

# **“Software Corporation International & Shree Partners Acquisition - Investor & Analyst Conference Call”**

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## ***MANAGEMENT:***

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*Executive Director and Chief Financial Officer*

**Mr. Jaideep Dhok**

*Senior Vice President, BFSI Business unit*

**Mr. Saurabh Dwivedi**

*Head, Investor Relations*

**Moderator:** Ladies and gentlemen, Good day and welcome to Persistent Systems Limited conference call for discussing acquisitions of SCI-Fusion360 and Shree Partners. We have with us today on the call Mr. Sandeep Kalra, Executive Director and Chief Executive Officer, Mr. Sunil Sapre, Executive Director and Chief Financial Officer. Mr. Jaideep Dhok, Senior Vice President, BFSI Business unit, and Mr. Saurabh Dwivedi, Head of Investor Relations. Please note, all participants line will be in the listen only mode, and there will be an opportunity for you to ask questions after the opening remarks. Should you need assistance during the conference call, please raise hand from the participants tab on the screen. Please note, this conference is being recorded. I now hand over the conference to Mr. Sandeep Kalra. Thank you and over to you, sir.

**Sandeep Kalra:** Good morning. Good afternoon. Good evening to all of you, depending on where you're joining from. We hope you're doing well and keeping safe in these times. As you know, we announced the acquisition of SCI and Shree Partners yesterday. So, this call is focused on the acquisition details. We will not be talking about our current quarter, given the silent period and we would request you not to ask any questions about our current quarter as we go along to the Q&A session. The way we have structured this session is we have four of us on the line we have myself, CFO, Sunil Sapre, Jaideep Dhok who's the Head of Engineering for our BFSI segment and Saurabh Dwivedi.

Just to refresh everyone for those of you who are new, at Persistent, we are roughly at about \$600 million run-rate for trailing 12 months, the last quarter for us was roughly about \$167 million, we service about 350 plus customers globally with a employee strength of 14,500 plus. Now jumping into our you know M&A strategy that we have been saying over the last many quarters. Just to refresh all of you we have said there are three pivots

for our M&A strategy. We have talked about going deeper in the industry verticals that we have, capturing the high-growth segments, wherever we have complementary capabilities from a target, you know acquisition perspective, bolstering our existing capabilities from a service line perspective, going deeper into any of the areas whether it is cloud, data, security, salesforce analytics, and expanding our geographic footprint. In line with this, we have announced a couple of acquisitions yesterday. And let me go through the details of these at a high level. So, first, all the acquisitions is a company called SCI, which has an affiliate company called Fusion360, the two of them are one entity, they are focused on the Payment Solutions market in North America region, they have been in existence for 30 years, they are in terms of the domain side of it, at the heart of you know the banking system, they are experts in payments around the ACH side of it, cheque processing, corporate payments, the gateways and the new you know, payment rails as well that are coming up. For us, if you look at it to BFSI constitutes roughly about 35% of our annual revenues. And given the 35% that we have in BFSI, we are wanting to get more deeper into certain areas which are at the heart of the banking system. And payments are, you know, absolutely at the core and they are the most profitable business for any bank. And given all the changes that are happening in the banking system this aligns very well with the forward-looking strategy of many of our customers. Now, as far as Fusion360 and Software Corporation are concerned, they started off with doing work around IBM FTM which is IBM's product, a financial transaction manager focused on the large banks and they have pretty good footprint in the top 20 banks here in North America. As they went along, they have you know, by the virtue of working with FTM being integrating with many different products and platforms and off late they have also been working on payment modernisation for many of the customers. In terms of the

revenue for financial year ended December 2020, SCI and Fusion360 were at \$7.1 million and they have been growing at roughly about 12.5% on a yearly basis. They are 100% focused on North America, they have 10 of the marquee customers, which we would you know categorise as among the top 20 you know, banking customers in North America between the US and Canada. And if we look at their employee base, they are roughly about 90 plus people based in North America. So, their headquarters are in Charlotte and that we're I'm taking this call from, and they have a pretty good footprint in terms of an office, employee base, and capabilities and a lab here in Charlotte. Now, when we come to Shree Partners, it's a small company, it's a \$7 million company for financial year 21 ended roughly \$7.6 million. Now, interestingly, Shree Partners comes to us, to us through a vendor consolidation deal that we have won at one of our larger customers. This is a five-year deal and we will announce the details of this deal as we announce our results at the end of the quarter. Now, when we were doing this vendor consolidation exercise, this was a proactive outreach from Shree Partners. Basically, the customer where we were doing this vendor consolidation was responsible for roughly about half a half of their revenues. And so, it was a very sweet fit for us, and it had the blessings of the customer as well. So, it made sense for us to acquire them from that perspective. They also bring in good capabilities and a couple of other good customers among others. This relationship with Shree Partners also gives us a footprint in the National Capital Region of India. If you look at Persistent, presence in terms of delivery centers, and otherwise in India, we are focused between Nagpur and down south from there between our locations in Nagpur, Pune, Bangalore, Hyderabad, and Goa. So, this is a very complimentary addition from having our first foray into the, you know, the northern side of India. And we have a full intent of going big, using this as a seed for ourselves in the National Capital Region of India.

Now, with this, let me go a little bit more into the strategic rationale for these deals. Now, if we look at it, as I alluded to before, and we will have Jaideep talk a little bit more in the later part of this call. For us, this allows the SCI acquisition, allows us to get into the fast the fast-growing sector in terms of IT services for payments, and it embeds us in the transformation agenda of our BFSI clients. As Jaideep will kind of walk you into the details, a lot of our customers are moving on to the cloud part of it from even the payment side, and many years. So, if you look at, let's say five years back, nobody would have wanted payments to move on to the cloud. Today, everyone is talking about cloud initiatives and even in our relationship with the largest customer that we have, we have been working on taking the FTM onto a hybrid cloud using the open shift technologies from them. So, it's a very complementary fit, where we have been doing the cloud enablement, hybrid cloud enablement for the FTM product. And these guys from SCI have been working on taking it to the banks. And as we see the pipeline for, you know, going from, let's say the version three of FTM to version four, which is basically a cloud-enabled, you know, version for FTM and doing integration with multiple different payment systems, because in any banking system, you will find there are not just one product platform, there are many different platforms based on the use case and that's where this fits in very, very complimentary to us. So, in our mind, there are three legs to the stool. One is the entire complimentary relationship between us developing the product, and getting the professional services and the inroads into the customers. Second, we get roughly about 10 of the marquee logos among top 20 banks in the US and Canada put together. Some of them are common customers, but most of them are not. And that way, it gives us a footprint for us to take payments to our customers as a service and it gives us a very good complimentary ability to go and mind the customers, some of which are the absolute you

know, participation among the top 10 banks here in the US where we don't have a footprint as of this point in time.

Now, if we look at the other side of it, from the geographic footprint, SCI has a very good footprint in Charlotte and so that was Charlotte is the most important emerging hub for banking and financial services, with headquarters of some of the top banks and their regional banks also being, you know, here in Charlotte. So, that perspective, we get a very good footprint between our existing employees and the new team that we are inheriting and that gives us a fairly good presence to be able to mine. And from a Shree Partners perspective, I talked about how it gives us a new point of presence, and also makes us more strategic to one of our existing customers. Now, this set of transactions also gives us a good leadership team to add to. So, from our perspective, you know, Keith Sides, who's the CEO and President at SCI and Eric, who's the President at Fusion360. Both of them will be the leaders for us and as you would have seen in our press release, we have announced a payment business unit. So, Keith will lead the payment business unit, the entire initiative would be about number one, integrating the two organisations. Number two, going deeper into their customers and our customers. Number three, doing some tuck in acquisitions, etc to make us even stronger in the payment ecosystem, which is very fast evolving as Jaideep would talk in a few minutes from now. Along with that, from the Shree Partners perspective, their CEO will continue with us, and so will their management team. So, that way, we also get a set of new leaders to add to our management team. With this, I will hand over to Sunil Sapre, our CFO to talk about the financial details of the transactions, Sunil, over to you.

**Sunil Sapre:**

Yeah, thank you, Sandeep and good afternoon and good day to everyone. Let me quickly give you a you can say overview of the two transactions when you would have seen the details and I'll also kind of go over the

details of the purchase consideration quickly to refresh your memory. So, the total purchase consideration for Fusion360 and Software Corporation International (SCI-Fusion360, as we call it) is \$53 million comprising of \$34 million upfront and balance as retention. And I will tell you the details of that also a little later. The run rate as Sandeep mentioned of SCI, the annual revenues of \$17.1 million. So, the purchase consideration works out to an implied multiple of 3.1x revenue, in terms of the margin profile of SCI-Fusion360, they have healthy gross margin, so better than Persistent's gross margin. So, we will have margin-accretive kind of a situation. So far as the biggest concern as you would know the amortisation charge would be the reason for the 50 to 75 basis points impact that we see from this acquisition. As regards Shree Partners, so the total purchase consideration which is \$6.9 million and comprises of \$3.4 million upfront and balancing as retention, I will tell you the details about that as well.

So, with the annual revenue of \$7.6 million, it is just about 0.9x in terms of the revenue multiple and here again it is gross margin accretive. And given the size of this acquisition at the EBIT level, impact will be very minimal. So, let me now tell you the details about the actual upfront and you know the amounts involved in this. So, in terms of SCI-Fusion360, the upfront payment is \$34.45 million. There is an earn out of about \$6 million per annum, \$12 million over two years, the earn out is over two years. So, \$34.45 million plus \$12 million is about \$46.5 million. And then the balance amount is in form of retention over three years. The retention is for three years, just to ensure that we have engagement with the employees for a longer period. And in terms of Shree Partners, as you would have seen it's a smaller transaction comparatively. But in terms of the upfront payment, it is \$2.37 million in US and \$1 million in India. In terms of earn out it is \$1.5 million per annum for two years. So, \$3 million

in earn outs, and the balance of a million is in form of retention. That is again over three years. So, this construct of both the deals is similar, earnout over two years and retention over three years. So, that's the broad construct and as we have outlined here in terms of the gross margin accretive-ness of the transactions and so far as the EBIT impact with the transactions put together will be of the order of 20 percent to 26 percent. And I think I will now request hand over to Jaideep for the little more deep dive on payment space. Jaideep, over to you.

**Jaideep Dhok:**

Yeah, thank you Sunil and a good day and good afternoon to everyone. Let me share the rationale behind why we are focusing on payments, why this particular transaction and why a specific dedicated payments business unit. As we all know payments business is one of the more lucrative more profitable revenue streams for the banks. The market research says that the payment-based revenues are likely to grow at about 6% CAGR to almost \$2.1 trillion in next five years. All the more reasons for banks to focus on payments and payments, modernisation initiatives and so on. The bigger push is obviously coming from the consumer experience as such, the global trend that we see is projecting a very solid growth across all types of digital payment products be it mobile payments, e-commerce payments or the latest trend around what is called as buy now pay later payment is a very interesting combination of lending and payments so it's.. it's a very interesting end to end customer journey that the banks are focusing on and the more reasons for banks to go more aggressive on the payment modernisation initiatives are such. Cheques, cash those are going down, digital payments are going up and that's basically all the good reasons for banks to adopt technologies and go faster on that particular transformation journey. If I had to share the numbers you know, if it just look at certain types of payments contact like payments in US 136% increase year on year real time payments 48% increase, e-commerce



payments 20% increase and all these are during the pandemic times which is where you would not see the business growth to come but even during those times basically the payment the digital payments so to speak up gone up. So, COVID has actually in fact in fact has pushed the cause towards the transformation even further. Now banks are responding at multiple levels. You know, if you look at the history of payment and payment rails, there are more number of payment rails which are getting introduced, there are more number of payment modernisation which are coming across and knocking the doors. And the latest trend you will see is going all the way up to Central Bank digital currencies, although that is still a little far but that's where clients are exploring more and more payment options, richer customer experiences across the globe. Now, all this leads to some really fantastic time for us close to about \$16-\$17 billion, or about 12-13% YY growth in terms of the IT spend, which is where this particular transaction comes in. So, why SCI, why Fusion, they bring a very core fundamental domain consulting capability around certain platforms that bolsters our presence in the payments area and it in turn, in turn elevates our end to end servicing capability in the banking and financial services space, which is where we have a larger presence at this stage. We've already worked with a wider spectrum of engagements across large enterprises, product companies and fintech's in the payment space, wherein we help them in transformation initiatives more on the design and engineering side. Now that we have SCI and Fusion on board, we are strengthening our domain and functional capability even further. We are we are elevating our overall value proposition and that's where the main charter of this payment business unit comes in. We are going to focus on three major categories. We're going to continue implementing upgrading and managing the core platforms or more around the established payments ecosystem that includes the likes of ACH and cards and cheques.

That's where the mainstay ecosystem is going to be and it is going to continue for a while. We also are in very excitedly looking at the cloud opportunities as Sandeep added it to earlier. So, while you have the existing ecosystem, there is a bigger play to move the ecosystem to cloud. Second, we are also targeting the payment transformation where banks are trying to focus on the emerging payment products or alternative payment products, such as Zelle in US and those payment rails are going to undergo changes, new payment rails are going to come in and that's all part of the payment transformation that we want to focus upon. And finally some of the imminent needs more from the compliance and the open banking perspective, which banks have to follow across the globe, which is what is going to add to the payments business unit focus from our perspective. Now, payments is a widespread area since it touches multiple ecosystems within a bank and we expect that with SCI coming on board, our target spectrum we'll go more end to end. We believe that this is a foundation setting for our payments business unit but we'll continue to build on it organic and in organically and this is probably just the beginning from our perspective.

Sandeep, can we go to the next slide please. What we've done is internally crafted a very concept detailed plan on how we want to internalise and leverage the synergies around this particular transaction. Here is how our ambition matrix looks like. If you look at bottom up starting at the Persistent's core expertise, we want to continue to grow our core expertise build on the synergies delivering this particular transaction and respond to the.. the impending trade and in the payment trends the payments that I talked about a few.. few minutes back, we enjoy a very strong footprint around the digital banking mosaic working for multiple clients across enterprises and technology companies. Payment is obviously a critical component as alluded to in the mosaic for us. And it is only going to get a

further boost from this particular acquisition or ACS domain and functional consult capability will surely help us take richer services and expertise to our clients. In turn, we'll also be taking our.. the host of our digital engineering services to SCI's mark your clients. Sandeep talked about that in that particular section, but together what we believe is we are very well poised to elevate our collective value proposition or help our combined customer-base, and essentially be prepared better to respond to the payment trends that are coming across all our way. Thank you, Sandeep and back to you.

**Sandeep Kalra:** So, with this, we would like to open for question and answers. So, over to you moderator.

**Moderator:** Thank you very much. We will now begin the question and answer section. Anyone who wishes to ask a question can raise your hand from the participants tab on your screen. Participants are requested to use heads phone or ear-phone while asking a question. Participants are requested to ask a maximum of two questions at a time. For follow up questions, please join the queue again. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from Vimal Gohil.

**Vimal Gohil:** Yeah, thank you for the opportunity. I hope I'm audible. Yes, you can go ahead. Yeah, Thank you sir. Thank you so much for the opportunity. Sir, my first question is, if you could just give me the broad split. And all my questions are related to SCI. So, if you could just give me the broad split between how much would be the pure payment solution business versus FTM? Broadly?

**Sandeep Kalra:** So, FTM.. so Vimal FTM is a software that enables the payments business. So, the entire business that SCI and Fusion do is only in the payments domain, out of that about 75 to 80% is around FTM and the rest about 25-

30% is around other payment rails, implementations or integrations, whether it is Zelle related or other, you know, similar products, and so on.

**Vimal Gohil:** And Sir, how much of the business would be pure consulting lead and you know, how much would it be pure support services etc.

**Sandeep Kalra:** In the mix, roughly about 30% of the revenue is consulting, 70% is Implementation and support.

**Vimal Gohil:** Okay, okay. Fair enough. And do you, will this is this.. is this consulting space expected to sort of increase going ahead as in when we sort of improve our engagement levels with our, with our clients?

**Sandeep Kalra:** Absolutely. So, look, if you look at the SCI side of the house, at 17 million run rates going to, you know, 20, or whatever else, obviously, their investment capability was limited as a small company. Now, with our aspirations, and the emission metrics that Jaideep showed you, our intent is to definitely go double down on this and expand our capabilities beyond what they have today and we will be absolutely doubling down on the consulting side and, you know, obviously, the downstream revenues are bigger than even concern. Right. Our ambitions are fairly significant in this case, as we go along, you will hear about those in our quarterly calls and we may also do more token acquisitions.

**Vimal Gohil:** Right. And sir if I were to observe the growth rates for SCI, they're.. they're sort of hovering at around 12 - 13%, which is what we've grown at over a long period of time. And given the fact that you know, they are in a space which is which is growing, which is expected to sort of grow quite fast, do you expect these growth rates to improve and given the fact that you know, they have been in the space for quite some time, could you help us understand why the growth rate is sort of I mean, it intuitively feels that the growth rate is sort of under par and if at all, we are expecting an

improvement, why would that be? Sure. The other question is on margins, if I may continue, sorry, this's for Sunil, the 50 to 75 basis point a bit margin impact will sort of wither away as an as in when we get the advantage of operating leverage, right. So, the 50 to 75 basis point is only for the current year that is FY 22-23.

**Sunil Sapre:** That's right. Yeah, we are a growing company as you know, there are a lot of moving parts. So, when you do a transaction, you have to estimate what it will mean in the near term. As the business expands, obviously.

**Sandeep Kalra:** So, Sunil, I'll answer the first question, so Vimal, you have like, a good question. Look at it this way, a company which is a privately held company with its own, you know, funds as the source for, you know, their expansion. Even if the market is big and they are expanding at 12.5%, they're, they're happy with that, that's good for them at their levels. For a company like Persistent, which is, you know, at \$668 million run rate from last quarter perspective, and with significant cash reserves, our aspirations are very different. And our ability to invest and expand is very different. To give you a parallel example, we acquired CAPIOT. CAPIOT was a \$7 million company, you can go into the historic financials, whatever it may be. Today, parts of that business is doing that 20% quarter on quarter. That may not have been their growth rate for a year. So, it doesn't matter what you know, SCI and Fusions growth rate was before, combined with Persistent, what the possibilities are, our real estate of customers, their real estate of customers, the synergy revenue, the possibilities of adding more tuck-in acquisitions. And that's where we are forming this payment business unit and where we are making Keith Sides who's the CEO of SCI, as the head, you know, working with Jaideep to expand that. So, from our perspective, look, the beauty is in the eyes of the beholder, we see a lot of possibilities and we are confident about you know, taking it and expanding it multifold.

- Vimal Gohil:** Fair enough sir, thank you so much, and all the very best.
- Moderator:** Thank you. Thank you. Next question is from Mohit Jain.
- Mohit Jain:** Hi Sir, just one question again, on a SCI. I noticed on the website, there was also some partnership with Microsoft. So, just wanted to check is there something on the Microsoft front also in this whole setup? And what can we expect from there?
- Sandeep Kalra:** Sure. So, so if you look at it, Mohit, see there are a few things that are happening at a bigger picture level, and then how Microsoft fits into that. So, if you look at the payment's ecosystem, everyone is talking about modernisation. And when they are talking about modernisation, they are talking about cloud enablement and when they're talking about cloud enablement, they're talking about multi-cloud. And that's where the story about the work that we have done on open shift on FTM and other products, the story about multi-cloud, whether it is Microsoft or AWS or other cloud studied, fits in and that's where this relationship with Microsoft fits in from a cloud enablement perspective and so on. So, hopefully, that helps.
- Mohit Jain:** So, this would be FTM posted on Azure kind of a scenario.
- Sandeep Kalra:** So, FTM will be enabled by open shift to use multi cloud, so which can be Azure which can be GCP, which can be AWS, or which can be an IBM.
- Mohit Jain:** Understood, thank you very much.
- Sandeep Kalra:** Depending on which customer it is.
- Mohit Jain:** Right. That's all.
- Moderator:** Thank you. The next question is from Sandeep Shah.
- Sandeep Shah:** Yeah, can you hear me?

**Moderator:** Yes.

**Sandeep Shah:** Yeah. Congrats on acquisition. Sandeep, just the first question, if I look at the SCI, it's in the market for more almost 30 years, three decades so, look the scale up is not very impressive and what I understand is, the revenue looks more sticky to visit the FTM, IBM FTM wallet share, winning the market is lower versus the other platforms for the payment, or you believe that more push is required in front of the client, which can happen post the integration with Persistent, which may scale up the revenue further going forward.

**Sandeep Kalra:** So, Sandeep, valid question. So, two parts to it. Number one, yeah, FTM is one product and look at a scale of \$17-\$20 million, you know, companies choose their battles. So, they chose the FTM battle, and over a period of time, 25% of their revenues come from others. But if we look at our aspirations, our aspirations are to double down on both. And to give you an example, right now, for example, FTM, version three to version four, the biggest change is hybrid cloud. And we are very key participants in engineering that story. SCI-Fusion is very key to taking that story to market, but at their scale, at a scale of 90 people, they can do what they can do. And at a scale of roughly 15,000 people, we can take that and you know, multiply that multifold. And that's where the journey on FTM scene now, non FTM, we are already engaged, they are already engaged with multiple other you know, participants in the market. And so, the next story is how do we take the other part of that story in terms of non FTM things and that's where there is another time and so, there is there is three or four different synergies here. And look, they have grown, and they are satisfied with their growth for the last many years, you have seen our story and we have seen our growth and our aspirations, we are clearly saying this is an investment that we are doing, and this is the start of an investment, not the end of an investment. So, we are very bullish on this and we are very

confident. We've done our due diligence, and that's why we have acquired this company because we definitely feel we can take this time whatever is the addressable time, even if we get a small sliver of it, the growth that we want will be there.

**Sandeep Shah:** Fair enough. Second, just if I look at our relation which is also very strong with IBM, so why this decision to build the capability inorganically rather than organically as a whole?

**Sandeep Kalra:** Sure, so two parts to it. One is the capability side. Second is, you know, anyone who has dealt in the BFSI ecosystem to get the top 10 out of the top 20 banks in the US, their MSAs, their working relationships that are, you know, anywhere between five plus years old, deeply entrenched relationships, multiyear, SOWs, you know, that's a very different ballgame. And look, from our perspective, one side of the story is about getting deeper into payments, and getting deeper into the accounts that they have, from a payments perspective, taking them into our accounts from a payments perspective, second side of stories, those marquee logos that we don't have today, now we get a you know, right or a seat on the table to go and sell our services. So, the play here is far bigger, it's a very complementary play and if invested the right way around, executed the right way around, it opens time not just in the payment space, but a whole lot of new market for us in banks and financial institutions in US and Canada that we don't have. So, there is there is far more to this than just the payment and the FTM story.

**Sandeep Shah:** Okay, and Sunil Sir, if I'm not wrong, looks like the retention payment may pass through P&L. So, when you say 50 to 75 basis point impact that is also after retention coming into P&L or that will only be impact coming through amortisation?



**Sunil Sapre:** No, see the gap between gross margin to EBIT impact comprises of two things, the retention payments and the amortisation payments, right. And the part which is linked to earn out, it happens based on performance. So, there we do not expect too much of you know, an impact on the margins because it happens when there is performance. So, it breaks in the three elements and our job is to ensure like Sandeep mentioned the faster growth of these things so that the margin conversion, and all that plays out in that question.

**Sandeep Shah:** Okay, okay. And just the last clarification for the Shree Partners, for the client for where the vendor consolidation is happening. Sandeep, you said in opening remarks, they get revenue, which is 50% of the revenue, which we'll get it, is it correct or?

**Sandeep Kalra:** No. So, they get they get the 50% part is of their revenue. So, that \$7.6 million, translate 50% of that is what they get in this customer today. And you know, the customer had four service providers, we were among the larger ones, we are consolidating three out. And this is one of the consolidated partners and you know, when they knew that they were being consolidated out they sought the customer permission, approached us proactively to be acquired and so that's where the discussion started.

**Sandeep Shah:** So, out of four, it's only one vendor, which is you.

**Sandeep Kalra:** Yeah, we are the primary vendor, the other vendor left is with a very small sliver that will that may also go away with time.

**Sandeep Shah:** Okay, thanks and all the best.

**Moderator:** Thank you. We will close this call at 4:45pm. We request participants to ask one question, only. Next question is from NGN Puranik. Request you to please unmute and ask a question.

**NGN Puranik:** Hello, can you hear me?

- Moderator:** Yes, we can hear you. Yeah.
- NGN Puranik:** Hi Sandeep, you have picked up on a very promising space, the payment space is ever expanding space. It's a wonderful space to play in. It's very strategic in terms of expanding your BFSI presence, which you have been very consciously doing over the last few years. So, I think this, what I want to understand is the payment value chain and how.. how do you leverage the presence of these guys in the payment value chain in constructing a large deal, taking a current 5 million deal to 20 million deal, how they will this valuation will play an important part. Also in terms of getting any M&A the upstream downstream particularly in consulting, how do you get the downstream revenues going is important. So, there you become extremely relevant. How do we expand that deal? How do you cross sell in a deal you know, so, I would like to understand that.
- Sandeep Kalra:** So, I'll let Jaideep answer the first part and I'll come in for the second part, Jaideep, over to you.
- Jaideep Dhok:** So, so.. payment, as others said earlier, when I explained the why part of this particular transaction is payment is central to most of the transformation initiatives the bank would have, you know, whether you launch a new product or new service basically, or you're modifying anything payment does gets impacted directly or indirectly, right. So, while we work on digital transformation initiatives, which are, let's say more consumer facing, you know, we now get an opportunity to actually go all out into an implementation on ground. When the bank said to, you know, go through a new payment rail adoption, like Zelle, or RTP, or the upcoming fed now and for record, the US as a, as a territory. Now, now, we will have an opportunity to basically look at that from an Indian perspective. That is one. Second, if you look at payments being the core system, and again, depends upon what kind of payment product you're

talking about. And that's very wide ecosystem, as you rightly pointed out, there are lots of upstream and downstream services that we will also be able to get into. So, while we leverage them into our digital transformation initiatives, we get an opportunity to go and upscale their initiatives, which are more limited towards the core payment implementation upgrade at this stage.

**NGN Puranik:** So, again, can you give an example in the context of the deals that you're doing today in the BFSI space, Wells Fargo and others. So, how do you construct a large deal, taking the payment, you know, a new payment, the value chain, the consulting value chain.

**Jaideep Dhok:** I'll not take any specific customer example, but I'll take a particular use case that they're already implementing. So, ACH, is one of the very widespread omni-present kind of rail in US. Now ACH has been there for ages. We know we go and we are chosen as a partner to modernise ACH, that's an example we debate, right? Now, what do you mean by ACH modernisation, it could be a pure, you know, implement engine-engineering refresh kind of stuff. You know, modify this particular layer, that particular layer and that sort of thing. But when you talk about ACH modernisation from a domain perspective, now we have a much better ability to actually go and talk about what kind of message format what kind of, you know, payment recall we are going to do? How are we going to set out a transaction, that sort of thing. So, rather than just focusing on the engineering aspect of it, now we have the domain aspect of it tagged along with that and that's how we increase the overall expanse of our deals.

**NGN Puranik:** Interesting. And that will make a good sense to the deal size, how big that could be?

**Jaideep Dhok:** It will make big sense to the deals, absolutely.

- NGN Puranik:** How big that could be?
- Sandeep Kalra:** Deal sizes could vary and again, you know, we will not go specific to the customer names that you mentioned.
- NGN Puranik:** It could be any big customer.
- Sandeep Kalra:** So, the deal sizes could vary between 5 to 20-25 million kind of programs that are there in the market. And so, there is definitely that thing in the back of our mind as we integrate the company as we, you know, bring the teams together. That is the journey we want to undertake. And keep in mind right now SCI being a smaller company, they only have a US footprint with a very small Canadian footprint, whereas we have a global footprint. So, there are many other synergies where we can bring them scalability from an offshore perspective. We are slightly bigger than them in Canada, and you know many other places, we could also leverage it. And even in our existing customers, there have been demands and increasingly, we are seeing RFPs where we could easily take them over. So, there is many things there and just being respectful of time. We have six minutes left, we want to take a few more questions.
- NGN Puranik:** Thank you so much. Wonderful, all the best to you.
- Moderator:** Thank you. Next question is from Abhishek.
- Abhishek:** Yeah. Hi. Thanks for the opportunity and congratulations on the acquisition. Just one question on SCI, what is the market share, you know, in the payments ecosystem, and because this will help us identify what's the deployment size that we are looking at from the current revenue? Thank you for taking this question.
- Jaideep Dhok:** Sure. So, if you look at the real time payment ecosystem, just to give you a glimpse of this thing, we already shared that that's market size is somewhere in the range of \$16-\$17 billion from the IT spend perspective

and that is obviously spread across you know, a few core players in the ecosystem, FTM being one of them. But you need to appreciate one thing that FTM is not the only product which is out there in the ecosystem. There are multiple platforms that come into the place targeting specific product that they launched where SCH is one of them, real time payments and other cross border payments and other and that sort of thing. What is more important for us to look at essentially is the customer base which is out there with them and the FTM customer base is out there which is what we have potential necessity to go after.

**Sandeep Kalra:** And once we are looking at the FTM space, it is not restricted to that. Today, even when we the exciting part for us with SCI was we were doing the engineering for FTM. They were doing the implementation, while doing the implementation, they were integrating with many other, you know, products, and they had started building capabilities on other products. So, the interesting part for us is the existing account base we are getting, the kind of stickiness of that revenue that we are getting, the entrenchment we are getting in terms of you know, that the seat on the table to go and talk about other payment rails, other modernisation initiatives, and so on. So, this thing is not just about FTM, this is far bigger, as I've said before, in the call, the play for us is far bigger, the play for us is also take the seed of SCI, bring more and more investments on top of it, and organically inorganically grow much bigger.

**Moderator:** Thank you. Next question is from Rahul Jain. Please unmute.

**Rahul Jain:** Yes. Am I audible now?

**Moderator:** Yes.

**Rahul Jain:** Yeah, first of all congratulations on the transaction, and you know, part of my question has been answered, but at the expense of repeating it,

basically, I'm not able to reconcile the kind of valuation that we have bought for the business, which has been going by percent gross margin, similar to higher, and at a time with the market looked more confident. So, what is the motivation for the selling come selling promoter or parties, specifically in a time like this, and also for the fact that most, half of the payment is coming to earn out and retention, which means they don't have exit and they need to perform for next two years. So, anything on that part, or maybe anything on what kind of target rate we have set for the to earnout to achieve?

**Sandeep Kalra:**

So, we'll try and keep it brief, we have three minutes in our call. So, if you look at it, the management team at SCI and Fusion, they want to be in the business for longer. So, they're not looking for, you know, sell and run. So, that is where they are absolutely happy taking an earn out. And they also understand, they've also done diligence on us. And we were among five bidders in this, this was not a sole source kind of a bit. And so, they had alternatives within us and tier ones, globally, and some private equity partners as well. So, there is obviously a chemistry that has developed over a period of time transactions like these take anywhere between four to six months. Now, the other side of it, they have grown at what their aspiration was. Now, they also understand with the cloud market enablement of payments, with the capabilities we bring, with the relationships we bring, whether it is, you know, IBM's of this world or with some other partners that they are also working with, whether it is Microsoft or whether it is others, there's a very good amount of synergy. So, it's not just about money, it's about cultural fit, it's about market fit. It's also about, you know, where we can enable them and it's a very complimentary fit. I don't think the valuation is an issue at all. It's a decent valuation, and obviously the earn outs are there. So, with that, we will take one last question. Yes. Moderator, if we can.

**Moderator:** Yeah. So, the last question is from Mr. Nitin.

**Nitin:** Yeah. Hi, thanks. So, two quick questions. So, one is, how is our presence on BFS in US versus Europe? Do you think you need further tuck in acquisitions in Europe? And so that's one element. Second, is in terms of now you've talked about payments and, you know, the interfaces improvement over time. So, do you think there's room for further acquisitions in non FTM or do you think that you need to acquire smaller slivers of people and do you think you need to make a UX-CX acquisition at some point in time? And finally, I think on the earn outs, the earn outs end in two years, I think just seven months of FY 24, so do you think FY 24 this becomes more EBIT-neutral from a transaction perspective. Thanks.

**Sandeep Kalra:** So, I'll go rapid fire in the sequence that you said and if I miss anything. So, in terms of the revenues, most of our revenues in the BFSI segment today are in the US, I would say about 80%, 75 to 80% would be US, the rest would be split between Europe and India. India is also a big market for us. Now the second part of it, do we want to do tuck in acquisitions and BFSI and similar spaces in Europe? Absolutely. Yes, we would love to do that and at any point in time, we are evaluating two to three transactions even today. Now, when you look at FTM versus non FTM, absolutely, we will do tuck in acquisitions and non FTM space. We have enough expertise in FTM between us and SCI and even some outside of FTM, and SCI and ourselves, and we'll you know, absolutely want to do more, and stay tuned over the next 6 to 12 months, hopefully as we settle this down, we will also be doing some of that. UX-CX? Absolutely, we will look at UX-CX acquisitions. Some of these tend to be unreasonably expensive and we are in no desperation to do that. We have a good UX-CX capability. But absolutely at the right price point, in the right geography and the right capabilities, we'll be happy to do that. And anyone listening to this call who has ideas on that, please reach out to us. So, that's where we are on the earnouts, yeah, as the earn

outs go through and if our hypothesis goes through in terms of synergy revenues, the margin impacts will be utilised much faster. So, those are the answers.

**Nitin:** Great, thank you so much and all the best.

**Moderator:** Thank you, sir.

**Sandeep Kalra:** Thank you, moderator.

**Moderator:** Yeah, thank you, sir on behalf of Persistent System Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines and exit the webinar. Thank you very much. Thank you everyone. Bye.

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