Persistent
See Beyond, Rise Above

"Persistent Systems Limited
Q1 FY22 Earnings Conference Call"

July 23, 2021

MANAGEMENT:

Dr. Anand Deshpande
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 the Persistent Systems earnings conference call for the first quarter of FY22 ended June 30th, 2021. 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.

As a reminder, all participants' lines will be in the 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sandeep Kalra. Thank you and over to you, Sir.

Sandeep Kalra: Good afternoon, Good morning, good evening to all of you depending on where you are joining from. It is good to be with you once again and I hope that all of you are safe and healthy.

Before I go into financial and business updates, I would like to start by thanking our team members and customers for their resilience and their trust in us during these unforeseen times. Several of our team members and their extended families were impacted during the second wave of COVID 19. Sadly, we even saw a few of our colleagues succumbing to COVID - we pray for the well-being of their families and their loved ones. As a counter measure from our side, we have been undertaking vaccination drives for all our India based employees and their families. We are happy to report that more than 10,000 of our associates and their families have availed of these vaccination drives.

As the vaccinations have progressed, a small percentage of our employees have also started to work from office, and we expect the numbers to go up gradually. However, we will be taking a cautious approach to return to office globally, while considering the possibility of a third COVID wave as well as region specific nuances.

Once again, we sincerely pray for everyone's well-being and with that let me get into business and financial updates.

Coming to the Quarterly financial performance: As you would have noticed, we delivered another quarter of strong growth, delivering continued progress on all major business metrics.

Financial Updates

Revenue for Q1 came in at US$ 166.8 M, giving us a growth of 9.2% Quarter on Quarter and 27.3% on Year-on-Year basis. In Rupee terms this translates into a growth of 10.5% Quarter on Quarter and 24.1% on Year-on-Year basis respectively. This is amongst the best Q-on-Q and Y-on-Y organic growth delivered by us as an organization. Our EBIT for Q1 came in at ₹1,665 M, giving us an EBIT margin of 13.5%. This translates into an EBIT growth of 13.7% Q-on-Q.

Now let me give you this Quarter's performance from an Industry Segment and Service Line perspective. This quarters growth was broad based and was led by Healthcare and BFSI industry verticals which grew by 15.5% and 11.8% respectively on a sequential QoQ basis, followed by Software & Hi-tech segment that grew 5.2% on a sequential Q-on-Q. On a YoY basis, the growth was broad based with all the three segments – Health Care Lifesciences (32.1%), BFSI (23.5%) and Software & Hi-Tech (27.9%).

We saw consistent growth across our top account categories. Top 1 customer grew by 3.4% Top 2-5 by 15.6%, Top 6-10 by 12% and Top 11-20 customers by 10.9% on a Q-on-Q basis. Our client mining efforts have shown steady progress and this quarter we saw our count of >5M customers move up by 4 and >1M customers move up by 10 on a sequential quarter basis.

Before I move on, I would like to point out two aspects:

1. **In the last two financial years, we had been reporting our revenue breakup by the two organizational units – Technology Services and Alliance. As we have been sharing with you in previous calls, the business is now organized around industry segments and service lines. Hence, we are discontinuing the reporting of our revenue breakup by the two erstwhile organizational units as the utility of the same is no longer there.**

2. **The revenue for our CE-CLM "Re-seller" business has been accounted on a "net basis" from Q1FY22 onwards. That is, for CE-CLM reseller business, we are taking only the margins for value added reseller services as the topline revenue in our P&L. This was necessitated due to the lack of associated services engagements with such reseller revenue.**

Now coming to the Order book for the quarter. We had a good quarter from an order booking perspective. Total Contract Value for the quarter came in at US$ 244.8M. The Annual Contract Value component of Q1 TCV is of the order of $ 188.8M. In terms of new bookings in the quarter, the new business TCV was $ 147.7M of which the ACV component is $ 93.5M. Just to refresh everyone's memory, the TCV, ACV numbers include all bookings – small and large, Renewals as well as New bookings, across Existing and New customers.

In terms of employee numbers, we had yet another quarter of significant addition in employee count – we brought in 1,224 new colleagues, bringing our total employee base to 14,904 as at the end of June 2021. Attrition for the quarter was at 16.6% compared to 11.7% in Q4, on a Trailing twelve-month basis. As you would have seen, attrition has increased across the industry given the shortage of digital skills in the industry. This is definitely a focus area for our management team. We have taken many proactive measures with an aim to bring this under control. The measures include increased engagement levels with our employees, flexi working to help work-life integration, increase in fresh grad intake, upskilling of our existing employees and helping our people with long term career planning with active L&D interventions.

As you are aware, we had undertaken salary increases in November 2020 for the last financial year's cycle much ahead of other IT companies. For FY22, we have reverted to our normal wage hike cycle in July.

We continue to strengthen our leadership. Suresh Prabhu joined us as the Chief Delivery Officer for the Industry Verticals. Suresh comes with a strong experience across multiple Product organizations. Suresh's experience should help us further enhance our Digital Engineering expertise. We also continued to strengthen our team with additions across sales, delivery and enabling functions. These additions to our team would help us strengthen our muscle as we move with conviction towards our B$ goal by 2024.

On the M&A front, the integration of CAPIOT has progressed well and we continue to see QoQ growth in our integration practice revenues. We acquired the IP & business assets of Sureline during Q1. The IP and the team of Sureline has augmented Persistent capabilities in cloud migration and modernization services. We continue to scout for potential targets in our focus areas and hope to give an update on this in the coming quarters.

Coming to ESG, as shared with you in the previous analyst call, we have now appointed an ESG consultant to define the ESG roadmap for the company and start measuring ourselves against standard ESG frameworks. By the end of FY22, we will come up with a comprehensive report on our ESG roadmap and the status of our current initiatives against the framework.

Now I will turn the call to our CFO, Sunil Sapre to give a detailed color on the quarterly financials and related matters. I will come back after Sunil's comments to give you some more details on the key client wins for the quarter and awards and other recognitions for the quarter.

Sunil Sapre: **Thank you, Sandeep, Good evening to all. Hope you all are safe and doing fine. Sandeep has updated you on the current business outlook. Now let me give you some more financial details for the quarter ended June 30, 2021.**

The revenue for the quarter was $ 166.82M with a QoQ growth of 9.2% and YoY growth of 27.3%. Revenue in INR terms was Rs.12,299 M, which reflects growth of 10.5% QoQ and 24.1% YoY.

With respect to Industry verticals, BFSI grew by 11.8%, healthcare registered growth of 15.5%, while Technology Companies grew at 5.2% on a QoQ basis.

In respect of linear revenue, the offshore linear revenue grew by 10.7%, primarily on account of volume growth of 8.6% while billing rate grew by 2%. The onsite linear revenue grew by 12.9%, comprising of volume growth of 10.2% and increase in billing rate by 2.4%.

With continuing efforts on booking of longer-term deals and on improving the level of engagement with customers, the number of

customers in >$5M category went up from 17 to 21 and no. of customers in >$1M up to $5M category went up from 66 to 76.

As you all are aware, this quarter has visa expenses on H1B visas. The impact of this cost on the margin was 50 bps. Given the increased demand for talent in the market, attrition went up during the quarter to 16.6%. The hiring momentum continued during this quarter, with net increase of 1224 in the headcount. You will recall that we had added close to 1618 and 1242 resources in the previous two quarters. The gross margin stood at 33.5% as against 33.9% in the previous quarter.

S&M expenses were in line. As regards G&A expenses, there was an impairment in one of our investments in start-ups. The impact of this on the margin was 60 bps. There was also an increase in recruitment expenses on continued hiring and some leadership hires. Collections from customers against some receivables that were provided for earlier, resulted in reversal of doubtful debt provision whereas the total spend on donation towards COVID was slightly higher than the previous quarter. Overall SG&A was at 17.2% as against 17%. The EBITDA was at 16.4% as against 16.9% in the previous quarter.

Depreciation and amortization accounted for 2.8% as against 3.8% in the previous quarter. With that, EBIT was 13.5% as against 13.2% in the previous quarter.

The treasury income for the quarter was at Rs. 256 M as against Rs. 211 M in the last quarter. Forex gain was at Rs.109 M as against Rs. 174M in the previous quarter.

Profit before tax was Rs. 2,031M @ 16.5% as against 16.6% in the previous quarter. ETR for the quarter was 25.5%, same as the previous quarter. PAT for the quarter was Rs. 1, 512M @12.3% of revenue as against Rs. 1,378M in the previous quarter @12.4% of revenue.

The operational Capex for the quarter was Rs.141M. Cash and current investments amounted to Rs. 19,955 M as at June 30, 2021 as compared to Rs. 19,831 M as at March 31, 2021. As you would be aware, the first quarter happens to be a quarter of payout of annual bonuses and thus trends lower in terms of net cash added. During this quarter, we also had

acquisition related payout. Collections continued to be very good with the DSO coming in at 54 days as against 55 days in the previous quarter.

Forward contracts outstanding as at June 30, 2021 was USD 140M at an average rate of Rs.76.78 per USD.

Thank you all and I hand it back to Sandeep.

Sandeep Kalra: **Thanks, Sunil. Now, to give you a color on the key client wins from this quarter – Our Press release for the quarterly results carries a number of our deal wins across Industry segments.**

Just to highlight a few of these:

Banking, Financial Services and Insurance

- **We were chosen as the partner to co-engineer a next-gen microservices based platform and managing legacy products, in a multi-year, multi-million $ deal, by a leading US State and Local Government solution provider.**
- **We were chosen as a partner to transform wholesale and commercial lending operations through consolidation of multiple legacy systems of record for a major US bank.**

Healthcare & Life Sciences

- **We were chosen to manage the Salesforce roadmap, implementation and provide managed services to support proprietary inventory management platform for a large US-based pharmaceutical firm.**
- **We were chosen to modernize cloud security utilizing Azure to improve business safety and resilience for the European arm of a global retail pharmacy company.**

Software, Hi-Tech & Emerging Technologies

- **We won a multi-million $, multi-year deal involving the Implementation of the Salesforce platform to drive business growth, improve Customer experience and unify business processes for an education travel organization.**

- **We won a multi-year, multi-million $ deal with a leader in gaming products and services to re-architecting, re-engineer and modernize gaming systems**

Moving on to the Awards & Recognitions for the quarter - Q1 saw us get continued recognition from Industry leading analyst firms and associations. To mention a few:

- **For Fifth Consecutive Quarter, Persistent was named a Top 15 Sourcing Standout for Managed Services in Q1 2021 Global ISG Index™ "Booming 15" Category**
- **ISG Named Persistent a Rising Star for Digital Transformation in 2020 ISG Provider Lens™ for Healthcare Digital Services report for U.S**
- **Persistent was named a Star Performer in Everest Group's Software Product Engineering Services PEAK Matrix® Assessment 2021**

On the Partner Ecosystem side, we continued to invest in deepening our collaboration with IBM to Accelerate Hybrid Cloud Adoption in the Enterprise. Under this collaboration, we will continue to invest in IBM technology that helps its customers adopt hybrid cloud architectures with Red Hat OpenShift, industry-specific clouds and advanced security practices.

During the quarter, we also become a key development, support and deployment partner across the IBM Automation portfolio, including IBM Cloud Pak for Business Automation, IBM Robotic Process Automation, and other network automation solutions.

More details on these Partner activities are available in our Earnings release.

In summary, we delivered well in Q1. We are seeing a good traction for our services in the markets we serve, and we are confident of our growth journey going ahead.

With this I would like to conclude the prepared comments and would like to request the operator to open the floor for questions.

Closing comments:

We would once again like to thank our ~15,000 team members, our customers and our partners for their unflinching support in our growth journey. We remain bullish on our prospects for the future and appreciate your spending time with us on the call today. We look forward to connecting back with you in 3 months from now to give an update on our ongoing progress. Please stay safe and stay healthy. Thank you!

Moderator: Thank you very much. We will now begin the question-and-answer session.

Saurabh Dwivedi: I will begin with the questions on the chat first and then we can go to the audio questions. So, Sandeep and Sunil, the first question that we have got on the chat forum is, would you give a number on what level of growth as the acquisition of CAPIOT enabled in this quarter. Also, do you expect return of travel cost to impact margin going forward.

Sandeep Kalra: I will take up the question and I'll have Sunil answer the other margin question. And can you tell us who asked the question?

Saurabh Dwivedi: The question came from Jainal Jain from Omkara Capital.

Sandeep Kalra: On the question around CAPIOT growth, for the quarter compared to the last quarter, the CAPIOT growth would have been roughly around 500K in US$ for one quarter. Sunil, you can answer the margin question.

Sunil Sapre: On the travel expenses coming back, while there has not been resumption of travel in a very big way, but we do expect US and Europe to slowly have increased travel going forward. The next few quarters we can expect about 30 to 40 basis points of increase in travel expenses. It will come back by end of December, if we reach a good level of vaccination in India, then the outbound travel from India could also start towards the end of 2021. So, overall if we look at the full year, it will take 2 or 3 gradual moves for taking the travel expense back to a level of some percentage, but will still not be the same as what it used to be in pre-COVID time. That is how we look at that number.

Sandeep Kalra: Sunil, I want to clarify that travel expenses for this quarter, just to clarify, were on account of H1B filings and not on account of travel-travel. And that happens every year in this quarter. So, I just wanted to clarify.

Saurabh Dwivedi: Before we go to the audio questions, I think the only other feedback I got on the chat forum is maybe the voice from our side is a little low. So, if we can speak a little more loudly.

Moderator: Thank you. We will move to our first question audio question which is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: The first question was around TCV and ACV data. Now it's been like three quarters of this data. In the current quarter performance is there revenue accretion from deals won in Q3, that was the first question.

Sandeep Kalra: You are talking about deals won in Q3 revenue accretion, from that obviously would have happened. As you look at it some of these deals take time to ramp up and that's what is happening. As we win deals over the quarter, every quarter as these ramp up you are seeing the revenue consistently kind of go up in terms of growth.

Nitin Padmanabhan: The second one was in terms of the rising attrition and the compensation increase, I think we are likely to give next quarter, just wanted your thoughts on how are you approaching that and what is the potential impact there when we look at next quarter?

Sandeep Kalra: For us the wage hike cycle is July onwards. We have already given the letters out. I will let Sunil comment on the margin impact and what our plans are to recoup that.

Sunil Sapre: So, if you recall historically, we have been having wage hikes and typically the revenue growth and several other leavers most commonly allow the company to recoup. Now, currently we are seeing two phenomena in the market. One is that we have significant tailwind in terms of revenue growth. But this is coming also in a combined way where the digital technology-oriented skills are not exactly adequate to fulfill this demand. As a company what we have done is we have significantly increased the hiring over the last few quarters and that's where you will find that our offshore utilization has hovered around 80%. So, we at first concentrated to ensure that we are able to fulfill the business. Now at this point in time, we have the utilization lever, which is significantly, you can say, one of the areas that we are working on. The second part is also the mix between lateral hired and fresher hires. That is another area that we are looking to optimize. And lastly, of course, the fact that we have onboarded these people and the conversion when it happens in terms of better utilization will provide the cushion to absorb the pay hikes. So, these factors are what will be the areas to look out and watch out for and we are conscious of the fact that we have to manage the attrition in a controlled environment. I mean, in a manner that we can be comfortable with respect to deliverables and sustaining the quality with the customers. Last but not least, we will also take a conscious view in terms of potential areas where we can work with customers wherever we have flexibility in pricing, because I believe that there is a point of time when customers do understand that these skills are not easily available and to ensure that their deliveries and quality is not affected. We do have pricing power in some of our businesses. I hope that gives you a good understanding of how this will pan out.

Nitin Padmanabhan: Yes, that's very helpful. Only the quantification of what we could expect in terms of potential headwinds is the only last thing and then I'll get back into the queue. Thank you.

Sandeep Kalra: In terms of overall impact from the wage hike, it will be of the order of 250 to 275 basis points, and we expect all these levers to allow us to absorb most of it. Maybe there could be a 75 to 100 basis points of headwind in one quarter in which the hikes actually start but with increased revenue we are trying to see how much we can contain that. But it will not be more than that.

Moderator: Next question is from the line of Vimal Gohil from Union Asset Management.

Vimal Gohil: I have two questions. The first one is, on attrition. You mentioned that FY21 really saw industry leading wage hikes being rolled out by the company and despite that while it has been a phenomenon for the industry as a whole, but our sequential increase in attrition seems to be a tad higher as compared to what some of the peers that have reported numbers. So, if you could just give your comments there? The second bit is on your subcontracting cost. Currently our subcontracting are at 14.7% of sales. This is probably the highest in the industry currently. What is your sense? Does our business particularly need such high levels of subcontracting? If so, what would be the sustainable level for subcontractors going forward? And along with the margin levers that you

just mentioned could lower subcontracting cost be another lever that we should count. Thank you. That's all from my side, all the best.

Sandeep Kalra: I will take the attrition part and I will have Sunil talk about the subcontracting cost. So, on an attrition side you have to look at companies in the context of the areas they work in. So, if you look Persistent, we have always been on the cutting edge of technology. We are the leaders in digital engineering and hence the kind of skill sets that we have in the company, whether it is doing custom products or technology companies are doing digital engineering enabled programs in cloud, data, salesforce, etc., we are on the cutting edge. And those are the skill sets where that are the hottest in this, if I can say, post pandemic times. So, that is the reason that we may have a tad bit higher attrition that looks like from the outside as compared to a general-purpose IT services company which also does ERP or legacy stuff or legacy infrastructure management. So that is the rationale that is there. Having said that, this is an area of focus for us, and we are committed to making sure we do the best in terms of engaging our employees and we have a good plan in place for that. Now over to you Sunil for the subcontracting part.

Sunil Sapre: On the subcontracting side, you would have observed over the last two quarters, given the fact that we are continuing with this situation of restricted movement. So, on one side the flexibility of using your own staff while they may be in a particular country, but the mobility of that staff within the country is limited. Whereas we have been winning deals, you would have seen in several new areas where we definitely require certain skills that may necessarily not be available to join on a full-time basis. Our approach is to ensure that we are able to convert these as we get more visibility of their continued deployment and not to kind of engage them so that can lead to disruption of costs. So, the whole idea is to optimize that and be rest assured we are continuously keeping track to ensure that that is the channel that we use only in selective spaces and to fulfill the need for specific skills. Once the flexibility to travel improves, the reliance on that will gradually reduce.

Vimal Gohil: **So, is it that maybe there is a need for more local delivery centers probably that could have been the case if we had more local delivery centers outside and probably had more local employees hired before, we would not have required so many sub-contractors. And the subsequent**

question then would be that, if at all we are, as and when travel starts you will replace it with your people onsite? And further, can those onsite people then, can that work shift offshore when the project really is steady state, so can that happen? And as I said, the question was really to gauge if subcontracting can really be a margin lever for you. And lastly, just one more question on the TCV, is there any sequential decline in the TCV this quarter?

Sandeep Kalra: **So, let me answer these questions and I will try and keep it brief because we need to take multiple people's questions. So, you are absolutely right. In an ideal scenario where COVID could have been predicted people would have had onshore hiring done and we would have any which way scaled up the near shore onshore kind of things. They are on the roadmap. As soon as the COVID Gods allow us to do it, you will see more presence onsite as well as near shore centers. Is it a lever going ahead for margin improvement? Yes, it is. But again, we will have to let things pan out as we go along. The first and foremost thing is to make sure we have a good growth going, we need to fulfill our customer demands, we deliver our projects absolutely impeccably and that's where some of these things will play out. So, that is first thing. And in terms of TCV, look, a company that does today we announce let's say around $ 166.8 million, roughly $ 167 million, we are talking of TCV of 245. And last quarter also the TCV was roughly in the same range. So, I think it's a fairly healthy thing, as a management team, we are fairly comfortable with this. Some quarters will be higher, two quarters back it was higher than this, some quarters will be at this level, some quarters will be at a lower level. Look at it from an annual perspective and look at what we have delivered on a quarterly or sequential year-on-year basis, all of these point of towards a healthy trend and we are comfortable with our TCVs where they are, and we will try our best to do more.**

Moderator: **The next question is from the line of Sandeep Shah from Equirus Securities.**

Sandeep Shah: **Sandeep, my question is more on the operating leverage. Despite last three to four quarters, solid Q-on-Q growth which is coming, EBITDA margin though on a YoY basis looks better, but on a Q-on-Q basis has been hovering around 16.5% to 17%. And one obvious reason is the increased supply side issue. So, in this scenario, how do you tackle this supply-side issue in terms of business perspective. A) In terms of pricing**

negotiation with the client because you are also saying the attrition is going up because of the hot talent. And B) in terms of any restructuring of your low margin business units if you can throw some light besides the other margin levers which the CFO has spoken about.

Sandeep Kalra: **So, as far as pricing negotiation is concerned, I would say it's a collaborative thing with our customers and number of our customers have been with us for years and even the newer customers understand the market dynamics. And so, we are in discussions with many of those on seeing when the contracts anniversary periods come, how we can work with them to bring in the COLA at the right levels, etc., that gives us the cushion to be able to retain the talent and do the right things. And in some places, we are looking at other ways and means of doing special bonuses along with our customers as well. So, that's as far as price negotiation is concerned. So, all of that is on the table. The other part about low margin businesses, at any point in time we are having an eye on the low margin businesses, and we are currently to rationalize some of that. If there is more hiring we need to take, absolutely we will do that. We have brought good tailwind behind us, we have a good growth momentum and so this is in small or large or low margin businesses, rest assured we have an eye on the ball. Balance if we take those decisions, we will announce it on time.**

Sandeep Shah: **The second question is on terms of Alliance business; can you throw some light whether it's now on a consistent growth path both on the IP as well as in terms of revenue? And also, any efforts to improve the margin on this side of the business? And just a feedback, today I think the audio of both the CEO and CFO has been weak, so I think there is a difficulty in hearing your opening remarks. So, if we can rectify it, it would be really appreciated.**

Sandeep Kalra: **Okay, we will try and speak a little louder. Let us know if this is any better, Sandeep. Is it any better for you?**

Sandeep Shah: **Yes. It's better. I think in the opening remarks, it was really bad, and it has improved thereafter.**

Sandeep Kalra: **Okay. Sounds good. If we have time towards the end of the call and we are able to complete the questions, we will try and do that. Otherwise in the recorded version, we will make sure that it is corrected. So, let's go**

back to the Alliance business. Your question was on the growth in the Alliance business. Yes. So, Alliance business is definitely seeing some amount of growth. If you look at our top one customer, the sequential part is the Alliance business. So, you can pretty much relate to it. The top one business grew by 3.4% sequentially. So, from that perspective you should be able to gather between that and the fact sheet that we have, all the details about that. Now, in terms of margins, etc., as well as I said we have an eye on the ball in terms of which are the businesses where the margins can be improved and part of the thing is those are being implemented and that is where despite the one time things that we talked about, the impairment that we talked about, that basis points because of the H1B filings we talked about, we still were able to come in at about 16.3-16.4. And if you add those things, we are actually higher than the 17, whatever was there last quarter. So, from that perspective, we have an eye on various parts of the business and we will keep continuously looking at what we can optimize.

Moderator: **The next question is from the line of Manik Taneja from JM Financial.**

Manik Taneja: **I will just kind of prod you a little bit further on the revenue profitability trends we are about 2%-2.5% sequential increase here. Do you think that the tight labor market drives in opportunity to press customers for higher prices, especially because of the tight supply side environment? That's question number one. The second thing is that if you could help us understand the number of freshers hired in the quarter, the plan for the year, and given the fact that historically the industry used to complain about the quality of fresher talent and currently most of the industry peers are talking about fresher intake. Do you think that problem start gears up, starts showing up once after a certain amount of time?**

Sandeep Kalra: **Let me go back to the first question first. The first question, if I got it right, is you were asking about typically the increase would be in the two to two and a half percent range in terms of the price increase on a yearly basis. In this situation do we have the ability to grow higher? So, in some cases yes, but we have to be cautious of the competitive market that we play in. While we definitely believe we have the pricing power in some other customers, in a number of larger customers we play in a competitive environment as well. So, wherever we have the ability to play competitively and do more, we'll do more otherwise maybe in this range and so on. So that is as far as that is concerned. In terms of fresher hires,**

we had roughly about 400 freshers in this quarter. But for yearly basis we are looking at roughly about 2000 freshers. But they will obviously be staggered out and they will go through their training programs etc. before they become productive, a typical training program may last within four to six months, depending on the technology that they are. So that is the high-level answer to your question.

Moderator: **The next question is from the line of Mohit Jain from Anand Rathi.**

Mohit Jain: **This is actually a follow-up from the previous one. I think the first part of the question is billing rate improvement seen in 1Q FY22. So, what happened in the last three months that your billing rate both onsite and offshore has moved up sharply and changing the trend which we were seeing over the last few quarters? Second is on the fixed component of S&M. S&M cost as a percentage of revenue is behaving as a totally variable cost. So, is there some element of it which moves in line with revenue, or should we expect it to behave like a fixed cost going forward?**

Sunil Sapre: **On the sales and marketing costs I don't think that they will be fixed in absolute terms, there will be some kind of variations to the cost happening, but in terms of percentage to revenue, you will find that on a wider revenue base, there will be some release of basis points in the sales and marketing costs. On the first question about billing rates, yes. I mean, consciously we have been working with clients and trying to optimize pricing position that we have, like Sandeep mentioned, whether in new projects or in case of renewals wherever we have an opportunity to discuss the same with the clients, we have that kind of a benefit available in certain parts of our business. So, it's consciously happening. It's not because of anything particularly, standing in the earlier quarters, but it's a conscious effort to improve our, that's needed to ensure that we are able to hire good talent and pay them well.**

Mohit Jain: **So 1Q already saw some price increases?**

Sandeep Kalra: **Yes.**

Moderator: **The next question is from the line of Dipesh Mehta from Emkay Global.**

Deepesh Mehta: **Two questions - first of all want to get, what is driving strength in healthcare. So, if you can provide some perspective what is driving demand and how we are addressing that strength of demand in**

healthcare and second question is related with India business. If you can provide some perspective because India is doing well for us, and we have not seen any impact despite second wave COVID in India. If you can provide some color, what is driving strength in India?

Sandeep Kalra: **The first question first, strength in healthcare. So, the strength in healthcare is driven predominantly on the back of, focused attempts by us in different parts of healthcare. Healthcare is ocean in any country. It's one of the biggest GDP spenders, healthcare part as far as we are concerned there are instrumentation companies and medical device companies on one side and on the other side, you have pharma payer providers. We have gone deeper into having talent which can kind of go into each of these segments and mine these segments for us, whether it is for the existing customers and also do the right logo acquisition from a new perspective. Now, in instrumentation companies there has been traditional strength for us. In the provider and pharma, we are partnering deeper with Salesforce. We have the best capabilities in the market on the provider segment in the US, as far as the salesforce is concerned and right from Digital Front Door to many other solutions, for the healthcare market, we are the leading provider. That is what is panning out well for us and we have further invested in our sales capabilities which we try and keep this at pace, but every quarter would be 15.5% sequential, whether it's healthcare or other segments, but overall, the segment we have gone deeper in our penetration and hopefully that is keeping faring well for us over a period of time. Now on the India side of it, there are two parts in the India market, there are a number of our global customers whose Indian subsidiaries we work with. So that is one segment for us. Second segment for us is there are companies in India like NBFCs etc., where we are a big leader in the salesforce space, in implementing many different things. Like, there's loan origination system and for one of the leading mid-year NBFCs we are basically doing a huge multi-year transformation program as well. So, there is good market locally for us and then there's a market in India for the global customers, their Indian subsidiaries and so on. Wherever the contract is for …. sum, that's where we accrue that revenue. That's where the global companies' Indian subsidiaries, their revenues are accrued in India. That's where you see the growth come in India now. Hopefully this answers your question.**

Moderator: **The next question is from the line of Girish Pai from Nirmal Bang.**

Girish Pai: I have a question for Sandeep and one for Sunil. Sandeep, your digital engineering stems from your OSPD capability, which is your legacy capability, but what is your right to win in the enterprise modernization market especially against incumbents of fairly strong over there, on what basis are you winning those deals and is this sustainable?

Sandeep Kalra: Let me answer that first and then you can have the second question for Sunil. Girish if you look at it what is the digital engineering side of it and why is that giving us a seat on the table in the enterprise side. Today if you look at it, everyone in the enterprise side, if you go to a large new credit card company or a credit card issuer, they want to look like, feel like a software product company. You go to ATM company they want to have software solutions outside the ATM as well. You go to any company, everyone is looking at, products and platforms, whether you are enterprise in the banking financial services space or healthcare or any others, everyone is talking about of agile development, everyone is talking about going more digital, who has the most skills in that? Is it the legacy providers or is it providers like ourselves who have been doing this for the last 30 years? We were entrants in the product segment and that is the skills that they are today ready for enterprise modernization. What we used to do for product companies in the cloud first kind of a product development, is today applicable for a cloud first platform development or enterprise modernization. So that is where today the barriers who are as competing with the who's who, whether it is US based organization, or a European heritage organization or India heritage large organization, those barriers are broken, and we are competing fairly squarely for that market share and that's where we are winning as well. So that's as far as the enterprise modernization story and our right to win is concerned. You can ask the second question to Sunil, and we will take it for you.

Moderator: Next question is from the line of from Abhishek Shindadkar from InCred Capital.

Abhishek Shindadkar: My first question is regarding the growth in Europe, anything that we should read, is it's been quite volatile both on quarter-on-quarter and YoY basis. And, my second question is more about the strategy, so now we with us positioning ourselves as a pure play OPD player, historically Persistent has operated at a very higher band of margins. I'm not asking from a quarter perspective but structurally, how do we position ourselves, whether we would like to kind of achieve a higher band or kind of reinvest and kind of accelerate the growth which is more comparable to OPD players?

Sandeep Kalra: Let me try and answer and briefly answer both the questions. The growth in Europe, yes, it used to be volatile, because one part of our business out there was majorly focusing on the resale of CE-CLM which is an industrial product, but we also engineered for one of our largest customers. Since it's a product sale sometimes some quarter it used to go up, some quarters it used to go down. The other thing was we were trying to provide services are around that. Now, if you look at it this quarter, we have taken the revenue on net accounting. If we had taken it on gross accounting even Europe would have grown much higher and the growth rate being one, the volatility being second, both the things to take care of the volatility and since we don't add much value in that reseller business, we have taken it to net. And now on you should not see much volatility in the Europe business and in the IP business. So that's the answer on that. The strategy part, yes today if you look at it, our skills are fairly well in demand and can we try and get a little bit more margin over a period of time, absolutely. But is that the highest priority for us right now versus making sure we continue that growth momentum. The growth momentum is priority, and at the same time, we will see wherever we can keep moving on the margin parameter over a period of next few quarters and years our escalations are to do both, very good growth and also increase the margins, but that will take time and growth is priority for us as responding that. Hopefully that answers both your questions Abhishek.

Abhishek Shindadkar: Yes Sir. Just a small one for Sunil Sir. Nothing to worry about the unbilled this quarter or any comments that you would like to give?

Sunil Sapre: There is nothing to worry about that, it's just a matter of the paperwork that we had to get done over to the next two weeks, so it is getting billed in this.

Moderator: The next question from the line of Madhu Babu from Canara HSBC.

Madhu Babu: Now I think our growth is almost mimicking EPAM. So, do you encounter EPAM and Globant in competition in couple of our deals and second is

that with the kind of cash balance and with the kind of momentum, is it the right time to go for a much bigger acquisitions?

Sandeep Kalra: **Madhu Babu, Yes, we encounter a variety of competition in different kind of segments that we deal with. In some segments, we do compete with the names that you mentioned - the EPAMs and Globant as well and in some segments, we compete with other people and our growth rates as you rightly said they are inching up and hopefully it works well for us. The second part of your question was around acquisitions. At any point in time, we are evaluating 3-4 tuck in acquisition and where should we find a right target we'll absolutely go after it and that is definitely a stated part of our strategy. And we have a very clearly said our acquisitions would be to tuck ins either to make us more smarter, sharper and some others service lines that we have or to go deeper in an industry vertical whether it is BFSI or healthcare or in a geography like Europe. So, we are working on all these products, and we hope to announce something in the next quarter or so and it will be an ongoing process.**

Moderator: **Next question is from the line of Rishi Jhunjhunwala from IIFL.**

Rishi Jhunjhunwala: **Sandeep one question on headcount. So, our head count is consistently growing at at least 10 percentage point above revenue growth for the past two, three quarters. How do we read that? I guess there should be two or three ways which you could pan out, either revenue growth catching up with headcount growth or you cool off hiring over the next few quarters or probably is it the case that incremental businesses is coming at lower pricing and as a result while volume growth might still be there, it's not necessarily translating into revenue growth. I just wanted to get some clarity around that.**

Sandeep Kalra: **Overall the head count will continue to increase because a number of our businesses obviously are dependent on our ability to staff them and scale them over a period of time. Our business is a good amount of that is linearly dependent on the headcount. I wouldn't read it into the headcount increasing as yield decreasing or cooling off and so on. At least for the next few quarters, we believe the headcount this pressure will still be on, and we can do it with more, more is less here as of this point in time. If you look at the realizations, etc., we are comfortable and we talked about hopefully trying to increase it. Hopefully that answers that answers. If I missed something, please let me know.**

Rishi Jhunjhunwala: No, that's fine. So, this quarter's growth fairly it is one of the best quarters for you. I just wanted to understand whether bookings growth also could be attributed to some of the revenues probably getting both the later in the end of the quarter which could have otherwise spilled over the next quarter, or should we expect the momentum to continue in the next quarter, given that it is generally feels fairly strong, even though of course not similar kind of growth but it will remain healthy.

Sandeep Kalra: So, the bookings etc. that we have done, if you look at the booking sequentially on quarter-on- quarter basis, that should give you the confidence of the growth continuing and I have not put a percentage there and there was no end of the quarter phenomena, there's no one time IT licensing etc. that we have sold. It was scaling up our services business over a period of time and built up over the quarter based on the deals that we won the last few quarters and even in this quarter and we have done healthy booking, we have healthy a pipeline, so we are confident of the ongoing growth.

Moderator: Thank you. Mr. Dwivedi would you like to take chat questions now?

Saurabh Dwivedi: Yes. We just have time for a couple of questions which have come on the chat forum. The first question to you Sandeep, it is from Atul Bhole, DSP Investment Managers. In light of substantial deal wins across industry and shortage of skill set, do you see the risk of delay in deal ramp ups?

Sandeep Kalra: Look, it is a reality that number of our peers are also having good order bookings, etc., and there is pressure in the market for talent, but the objective at our end is, our ability to forecast our requirements and try and be ahead of the curve in terms of trying to hire the right skills, etc., and we are doing our best. So far you have not seen any delays in any of our customer program ramp ups and thankfully all the ramp ups that we have done we have had roughly about 4,000 people in the last three quarters and that has kept us on pace, and we have not missed any customer commitments, even in COVID times. So, we are hopeful, and it is ongoing business challenge, and we have good process in use to take care of it.

Saurabh Dwivedi: The last question, which maybe either you or Sunil can address from Debashish Mazumdar from Edelweiss Finance. He's asking, unlike most of the peers, our onsite contribution to the revenue is going up significantly in last few quarters. What is the reason there, are we addressing the high demand scenario in a different way than competition and in the previous high demand cycle between 2010 and 2016, Persistent used to operate at 16% to 18% EBIT margin? Do we see potential to go back to those levels in the medium term?

Sandeep Kalra: Let me quickly try and answer because we are running time. So as far as we are concerned, when we talk of digital transformation related products, there's an upfront good amount of interaction that's required with the customers. And at times you need more upfront headcount to be deployed onsite to be able to have those discussions and engage at the levels with the business that we need to. So that is there, and these are normal business scenarios, so I don't think that to worry about, as far as the margins are concerned, as we have said, we have got a good growth going, growth with the right balance of margins is what we are looking at. We are not looking at squeezing EBITDA out of everything that we can, business is done differently, we are confident with our growth and right balance of EBITDA. With that, I think we should stop here. Once again, we would like to thank our 15,000 team members, our customers, and our partners for their unflinching support in this COVID times as well. We have been on a good growth journey for last many quarters we are bullish on our prospects for the future. We appreciate your spending time with us on the call today and look forward to connecting with you again in three months, hopefully with a positive update on an ongoing basis. Please stay safe, stay healthy. Thank you.

Moderator: Thank you very much management. Ladies and gentlemen on behalf of Persistence Systems Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.