact will it have on the margin side broadly, IP versus services?

Sandeep Kalra: Sure. Margin part I will let Sunil answer. On the overall IP part, look, there is at times seasonality in the IP business, that's the nature of the business and that is not just with us. If you look at any of the companies that in our industry have IP, that will be the same with them or with the software product companies as well. So, there is going to be seasonality, although we are working hard to make sure that we cover that seasonality through services on top of it and so on so forth. Broadly we hope to stabilize it. And then any which ways in the Alliance business and otherwise, the revenue growth should take care of overall the growth, and that should not impact the company growth per se. On the margin front, Sunil?

Sunil Sapre: Yes. So, Mohit, you would have also observed that, so for as the IP related person months are concerned, we have been continuously working to optimize that. So, some of these areas which help us in cost optimization also ensure that our margins are in control. And the seasonality that you referred to with respect to the IP-led business, it sometimes also happens because of the customers' year-end kind of situation. So we have seen this happening probably several times in the past, as Sandeep mentioned. And not a whole lot needs to be worried about that, more keenly we are observing that we ensure that the margins in both the portfolios can be improved on a sustained basis.

Mohit Jain: So we should more look at it from a Y-o-Y perspective, the improvement we have seen in 3Q is more or less sustainable is what you guys are saying, in terms IP-led revenues?

Sunil Sapre: Yes.

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

Dipesh: Congratulations for very strong education and robust performance. Two questions. First about, I just want to get your sense about mining trend. I think we report only more than 5, between 1 to 5 but if you can help us give some data or maybe qualitative comment, how you are seeing the $20 million, $30 million, $10 million, $50 million kind of account progress for us? And how one can look at that playing out over the medium-term? Second question is about I missed your deal intake number, if you can repeat deal intake and new component of it.

Sandeep Kalra: Okay. So let me start with the deal intake and the new component part of it. So, the deal intake was $302 million in TCV terms. Out of the $302 million in TCV terms, $175.5 million was in new in existing, and new in new customers. If you want to even look at it in ACV terms, it was $256 million in ACV terms, $140.11 million of that ACV was in new in existing and new customers. Does that answer you on the deal intake?

Dipesh: Yes, Thank you.

Sandeep Kalra: The mining trend, look, we announced the numbers between the top one, top two to five, and six to 10. If you look at it, the numbers there have grown healthy. But if you were to take the top 10 out and look at the growth overall, even the overall growth beyond the top 10 is fairly healthy. And we will look at giving you details in the fact sheet going ahead for the rest as well. But if you calculate it, pretty good, healthy growth across board. The mining efforts have been fairly effective. And there's a number of proactive proposals that have been won when I talk about the new wins as well. So we are seeing a fairly healthy growth in both existing accounts and new accounts outside of the top 10 as well.

Dipesh: Sandeep, I asked because we give customer engagements by more than $5 million and $1 million to $5 million bucket. We are seeing steady progress on more than $5 million where we are at 17 this quarter. But $1

million to $5 million seems to be largely stable. So that is where I wanted some detail, maybe if you can provide.

Sandeep Kalra: See, from an overall perspective, if you look at it, there are a number of customer wins. Where we are focused is getting the new customer wins also to be in the category where we can do multiple year kind of a business. And some of those that we have won over a period of time will start moving into those categories as well. I am pretty sure you will see that movement quarter-on-quarter increase on that in the subsequent quarters.

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

Abhishek Shindadkar: Congrats on good execution. Sandeep, just one question. Could you talk about the trends in BFS spends from a calendar '21 perspective? What you are seeing, is there a possibility that they can surprise positively and, I mean, how is Persistent positioned, especially from our top 10, top 15 banks perspective? Thanks.

Sandeep Kalra: So, from a BFSI perspective, look, the trends that we are seeing at a very high level are more related to the digital banking side of it, where more and more banks are trying to launch newer products on the online space. Now we are working with the likes of Mambo and similar other providers, where we are taking their solutions to market. Whether it is a large bank, whether it is up to a credit union, so the entire nine yards is the span out there. Then there are a number of initiatives on the modernization space. A lot of banks, large and small, are looking at their tech strategy. They are looking at their roadmaps, working with the hyper scalars on seeing what can go to the cloud, what needs to be in a hybrid cloud kind of a environment. They are also looking at compliance related things. Because as you put more products on the digital side, there is issues with respect to security, fraud, authentication, many of those. So we are looking at a whole lot of compliance and security related initiatives as well. Those are the broad contours. We are involved with some of the larger banks. And in fact, one of the top five customers is one of the largest banks in the world. And we are also seeing some traction with other large banks here in the U.S. Hopefully that answers you in a summary.

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

Sandeep Agrawal: **Congrats on excellent execution, also wish you a very Happy New Year. Sandeep, I have just a little more question on the strategic and long-term side. If you see, we have some challenges in last four or five years, both at the industry level and at Persistent level also, due to some transition and other things which are happening, some kind of pain which came from the non-enterprise side, ISV side and all. Now, we are in a situation where we are actually, we have curbed all the problems, we have sectoral tailwind, we have the leadership and very strong deal wins and everything with us. And we also have the problem which were bringing down our growth in the past, they are also behind us.**

Moreover, if you see last 15, 20 years history, it has never happened that a robust growth in the cycle has come and the margins have gone down substantially, ex of currency, it has never happened because operating leverage always comes to play. So, my question is that, with so much of tailwind with you, the sectoral tailwind, the internal tailwind, the business transition tailwind and you yourself are aware that the kind of cycle for cloud which has come, that is not going to go away in few quarters, that is not the way technology works.

So, then why we are so cagey about not giving a clear direction how we are seeing growth from next year, four-year perspective, not in quantitative number, but at least in qualitative number that, yes, next five years looks much better than the previous five years, because of discrete tailwinds? And the margins, although there could be some one or two currency challenges or some cost escalation because the demand is good so we may have to hire people at little higher prices. But other than that, the margin should also be good. So, what is stopping us, or you want to take some more time before you call it out or you think that this is a better way to look at one quarter at a time?

Sandeep Kalra: **Good question, and I think there's a number of things in there. So Sandeep, here is what I would say. Look, a lot of things that you said are right, this is a secular trend, we are seeing a trend which is potentially a three to five year up-cycle for companies like ourselves, especially with companies like us who have forward-looking capabilities, whether it is on the cloud side, whether it is on app modernization, hybrid cloud,**

security, data, AI ops, and we are confident of our ability to execute. I am sure the track record over the last five quarters, consistent growth. Now, we have also given the order book and so on, we will also give executable order book, all kinds of metrics that you folks look for. And we are confident in our journey. Having said that, nobody has a crystal ball of how this COVID thing is going to go by. It would be prudent to wait for another three to six months before starting to kind of give overtly confident commentary and so on, we would want to wait for that.

Second, we are also working towards doing an investor meet. Hopefully, in the Q1, beginning of next financial year, we were trying to do it in person, but looks like it will be a little while before that can be done. And we will address a number of these questions when we meet. But at an overarching level, are we confident of our journey over the next few years? We are absolutely confident. We have the right skill sets, the company's foundation is fairly strong, we were always on the cutting edge of technology. And even if we were to announce some M&A in the near future, that would be on these lines itself, on the cutting edge of technology. So rest assured, we are well-poised to ride this wave. But in terms of putting a stake in the ground of what percentage growth, what percentage margins, etc., we would want to take a little bit more time and do it prudently. Hopefully that gives you confidence.

Sandeep Agrawal: Okay. And another question, maybe you or I don't know if Sunil can answer, and it is very speculative right now, but there has been consistent hammering of the global tech companies in last few weeks, not on the stock price or the business side, but from the commentary which are coming globally that they will be punished in some or other ways or there will be some taxes. In fact, today there was a comment that global tech will have to pay additional tax or something like that. So what is your sense? Have you seen this ever in the past or country-specific any additional taxes, something which has been proposed and passed? Or it is for the first-time you guys are also seeing it?

Sandeep Kalra: Sunil, I will defer this to you.

Sunil Sapre: So Sandeep, your observation is right. See, probably what is happening, we are right now passing through some kind of a contradiction, right, while some sectors of the economy have been going through a lot of pain, there is income distortion, there is revenue distortion, and all that.

And because that sector is requiring certain help, the tailwind is in favor of our sector. So probably it is playing on the minds of various regulators in various countries that probably here is an opportunity to balance some of these things, at least in the near-term. So, probably that's the way I read it. I don't think it's something that should be concerning in a big way. But yes, it's something. See, the corporate tax rates were brought down in the U.S., in India, and many other countries to levels like 21% in U.S., 25% in India. So, they probably are looking at this aspect that why is it that this particular sector, which got the tailwind should contribute a little more to what the government has put various resources to play. So we will watch the developments how they happen.

Sandeep Periwal: **Yes. So basically, it is more of a cost of doing business, right?**

Sunil Sapre: **Correct.**

Moderator: **Thank you. The next question is from the line of Ritesh Rathod from Nippon India. Please go ahead.**

Ritesh Rathod: **Congratulations on good set of numbers. This question on the client mining of more than $5 million, even though you don't give us the bifurcation further, but what had led to such a strong performance in last four to five quarters, the numbers have been going up? If you can help us in terms of on-groundwork, how you changed the incentive structure, so few more qualitative details would be helpful.**

Sandeep Kalra: **Sure, Ritesh. So I will try and keep it simple, so that we can take some more questions as well. But at a high level, here is what we have done in the last five quarters. We had a fairly strong foundation as a company, we organized ourselves into vertical and service lines, we cross-incentivized the teams to go and do the best of the services, if we were selling one or two services in a customer, we went and tried to upsell ourselves into a customer, get more wallet share from the customer perspective. That was one side. Second was where we went into making sure that we brought in a set of new partnerships, we focused on the partnerships that we already had and added to the partnerships. So I am talking about hyper scalars, whether it is AWS, GCP, Azure, on one side, IBM on the other side. We double down on things like IBM Red Hat, we double down on Salesforce partnership that we have. We worked on the channels like ISG, WaveStone and a number of other sourcing and other**

advisory companies like Everest and so on, so forth, Zinnov's of this world.

So we looked at every part of our ecosystem from a market facing perspective in order to service our customers better, on one side, bringing in more sharpness into service lines and our vertical offerings on one side; on the other side, expanding our presence in front of customers and prospects through various industry influencers. We also corrected the incentive part on our side to be able to incentivize the behavior in which we are looking at not just short-term projects, but we are looking at longer term and bigger kind of constructs with our existing and newer customers. So a bunch of these things started playing in. And, obviously, things like this are backed up by our impeccable delivery. The kind of awards that we won, the ISG award that we won where we surprisingly have beaten pretty much, right, everyone from Accenture to an IBM to an HCL to Wipro, to whoever else in our industry. So there's a lot of those things that came together. And that started yielding results.

And obviously, confidence builds on confidence, whether it's our sales team, or even the customers and so on. And if you look at our execution, we have been heads down on execution for the last four, five quarters in a very disciplined manner. So that's where it is. And the team has come together well. We have also added wherever we had whitespaces in our talent. So a number of those things are the ones that are behind our growth. And we have a fairly disciplined execution engine in place.

Ritesh Rathod: If I see your services revenue base of $100 million dollar quarterly, or maybe $120 million as of now, and in last nine months, despite this pandemic you have grown at a rate of 16%, 17% year-on-year. So, on the other side, if we see the Eastern European companies, their five year CAGR has been 23%, 25% kind of a revenue CAGR in last five years. Is it possible for us to do that kind of a CAGR on such a favorable base? I know you said in the previous question not to call out, but there are no disadvantage on your side in terms of portfolio mix or vertical mix or any kind of disadvantage, structural disadvantage which doesn't allow you to perform at that run-rate?

Sandeep Kalra: Structurally there is no disadvantage. I don't see a reason why one could not perform at that. Obviously, it's a tall order. I wouldn't want to commit to those numbers. But structurally really there's no issue. As a company,

as I said, we have a fairly strong foundation, we have built very good service lines, and vertical offerings, we have good set of partnerships. We have a disciplined execution going, so there is nothing structurally that is stopping us from achieving it.

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

Nitin Padmanabhan: **Congrats on a great quarter. Just wanted to check, considering that this quarter has been very strong, both on IP and service; and historically we have seen that after strong Q3 typically Q4 has been relatively soft because of the IP revenue sort of coming off and typically there has been a revenue decline. Do you think the current pipeline sort of will ensure that there is no decline in Q4?**

Sandeep Kalra: **Nitin, very good observation. And that observation is not lost on us as a management team. And that's a healthy challenge that we have taken and hopefully we will come out of it well, that's where I will leave it. We have a good pipeline, we have good bookings, and our eye is on the ball.**

Nitin Padmanabhan: **Two other questions, one is, on the net new of $175 million, are the tenures like the usual four, five years types or are they slightly longer?**

Sandeep Kalra: **No. So they are not longer, they are in fact shorter. Because see, that $175 million that we talked about is new business in existing accounts, and new accounts. And that is basically spread from small projects to large three-year five-year kind of deals. I would say that is much lesser than even three year, if you look at the average part of it. And as we go along, we will give you the executable order book so you don't have to keep guessing about all this.**

Nitin Padmanabhan: **Sure, great. And one thing I think I missed in translation is, I think somewhere along the way, you mentioned a number of $456 million ACV. Did I hear something wrong or what was that in context to?**

Sandeep Kalra: **I don't think I said $450 million ACV. What I said is, let me repeat. $302 million TCV, overall, including renewals and new; $256 million ACV out of that, $175.5 million new TCV, $140.11 million ACV, that if now you translate into your earlier question and do your math, that will give you the duration average whatever it is.**

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

Dipesh: **Is it possible, I think you said some of the service line PE, product engineering, cloud, Salesforce, so is it possible to provide some scale where we are in those service line and how we expect them to play out over medium term?**

Sunil Sapre: **We can include that in the fact sheet somewhere down the line. I don't want to give it right now, because it's a whole lot of data points and we have 11 minutes left in this call. But if that is a request from the investor community, we will start including it down the line in terms of service line revenues as well, the way we will give the vertical revenues.**

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

Sandeep Agrawal: **Sandeep, I have one which I missed to ask last time. What is your strategy for next four to six quarters or eight quarters, whether you want to just focus right now to strengthen your existing practices, services and geographies and verticals? Or you are also looking to add some of the high growth verticals as we move forward? Because basically, there is a lot of delta in some of the verticals where we are not very big right now. And would you go for that strategy or even first consolidate your existing verticals in a very strong way?**

Sandeep Kalra: **I would say the latter, we would first consolidate the industry verticals in a stronger way. But more important than that, look, where are we the sharpest? As Persistent, we are the sharpest when it comes to service lines, when it comes to the technology expertise that we bring to the table. And a number of that technology expertise, respectfully, is agnostic of the industry verticals that we service. So, if we sharpen our industry service lines, that is where the most amount of growth will come, that is where you will see us. If you look at the future, let's say, four, six, eight quarters, organically and inorganically, we will be focused there. If we do inorganic, that may bring us more into geography focus, as well, as Europe. It may bring us more into the technology focus that we currently have. So our focus will remain on being the best in wherever we are right now. And as we go along, if there is opportunistically something that we can enter into in a bigger way, that's a separate issue.**

But for the next four, six, eight quarters this is where we are headstrong, and there's ample amount of market for us.

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

Sandeep Shah: **Just Sandeep, wanted to understand on the Alliance side. Last time you said that you are opening many purchasing windows outside even the technology domain area of your top client. So any status updates on that in terms of healthcare and the BFSI sub-segments of your top client?**

Sandeep Kalra: **Sure. So good question. Sandeep, one of the larger deals that is there in our fact sheet as well as in the press release in the healthcare space with the same customer that you talked about, and it's fairly large. So we are definitely opening newer avenues of discussion, we are very well aligned to their new strategy, whether it is on their product/services side. So, from that perspective, yes, the expansion will be in different parts, whether it is in the healthcare, whether it's in the telco, whether it is in financial services space with the largest customer as well. And we are seeing very good traction there.**

Sandeep Shah: **Okay. So is it fair to say, your strategy in Alliance is to keep creating opportunity within services, which will help you to compensate the volatility in the IP side of the business which you earlier indicated which is not a very bullish scenario where your focus is more on margin rather than optimizing the IP revenue within Alliance?**

Sandeep Kalra: **Yes, to a certain extent that is right. So let's quickly go over it. So the services part is one part where we deliver a sell-to kind of services to the largest customer, the other part is also working with them on our customers, joint customers, newer customers and so on, that's another revenue stream. And that's equally important. Because if you look at the IBM strategy, they are betting big on Red Hat, they are betting big on hybrid cloud, and cloud pack and so on. So as they look to partners like us, we are very well positioned, because of our long history with them, we have worked on many of their products, we have even taken many of their products onto the internet environment and so on. So we are well poised, much ahead of other GSIs in going to market also with them. So all of these three revenue streams are there. And as we build the business on these three revenue streams, the volatility, etc., will be much lesser.**

So this business is roughly about 22% to 23% of the business, the rest of the business any which ways is growing very well, so there are many benefits of this. So not only will we grow the Alliance business, but also take away the volatility and overall, as a company growth.

Sandeep Shah: Okay. And Sandeep, just last thing as a strategic question. It is perceived that Persistent portfolio has a very low legacy services or legacy business. So as you grow your order book, is it fair to say most of the order book will translate into growth versus, for many peers the baggage leads to a leakage in the revenue and the new order winds does not translate into a higher growth. So for you, it would be a reverse, is it the right way of looking at it?

Sandeep Kalra: At a high level, I would agree with what you are saying. And yes, that would create a healthy set of backlog for us and help us grow.

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

Dhiresh Pai: A couple of questions. One is on IP, you mentioned that you would be spending quite a bit of money on M&A, do you foresee spending data on IP?

Sandeep Kalra: M&A would be more in terms of getting capabilities on cloud, security, data, any of these kind of things. When we look at companies in that space, we are looking at companies which will come with capabilities and some kind of an IP; may not be a product, we are not into the products business, the IP is around, let's say, they have built some reusable frameworks which make them sharper, around a certain partner or you know partner technology and so on. So that is the way we are looking at it. We are not looking to acquire IP based companies.

Girish Pai: Okay. My second question, there has been a lot of rebadging kind of deals that have been announced in the industry in the last, I would say, six months plus. Are you looking at any of those, maybe not at the scale that some of your larger peers are doing, but somewhat on a smaller scale?

Sandeep Kalra: Yes. So if you look at it, a few quarters back we had announced a large deal to the market as well. And that included rebadging roughly about 200-plus team members from that customer to us. There are a few other deals that involve this, but they are not at the huge size and scale. There are a few of them and those are business as usual construct what we need to do.

Girish Pai: Okay. Lastly on Europe, any thoughts on Europe? What do you intend doing there? You have very large exposure to U.S.

Sandeep Kalra: Yes. So as a strategy, we are absolutely looking to double down on Europe. And it's both from a geopolitical risk mitigation perspective, but also from an opportunity capture perspective, there are significant opportunities in Europe as well. As you know, we made a couple of acquisitions in Europe over the last few years, we have a small footprint but a growing footprint. If you look at this quarter's numbers as well, on that small footprint we have grown decently well. We are adding to the leadership team in Europe, you will see some announcements over the next few months in that. We are also looking at acquisitions, which can give us an intersection of European presence and the technology capabilities or the vertical capabilities that we want. So you will see some things on those lines as well, in the next few quarters. So absolutely, Europe is a focus area for us. And three to four years from now, when we look at it, it should be 15% to 18% at least of our revenues, if not more.

Moderator: Thank you very much. As there are no further questions from the participants, I would now like to hand the controls back to Mr. Kalra for closing comments.

Sandeep Kalra: Thank you. So first of all, thank you all for participating in our investor call. We hope this year goes very well for all of us. We also would like to thank our 12,000-plus employees and our customers for their support in our growth journey. And we look forward to being back with you in three months from now and reporting on our progress. With that, we would like to close the call. Thank you.

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