"Persistent Systems Limited Q3FY22 Earnings Conference Call"

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MANAGEMENT:

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, Investor Relations

Mr. Amit Atre
Company Secretary

Moderator: Ladies and gentlemen, good day and welcome to Persistent Systems earning conference call for the third quarter of FY22 ended December 31st, 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. Please note, all participants lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please raise hand from the participant's tab on the screen. Please note, this conference is being recorded. I now hand over the conference over to Mr. Sandeep Kalra. Thank you and over to you, sir.

Sandeep Kalra: Thank you. Good afternoon. Good morning. Good evening to all of you, depending on where you're joining from. It is good to be with you once again. We hope all of you are safe and healthy. Since we are speaking for the first time in the New Year, I would like to extend my best wishes for 2022 and hope that the New Year will bring good health and success for all of us. I would like to start by thanking every one of the Persistent team members, our customers, partners, and investors for their resilience and trust through the challenging times we have witnessed in the last two years due to the ongoing pandemic. With that, let me get into the business and financial updates.

I am happy to report yet another quarter of strong growth across all major business metrics. The revenue for Q3 came in at $199.12 million, giving us a growth of 9.2% quarter-on-quarter and 36.2% on year-on-year basis. In rupee terms, this translates into a growth of 10.4% quarter-on-quarter and 38.7% on year-on-year basis, respectively. As you are aware, during the quarter, we closed two acquisitions - Software Corporation International and Shree Partners - boosting our capabilities in the Payments segment as well as giving us a strategic relevance to a key large account. While SCI's revenue was consolidated for almost the entire period of the quarter, that of Shree Partners could be consolidated for about half the quarter given the timing of the closure. Adjusting for these acquisitions, our organic growth in U.S. dollar terms for the quarter was 6.7% on a sequential basis and 33.4% on a Y-on-Y basis. As you are aware, this growth is on the back of two successive quarters of 9+% sequential organic growth. Our EBIT for Q2 came in at Rs. 2,083 million, giving us an EBIT margin of 14%. Sunil will cover more details on profitability in his section.

The Board of Directors declared an interim dividend of Rs. 20 per share for FY22 on the face value of Rs. 10 per share. This compares to last year's interim dividend at Rs. 14 and the total dividend for last year at Rs. 20. It is our endeavour to maintain a consistent dividend payout ratio while we augment our growth through capability-led acquisitions.

Coming to the order book for the quarter, the total contract value for the quarter came in at $334.3 million. The annual contract value component of this TCV is of the order of $291.3 million. In terms of new bookings in the quarter, the new business TCV was $157.6 million, of which the ACV component was $128.6 million. As you may already be aware by now, these TCV/ACV numbers include all the bookings small and large, renewals, as well as new bookings across existing and new customers.

Coming to the people front, we brought in 1,110 new colleagues including 258 from our acquisitions of Shree Partners and SCI. This brings our total employee base to 16,989 as at the end of December 2021. Fresh graduates constituted approximately 1/4th of the organic net addition in the quarter. As you would notice, we are continuing to add a healthy number of employees each quarter and this should help us continue our growth journey going ahead. The utilization for the quarter came in at 83%, a 0.2% improvement quarter-on-quarter backed by deployment of a number of our hired employees over the past few quarters. The attrition for the quarter was 26.9% compared to 23.6% in Q2 on a trailing 12-month basis. As you can make out from these numbers and historical comparisons, annualized attrition has started to moderate, though it remains at an elevated level. We expect that the trailing 12-month attrition is likely to remain on the higher side for at least another couple of quarters, after which it is likely to moderate due to the base effect and on account of the new batch of freshers who will join the industry, thereby expanding the supply for industry overall.

We are continuing to focus on strengthening our employee value proposition. As you would already be aware, we had introduced the broad-based ESOP scheme covering 80% of our employees in the last quarter as a recognition to the contribution of our employees to our company's success. Other initiatives such as promotions, career planning, active learning development interventions have also been taken very well by our employees. We believe an even stronger employee value proposition would bode well for us in retaining existing employees as well as attracting the right talent to Persistent.

There are a few other highlights from the quarter that I would like to share with you. During the quarter, we welcomed to Avani Davda to Persistent's Board of Directors. Currently, Avani is a strategic advisor in the Bain Advisory Network. Prior to that, she was the Managing Director and Chief Executive Officer at Godrej Nature's Basket and Tata Starbucks Private Limited. We also continue to add new seasoned executives to our leadership team. Kuljesh Puri joined us as an SVP for our IBM Alliance and Emerging Verticals. Ajay Kumar joined us as SVP for our Partner Ecosystem, which includes sourcing advisory, private equity, and similar channels, and Vijay Iyer joined us as Sales VP for the digital transformation side. In addition, we on-boarded first member to the Persistent Advisor Network, Werner Boeing who is a former CIO of Roche Diagnostics.

On the acquisition front, just to refresh everyone's memory on the two acquisitions that I elucidated before, we closed the acquisition of SCI and Shree Partners in Q3. SCI deepens our client portfolio and relationships within 10 market leading banks. Many of them are categorized as the top-20 banks in North America. The SCI acquisition will also be the foundation of the dedicated Payment Business Unit, as we announced last quarter and the future expansion in the core solutions and applications of the banks' technology architecture. Shree Partners has helped us consolidate our position in a strategic account and given us the base to attract talent in the NCR region in North India.

The operational integration of these two acquisitions including HR, Finance, IT and marketing is in advanced stages and has been proceeding along expected lines. The sales and delivery integration is also underway and the teams are jointly exploring opportunities for cross-sell and up-sell, the results of which we expect to see in the coming quarters in FY23. We continue to scout for and engage with potential targets in our focus areas and will keep you posted as we make progress on these over the coming quarters.

Coming to the market demand or outlook for our services, we are continuing to see a healthy demand in the industry verticals we service, that is Banking Financial Services, Healthcare Life Sciences, and Technology companies. According to various research reports from leading organizations such as Gartner, Morgan Stanley and others, the global IT services market is likely to grow at a healthy clip anywhere between 4.6%

to 5% in IT services for calendar year 2022. This increase in demand is projected to be broad-based across industry sectors and led by customer initiatives around digital transformation and cloud computing. The services that we take to market to these industry verticals as Persistent right from product or platform development, the digital engineering side of it, the digital transformation implementation for the enterprise, the cloud computing, security, data are at the top of these growth projections in all these research reports.

The healthy demand for digital transformation is also fueling continued investments by private equity and VCs into tech companies. All of this bodes very well for us from an addressable market perspective. Our organic and inorganic investments on an ongoing basis in best-in-class digital engineering capabilities positions us well with our customers to gain incremental share of the wallet and to continue our growth journey over the next few years.

Coming to the ESG side, during the quarter we continued to make good progress on the ESG front. To highlight a few activities, during the quarter, our team planted 57,000-plus trees working alongside the local community in the Koyana River Valley in South Maharashtra, India. This is the largest project of its kind in one monsoon in Maharashtra state. We estimate this will help us offset 500 tons of CO_2 emissions every year in the future. We initiated the disclosure of our carbon footprint and reduction efforts along with all necessary data on the CDP Portal. This is the first time for us and this is being done in line with TCFD guidelines.

We are proud to have won the state-level competition by Maharashtra Energy Development Agency in the commercial building category. We would like to point out that 55% of the electricity that we consume as an organization comes from renewable sources.

Our FY20 carbon footprint was 15,000 tons of CO2-equivalent greenhouse gases. During FY21, we achieved a reduction of 41% approximately. This overachievement was also partly due to the reduced occupancy and operations in light of the pandemic. Going forward, we have set ourselves a target of reducing our carbon footprint by at least 10% year-on-year. We are in the process of formulating our long range ESG strategy including the road map towards becoming carbon-neutral and will publish the same in our FY22 annual report. Now, I will turn the call to our CFO, Sunil Sapre to give a detailed colour 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, analyst awards, and other recognitions for the quarter. Sunil, over to you.

Sunil Sapre: Thank you, Sandeep and good evening to you all and wish you all a very happy and healthy new year. While Sandeep has shared the market outlook and our business growth flavour, let me walk you through the financial details for the quarter ended 31st December 21. The topline was $199.12 million with a QoQ growth of 9.2%, YoY growth of 36.2%. Of this 9.2%, organic growth was 6.7%, and as Sandeep mentioned, these acquisitions closed during this quarter with SCI-Fusion360 closing in the first week of October and Shree Partners in the middle of November.

Revenue for the quarter in INR terms was 14,917 million, which reflects growth of 10.4% QoQ and 38.7% YoY. It was led by BFSI Industry vertical, which grew by 14.7% on a sequential QoQ basis aided by healthy organic growth as well as the contribution from the two acquisitions, which fall in the BFSI vertical. The Software and Hi-tech business and Healthcare Life Sciences segments also saw healthy growth of 7% and 6.4% quarter-on-quarter, respectively. On a YoY basis, all the three segments clogged healthy growth rates, with BFSI growing at 48.9%, Healthcare Life Sciences growing at 47.9%, and Software and Hi-tech growing at 24.7%. In terms of the geography split of revenue, North America saw 33.1% growth on YoY basis, India came in at 71.5% growth followed by Europe at 28.6% growth and ROW at 47.9%. All these growth rates are for the respective geos on a YoY basis.

In terms of the top account categories, you would have noticed that the top one customer grew by 29%, top 2-5 customers grew by 31.2%, top 6-10 by 32%, and 11-20 by 10.4% on a YoY basis. In terms of the client mining efforts that we have been making steady progress on, we saw the count of 5 million-plus customers move up from 22 customers in Q2 to 24 customers in Q3, and 1 million-5 million customers moved up from 84 customers to 90 customers.

Coming to the revenue profile - the linear revenue, I mean in respect of linear revenue, offshore linear revenue grew by 6% primarily on account of volume growth of 7.4%, while billing rate declined by 1.3% primarily on account of holidays. The onsite revenue grew by 12.5%, comprising of volume growth of 16%, while billing rate decreased by 3% mainly due to softer revenue in Europe.

The Services revenue continued the strong momentum and grew by 8.3%. As you're all aware, this quarter is normally favourable for our IP-led revenue, which grew by 15.9% during the quarter. Accelerite line of business had a good quarter coupled with higher royalty income. As you know, we had announced an ESOP plan, which will cover about 80% of our employees and we believe that this broad-based ESOP plan provides opportunity to employees to participate in the value creation and it has been well received by the employees.

The impact of this for the quarter in terms of margin impact was 75 basis points. We continued the efforts on employee engagement as well as sustaining and improving utilization and as Sandeep mentioned, the utilization is in 82.8-83% range. So on the positive side, the higher Services revenue, better IP-led revenue, the favorable currency movement, which helped by 50 basis points, and the continued focus on utilization helped us to offset the increased cost of operations caused by attrition. which is currently at elevated level and ESOP expenses. With that, EBIDTA improved by 20 basis points to 16.8% as against 16.6% in the previous quarter.

Depreciation and Amortization was higher on account of the new acquisitions. On a full quarter basis, the amortization impact will be about 40 basis points and then will moderate as the revenue grows. With that, the EBIT came in at 14% as against 13.9% in the previous quarter. Treasury income for the quarter was Rs. 251 million as against Rs. 293 million in the last quarter. The lower treasury income was partly due to lower investable funds post acquisition payout and partly due to M2M adjustment on mutual fund investments due to the recent increase in rates.

In terms of the payout towards acquisitions, the amount was $38 million, and we have availed a loan of $25 million to part finance the same. Forex gain was Rs. 30 million as against Rs. 10 million in the previous quarter. With that, you come in to the profit before tax, which was at Rs. 2,364 million at 15.8% as against 16.1% in the previous quarter. The ETR for the quarter was 25.4% as against 25.7% in the previous quarter, and PAT came at Rs. 1,764 million at 11.8% of revenue as against Rs. 1,618 million in the previous quarter at 12% of revenue.

Operational capex for the quarter was Rs. 277 million. In terms of other investments, we have given additional loan approval to procure shares needed for the new ESOP schemes. So, the total loan to the trust stands at Rs. 3,364 million. The total cash and investments on the books were Rs. 18,964 million as at 31st December. DSO was 58 days as against 55 days in the previous quarter, the increase being primarily due to higher IP invoicing in the last month of the quarter and some collections spilling over to first week of January. You would have observed that the cash flow from operations continue to be strong with OCF to EBITDA conversion of 1.3.

Forward contracts outstanding as of 31st December were $165 million at an average rate of 77.21 per dollar. Thank you all and I hand it back to Sandeep.

Sandeep Karla: Thank you Sunil. So, let me give you a colour on some of the wins for the quarter. Starting with Banking Financial Services and Insurance, we were chosen by a leading mutual property casualty insurer to modernize their agent-facing system design and development work for personal and commercial line products. This multi-year deal was awarded to us based on our expertise in technologies like low code no-code, cloud, and conversational AI. We were chosen to partner with a unique India-based next generation banking technology company, which is a pioneer in developing payment solutions on NPCI platform. We will be partnering with them in product development of treasury management system, bill payment systems, and prepaid card user interface. The partnership holds tremendous potential for future expansion in taking over maintenance support for 600+ banks and exploring opportunities for transaction-based pricing. We were chosen as a partner to establish a Canada-based development centre for a leading provider of financial software for consumers and small-to-medium businesses. The engagement includes developing an end-to-end CRM portal using open-source technologies.

Coming to Healthcare and Life Sciences, we were chosen to build the next-generation platform for a leading organization in the pharma and healthcare domain providing end-to-end solutions for planning and executing live and virtual events for healthcare professionals. The engagement involves migration of existing applications stack to the cloud and modernizing it. We were chosen to build a Patient 360-degree platform using the Salesforce Health Cloud for a healthcare leader providing kidney dialysis services. The engagement will enhance the patient experience, create a single view of the patient journey and enable the client to move to value-based care.

Coming to Software, Hi-tech and Emerging Technologies, we were chosen by the top-3 global education publisher for platform re-architecture, integrations, UI development, site reliability services for developing digital education content. As a part of this engagement, we are establishing a team cutting across offshore and near-shore in Mexico. We partnered with one of the leading hyperscalers to build and support a multitude of connectors that enable customers to securely transfer data between other SaaS applications and platforms and the hyperscaler's platform. We are very excited about this engagement, as it opens larger opportunities for us to further expand into the connector ecosystem of this hyperscaler and to the other partners.

Moving on to awards and recognitions for the quarter, Q3 saw us get continued recognition from industry leading analyst firms and associations. To mention a few – Information Services Group (ISG), a leading global technology research and advisory firm - announced that Persistent has won 4 categories in the annual ISG Star of Excellence Awards. These categories included Analytics, Salesforce, Intelligent Automation and Manufacturing. The award winners were selected based on direct client feedback from more than 300 enterprise clients. This acknowledgement builds on our last year's win in the ISG 2020 Star of Excellence Awards where we won global awards for BFSI, Healthcare Life Sciences as well as for North America and APAC as regions. In addition, you may note, for the last 7 consecutive quarters, we have been recognized as a Top-15 Sourcing Standout for Managed Services in ISG Global Index Booming 15 Under a Billion Dollar category. Other recognitions and awards for the quarter included Zinnov Zones ER&D Services 2021 Leader Position and we have been in this position for the last 9 consecutive years. We were recognized for excellence in Learning and Development at the SHRM India Excellence Awards 2021. We also won TISS Leapvault CLO Award for Best Corporate University, Best Games Based Learning Program and Best Quality Management/Best Improvement Training Program for 2021.

In summary, we delivered yet another strong quarter. We continue to see 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.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask questions may raise your hand from the participant's tab on your screen. Participants are requested to use headphone or earphone while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from Vimal Gohil.

Vimal Gohil: Thank you for the opportunity sir, and many congratulations on a very strong quarter. Sir, I have 3 questions actually. Just wanted one data point on your, could you just help us with your contribution from SCI and Shree Partners individually? How much did they contribute in terms of revenues for this particular quarter? If you could give me the revenue number? That's question no.1. The 2nd question is basically on the company's overall strategy. This company has been pretty unique in terms of its exposure to the startups in the valley and we are doing some very interesting work along with the startups. It is a known fact that some of these startups are sort of thriving today and are flush with funds. But what happens is, in terms of risk, when the funding sort of dries out, that really impacts their own spends on newer products which ultimately impacts us. So just wanted to know, what have been our key learnings from these trends before and how do we sort of hedge our bets in case that is to sort of play out going into the future? If it's possible, if you can quantify what is the kind of exposure we have over there? And the 3rd question is simple on the outlook of the subcon cost. We have done very well in terms of containing our subcon costs in this quarter. So just wanted to get your sense on, should this trend continue going ahead in the future? Thanks a lot.

Sandeep Kalra: Sunil, if you can answer that on SCI-Shree Partners and the subcon part. I will take care of the overall strategy and the questions there.

Sunil Sapre: Ya sure. In terms of this quarter's revenue, like so far as SCI is concerned, it closed earlier in the quarter, just a week after 30th September and revenue from that was $3.7 mn. And so far as Shree Partners is concerned, which closed in the middle of the quarter, the revenue was about $800,000.

In terms of subcon cost, what you referred, you are right in your observation, we have been making countless efforts to contain this. One of the benefits that we have is longer visibility of some of the contracts where we have been able to deploy people on an FTE basis rather than on a subcontractor basis. So, this is a directional trend we would like to pursue and contain the subcon costs. I hope that helps you to get an understanding.

Vimal Gohil: Sir, any number that we sort of target because from 13-odd percent currently to 13.6%. Are we targeting any number in the near future? What would be a sweet spot?

Sunil Sapre: The whole idea is to have the right talent available at the right time, when we are able to start the projects and ramp them up. So, it is very hard to put a number and predict like that. I mean, it's common sense that they come in at higher cost but at the same time, in the current context you also don't want cost to be idling in any form. So, there is a trade-off here. It is not just about that percentage cost, but otherwise in salary cost, it might sit if it is in FTE. So, we have to balance this and most importantly it's the availability, because of COVID and the pandemic still prevailing and restricting mobility. We would like to work on this all the time to ensure that we optimize it and not worry too much about it with the growth that we have seen, the need to fulfil the projects that are there. We cannot become overly restricting that particular flexibility in terms of requirement.

Vimal Gohil: Ideally, we would want to go along with onsite employees rather than sub-contractors, if availability is not an issue.

Sandeep Kalra: So, Sunil sir, let me just answer that. So Vimal look, right now, there is no clarity on the pandemic and how it will subside, or the Omicrons of this world came out of, again the woodworks. So, we will take a call on this as and when the situation gets clearer. And yes, you are right, our preference would be to have our own employees, but again with travel restrictions and with all these things, we have to be prudent. If we have to keep getting market share, we have to be able to execute in time and we will do the right thing. I want to be conscious on time. There are a lot of other people in the line for questions. So, let's keep moving along. I will answer your next questions. If you have more questions, please come back in the line and we would love to do it, or you can connect with us on an offline basis.

You had a question on the overall strategy and the exposure to the startups and all. So, look, our overall strategy, we came from a product development background. We are very strong in what we call digital engineering. It morphs itself into application development, equivalent to platform development for the enterprise. Today, if I look at it, roughly in the last quarter, across product companies - which are horizontal software companies and vertical software companies like Fin-techs, Health-techs, etc – the contribution to the revenue was $93.8 mn. Keep in mind, this is not just the venture-funded companies. It's a very small portion of our revenue. Venture-funded companies by the nature of venture funding, they are not huge companies. They are smaller companies but the exposure to them gets us the cutting-edge technology work. So, that is what we look for with them. The biggest technology company that we work with in terms of revenue contribution is IBM. And it's a well-known fact that the top 1 customer is more than a $100 million for us. So, I don't think anyone should be worried about our exposure to VCs. Our exposure to VCs is very very small and even if it was to, God forbid it was to go down, I don't think we are subject to any major swings because of that. Our contribution from verticals like HLS and BFSI, outside of tech development also is a fairly healthy contribution. All of that data is available in our fact sheet and we can also take offline questions if required. So hopefully that gives you a direction.

Vimal Gohil: Fair enough. Thank you so much sir, and all the very best.

Sandeep Kalra: Thank you.

Moderator: Next question. This is from Manik Taneja.

Manik Taneja: Thank you for the opportunity. I had a couple of questions. One thing was with regards to the movement that we are seeing with regards to both our onshore and offshore revenue realizations. If you could talk about what's impacting that? And the 2nd question was a bookkeeping question around the employee metrics for the employees split up across geographies. We have seen a significant increase in terms of the North America headcount. Is that a function of the near-shore delivery ramp up that we are doing in Canada and Mexico, and is that also playing an impact with regards to our revenue realization dreams? Thank you.

Sandeep Kalra: I will take the 2nd question. Sunil, please answer the 1st one. In terms of the employee metrics, look, there are a few things that are happening. No.1 – we are continuing to ramp up in our near-shore as you rightly pointed out like in Mexico and Canada. But more importantly, in the last quarter if you look at the acquisition of SCI, it is mainly US-based and a very small portion is in Canada. So, that also added to our US-based headcount from that perspective. And as a strategy, as the virus and this COVID subsides, we definitely want to ramp up in Canada, we definitely want to ramp up in near-shore in Mexico and you will also see that pan out in the numbers as we go along. Sunil, on the realization part please.

Sunil Sapre: Ya. So Manik, this onsite realization basically is a function of, as you rightly observed, the geo mix within onsite. So, the realization rates as you know are higher in US and Europe and then in near-shore, so far as Canada, Mexico, Malaysia, some of these geographies where we have presence, these rates are little lower, particularly Mexico and Malaysia, that much lower. So, this quarter basically, there has been an increase in the activity in Mexico as well as in Malaysia, and so far as Europe is concerned, it has been soft because of the holiday impact basically. So far as US is concerned, it is holding steady. There isn't much volatility over there. But these 2 factors have both contributed to cooling down the onsite realization rate and there is nothing beyond that. In fact, we have been able to get, you can say, better pricing as an overall basis so we do not have to worry about the trend as such on that.

Manik Taneja: Thank you. I will get back in the queue. One last clarification was with regards to the restructuring of the IP deal with IBM. If you could help us understand, would that have any dilutive impact on growth in the near-term and any kind of restructuring cost involved? Thank you.

Sandeep Kalra: So, from an IP restructuring perspective, look, we basically had said that there will be a continuation of the revenue to a certain extent in time and material basis which will be at a higher contribution margin or higher gross margin to us. So, from that perspective, on a quarter-on-quarter sequential basis, we expect the revenue impact to be in the range of $3-4 million. And at the momentum that we have, we are not very worried about that. So, our momentum should take care of a decent amount of growth including accounting for this, and as far as the margins are concerned, as we progress into the next few quarters, as we are able to redeploy and get over the restructuring cost that we may have to take as a one-time, you know, the margins will also improve. So overall, I think this bodes well for us over the shorter, medium and longer term and we are not explicitly worried about this.

Manik Taneja: Thank you, and all the best for the future.

Moderator: Thank you. Next question is from Debashish Mazumdar.

Debashish Mazumdar: Hi sir. Thank you very much for taking my question and wish you a very happy new year. Congratulations for the very good set of numbers. So, I have 2 questions. One is, related to your top clients. So, if I see, there is a good growth that has come back especially in the current quarter or the last quarter. So, what is the point on that side? Are we getting back into the growth mode into that business after a long period of time? And the 2nd part of the question is around India market that has grown significantly for us in the last 2-3 quarters, it has become 11% of our revenue now. So, what is happening on that side? Thank you very much.

Sandeep Kalra: Sure, so look, we have a very healthy growth rate across, whether it is top 1, 2-5, 6-10 and even further down, up to the 50 customers and so on. So a number of these are based on the initiatives that we have to mine the customers, but there may also be seasonality involved in some, for example the top 1 customer, there is a little seasonality involved in the October, November and December quarter. So that may be playing out but overall, this is a secular trend in terms of client mining playing out and that is very evident in the greater than 1 million dollar customers, greater than 5 million dollar customers and those similar metrics. So, from a mining perspective, healthy trend, not an issue. And what was your 2nd question?

Debashish Mazumdar: So, that was about Indian market. So, if I see India growth….

Sandeep Kalra: Got it. On the India market, so there are, we are a significant player in the Salesforce, ecosystem in the India market, as well as you know, we have expanded our footprint in the India domestic financial services market in a big way. So that has boded well for us and we want all the pies to grow. So, we have a focus with separate teams in different markets and this team has done well, and we expect this to remain steady in terms of growth. And overall, also, it is contributing well to the company margins.

Debashish Mazumdar: Just a follow up on that. These Indian market projects, do we have similar kind of pricing and margin as compared to our US and Europe projects?

Sandeep Kalra: So, look, it may be a tad bit here and a tad bit there, but it is a fairly decent scenario for us. I am not overly worried about the margin in the Indian market as at this point in time.

Debashish Mazumdar: Thank you very much for answering my question.

Moderator: Thank you. Next question is from Rishi Modi.

Rishi Modi: Hi Sandeep. Couple of questions for you. 1st one is, so we acquired SCI, right and we entered into the Payments business. So, if you could give an outlook on what we intend to do in this vertical and what's our strategy going to be to acquire market share in this space, and what kind of work we are going to do? If you could give that and then I will ask my 2nd question, once you answer that.

Sandeep Kalra: Right. So as far as SCI is concerned, the strategic rationale for acquiring SCI was to basically get bigger in the Payments space. As Persistent, we already had some engagements in the Payments space, but SCI is a company that was focused pre-dominantly on the Payments side of the house. And all the work that they do in their customers is only Payments-related. So, there are 2 things which happened with this acquisition. One, we got some very good customers, the top-10 banks are fairly well-represented in their portfolio. So, we had some additional good banks coming over to us as customers. Second, we are focusing with them to define how we take that as a seed and grow that into a much bigger Payments unit as we go along. We will give the progress report of that in the next few quarters. But in short, they are working on platforms like FTM, FIS, they have done good amount of work with Zelle, integration with the banks and so on. So, there are a lot of good things there, combined with our own capabilities and our investments that we want to continue to do in this. We should be able to over the next 2-3-4 quarters, take this and make this into a bigger success story for us in the Payments space across the Banking and Financial Services and even the Fin-tech market space. So, that's the short version of it. As we make progress and have wins, we will come back and report.

Rishi Modi: Ok, thank you. The 2nd question is that, so historically as well as recently, we have been seeing a lot of changes at key management positions, be it business heads or SVP level with as latest as Steffen Drillich and Jiani Zhang, last year. If you could tell me, apart from ESOPs, what are we doing to retain the talent pool at these levels and how do we expect to reduce the churn at this level, if you could give some guidance on that?

Sandeep Kalra: Sure. So, while you have talked about the exits, please visit LinkedIn and other sources and figure out the additions as well. So, if you look at it, we have come from a journey of, you know, over the last 4 years, we have grown from 471 to 570, from 471-481 million dollars, to 501, to 566 and this year, you can do the numbers. We are on a very healthy clip and we are targeting to be a billion dollar-plus organization over the next 4-6-8 quarters. And with that, we have a need to reinforce our structures in every part of the organization. So, we have been bringing good talent. If you look at our earnings releases and the way we have been talking about bringing in talent, whether this quarter, even right from our board to our exec level, and even within the N-2 levels as well, there is a lot of reinforcement in the organization that has happened. With that, you know obviously there are some people who would want and who are good contributors to us, who may also want to have other aspirations, and they may want to do something else. So, all in good spirit, and the fact, the proof of the pudding is, higher order bookings, higher revenue growth, higher margins and a very vibrating organization. So, I am not worried. I don't think it's a big churn issue. It is a lot of good leadership addition at all levels.

Rishi Modi: Alright. Yeah, I mean, okay that's helpful. Thank you.

Sandeep Kalra: Thank you.

Moderator: Thank you. Next question is from Nagendra Maurya.

Nagendra Maurya: Hi sir, good evening, and thank you for the opportunity. Just couple of questions. I just wanted to know that how much of revenue is dependent on the IBM partnership? And this quarter seems very healthy order booking. So just wanted to understand which segment has contributed more on the order booking side, and what is the outlook on the order booking? And is there any other acquisitions in the pipeline currently?

Sandeep Kalra: Sure. Thank you. So, I will try and keep it brief. So, in terms of the top one customer, if you look at the breakup, we give it in the fact sheet as well. So, it is about 17.5% for the quarter, the revenue contribution from the top one customer. And that is what you were looking for in the named customer that you talked about. Now obviously, there are, you know, some seasonality on the IP part within that. And that kind of goes up and down. October, November, December is seasonally pretty strong in that segment and that is what has also contributed to our growth there. Now, if you look at the other parts of the ecosystem, the bookings etc, they are all pretty secular. I don't think it is any one segment standing out. It is proportionate to the contribution from various segments. So hopefully that answers you. And if we can keep on time, there are many other people in the line, so we can take your next question if you allow us to answer the other questions from other people please.

Nagendra Maurya: Okay. Thank you for answering.

Moderator: Thank you. Next question is from Dipesh Mehta.

Dipesh Mehta: Thanks for the opportunity and congrats for strong execution. I have two questions. First is, how much deal TCV we accrued from acquisition this quarter, if you can give that number?

Sandeep Kalra: So right now, it is too early to kind of – you know, it's been one month and most of the effort has gone into the acquisition integration. And these are small companies, right? So, if you look at the revenue contribution that Sunil talked about from SCI for example, it was $3.7 million. From Shree Partners it was 800K in terms of revenue contribution. So, the TCV etc, right now it is not something to point out separately. But as we go along, these acquisitions bring us some very good capabilities and relationships. And we will definitely come back and report to you. Keep in mind, post the SCI-Shree Partners acquisitions, we have already talked about a fairly large deal, which was basically a vendor consolidation deal. That total amounted with the acquisition and everything else to about $60 million. And as far as the Payment BU is concerned, as we kind of get together with them as two sales teams collaborate and so on, we will come back and announce them.

Dipesh Mehta: So, this 60 million is part of our 334 million, right?

Sandeep Kalra: So, 60 million, part of it was already taken, about 50-plus million was taken in the last quarter. The 10 million part is taken in this quarter.

Dipesh Mehta: One last part related is, now if I look at our YoY growth, in TCV as well as ACV is showing low teens kind of growth rate. Anything would you like us to read into revenue trajectory from that number? Do you think this too short a period to extrapolate for revenue conversion?

Sandeep Kalra: Sure. So, look, there is – we announced the TCV, we announced the ACV. Now, when you look at some of the deals that we do, they are multi-year deals. So, the revenue conversion will happen from this ACV, TCV and also from the multi-year deals that have been done earlier. So, there is a certain component that comes together along with this ACV realization of this, plus the realization from the bookings that were multi-year, because if you look at it, right now when I talk about the deal, that 60 million dollar deal, it is a 5-year deal. So, it is not going to come up for renewal for the next 5 years. But it will contribute to the revenue for the next 5 years. So, I don't think standalone you can make the full revenue calculations based on these. We will try over the next few quarters to see if we can give you an order backlog so you can – executable order backlog, so you can make out the things based on that. But as far as we are concerned, a combination of the ACV, TCV wins that we have announced, and the backlog that we are carrying from multi-year deals, it bodes very well for our future growth. And the proof of the pudding is, three quarters sequentially 9.2%, it is not possible if the order books were not very healthy, and they were not converting to revenue.

Moderator: Thank you. We request everyone to limit your questions to one at a time. Thank you and next question is from Sandeep Shah.

Sandeep Shah: Can you hear me?

Moderator: Yes.

Sandeep Shah: Congrats on a very good set of numbers again. So, Sandeep, this year we will approach on a services side almost 40% growth and that is industry leading and very strong as a whole. So, just wanted to understand what can go wrong in this journey going forward, both from a Persistent angle as well as macro or demand angle as a whole? And a related question, when you took control, one of the KPIs was to make growth more predictable, annuity, sticky based. So how are we panning out since you joined in this metric?

Sandeep Kalra: So, on what can go wrong, look, in macro-economic environment we don't control. There could be many things in the macroeconomic environment that may happen. There are tensions between US-Russia. There are other things. So, as long as any of that doesn't pan out, as long as the macroeconomic environment stays stable, I think the demand that we are seeing, overall for IT services, the digital transformation journeys we are seeing, the cloud adoption we are seeing, all of that should bode well for the industry. And within that, for people like ourselves who are on the cutting edge of technology and who are able to move these revenue focused programs and get more organizations onto the digital transformation, I think we should be okay. For the next 3 to 4 years, this demand should be okay provided the macroeconomic environment remains stable. And there is no, nothing that comes at us from the left field like a COVID kind of a situation. So that's that. And again, you know when we do our budgeting, when we do our, you know, execution, we are always trying to keep track of things in a prudent manner so as to plan for any contingencies. So, there is a risk management function within the company that we look at. So that's the part first. And please remind me the second one.

Sunil Sapre: About the sticky year deals and all those things.

Sandeep Shah: Sticky and predictable.

Sandeep Kalra: Yeah, so look, we have talked about how we want to grow the customers in a way that we create a healthy backlog that we carry to the next year and also create a multi-year backlog. And back to what I was explaining earlier, so there are deals that we are signing. If you look at even this quarter, so the renewals typically in October, November, December, a number of our renewals are yearly renewals, where ACV is equal to TCV. If you look at our TCV/ACV ratio for the new wins, it is slightly different and it basically bodes well in terms of showing multi-year kind of engagements as well. Also keep in mind, nowadays with the digital transformation journeys, these are iterative. These are not POs that come in one PO for let's say in the next 3-5 years. Wherever we are building capacity for our customers, where we are extension to them, there we can get a multi-year kind of a PO. And that is where we announced the TCVs. There are many, many places where we are doing programs, which are multi-year, but which are iterative and where we get you know, POs on a smaller basis and they get you know, keep getting renewed and so on. So, if you look at our renewals, you will see renewal trend pretty healthy. So, all of this is leading to a healthy backlog creation and stickiness of revenue. And the proof of the pudding is, look at our journey for the last 8 quarters. Sequentially, it is building up. And for the last 3 quarters for 9.2%, it would not be possible if we were not building sticky revenues and the revenue builds on top of each other. So, it is panning in the right direction. We can always do better.

Moderator: Thank you.

Sandeep Kalra: So hopefully that answers you.

Moderator: Next question is from Nitin Padmanabhan.

Nitin Padmanabhan: Hi, good evening everyone and thanks for the opportunity. A couple of quick ones. One is, if you look at the deal momentum that we've had and the kind of sequential growth that we have had, it's been extremely solid. Sir, just wanted your thoughts in terms of when you look out going forward, you will see that sort of continuing in a way and do you think services business, the mid-single digit to high single digit kind of growth trajectory, do you think that sort of sustains for some time? I just wanted to test your confidence on the same. The second quick one was on the ESOP cost, it is at 1.9% of revenue this current quarter. Do you think that number sort of tapers going forward? And how should one think about it? So those are the two quick ones.

Sandeep Kalra: Sure, I will take the deal momentum and Sunil will take the ESOP cost part. So, on the deal momentum, if you look at our deal wins, they are fairly healthy. If you look at the ACV deal wins over the last 12 months, it is about $880 million. And if you look at the pipeline, we don't announce the pipeline, but if we look at our pipeline, it is pretty healthy. Now obviously you know, the market environment is good when you look at the Gartner reports, when you look at the Morgan Stanley reports. Each one of them is talking about the IT services market globally growing at a fairly healthy clip. It is about execution from companies like us and we have proven our track record over the last 8 quarters. Hopefully, we will continue to execute. There will always be puts and takes like, you know, the talent situation that we have, whether it is the ability to hire, the ability to retain. And we are working on all of that. So, deal momentum, absolutely it is there and hopefully all of this pans out well, in-line with how we have delivered the last 8 quarters. Sunil, ESOP.

Sunil Sapre: Yeah, so Nitin, ESOP cost as you know is, what you call, the absolute value, will not increase the way the revenue will increase. So, you are right that as percentage to revenue, definitely the cost will keep moderating down.

Sandeep Kalra: Right. And if you look at the ESOPs, and I will put a thread back to the earlier question, so if you look at it, the ESOPs have been given to 80% of the people. There are ESOPs and RSUs that have been given to the senior management team as well, which are the people who basically lead a significant part of our revenues etc. So, all of these should bode out well. To the earlier question about the motivation of senior management to stay with our company, to contribute more and our ability to attract more senior management folks, given we are doing very well, we have a very niche position in the market. And that same thing you know bodes well for our ability to attract newer talent. So please look at the ESOP cost holistically in that perspective as well.

Moderator: Thank you. Next question is from Hussein Kagzi.

Hussain Kagzi: Hi, am I audible?

Moderator: Yes.

Hussain Kagzi: Hi. My one question was with regards to Europe market. I understand it's a very small portion of revenue for us. But can you help us understand what's really happening over there? Because I think you earlier mentioned that there was some softness in that market. And even last year we are – sorry last quarter Q2, we grew just 1% and right now it's 3%. So, anything specific with regards to the clients that we have, or is it because of the

COVID thing over there? So, if you could just give some comment on that. Thank you.

Sandeep Kalra: Sure. So, Europe market for us has traditionally been a smaller market, where our intent is to grow faster. COVID definitely has put a little bit of dent into our ability to move around resources, put the management attention into Europe and so on. But overall, from that perspective we have very good capabilities that we acquired through two acquisitions that we did in Salesforce space. We have a good healthy pipeline in Salesforce market in Europe as well as non-Salesforce market. And hopefully, the next few quarters we should see things pan out in the other direction, where you would see a positive trajectory from a growth perspective.

Hussein Kagzi: Alright. Thank you.

Moderator: Thank you. Next question is from Madhu Babu.

Sandeep Kalra: Madhu Babu, we can't hear you.

Madhu Babu: Yeah, hi sir, yeah hi sir. So, most corporates are talking about fresher hiring. So, what are the challenges we are seeing in hiring them and retaining, and what is the time taken to deploy them for billing? Thanks.

Sandeep Kalra: Yeah, so look, we have been doing fresher hiring for many years. Although I will say that the scale at which we hired freshers in the last 12 months and the scale at which we will hire freshers in the next 12 months, it is you know disproportionate to what we used to do earlier. And Persistent is a very good brand in engineering institutions given the kind of work we do, right from our headquarters in Pune to other parts of India. We are a coveted brand for the freshers. So, from that perspective, we don't have an issue of people wanting to join us. We have been working closely with the institutions that we have worked over the last many years. We have added a few more. And we are working with them to even define course content for the final semester where some of the things that we want to have people be trained on, whether it is overall technology landscape, whether it is specific to skills around data, AI, or Salesforce and so on. So, we have been able to work with the faculty and these institutions. And we look forward to the freshers coming in over the next few months and quarters at a bigger clip. So roughly about 3,000 is what we are looking to induct as freshers over the next 12 months, the new financial year. So hopefully, that answers you.

Madhu Babu: Okay sir. Thanks.

Sandeep Kalra: Thank you.

Moderator: Thank you. Next question is from Sandeep Shah.

Sandeep Shah: So, Sunil sir just a question on amortization. So, you said the full quarter amortization increased because of acquisition could be 40 bps. But there could be some savings because of tapering down because of earlier amortization as well. So, do you believe that could be a net-net headwind or may remain at a similar range or come down going forward as a whole? And on EBIT margin, I think you are a company where growth is showing a YoY improvement. Whether that journey continues if the growth continues to remain industry leading, going forward?

Sunil Sapre: Yeah sure, so Sandeep see, amortization as we said the acquisitions closed somewhere in the period. So, there will be some throwing up of that because of the full quarter impact. In terms of the amortizations getting over, by and large more or less our portfolio is right now stable, may take one more year for one of the earlier product amortizations to get over. But as a percentage to revenue, obviously since these are absolute amounts as the revenue grows, they will keep moderating down. And in terms of, I think your other question with respect to EBIT margins, I think over the last several quarters, we have been working at it, but the waters are not steady waters with so many puts and takes that are there with the growing business on one side, attrition also elevated on the other side. So, we have to live with all, you know, levers being put to use. But definitely we are working towards each and every lever to take the margins in a healthy direction. But at the same time, not hurting ourselves in terms of growth. So definitely we want to do a profitable growth, is the objective.

Moderator: Thank you. We will take the last question from Abhishek Shindadkar.

Abhishek Shindadkar: Hi, thanks for the opportunity and congrats on a solid execution. Just one question. I am sure we have lot of demand on the three verticals, segments that we have. But just from a 2-3 years' strategy perspective, anything you know that we would like to start building on as a kind of a next leg of growth? Thank you.

Sandeep Kalra: Sure. Good question, Abhishek. So if you look at it, even earlier in the call we said we have hired Kuljesh Puri as a SVP for IBM Alliance and Emerging Verticals. That Emerging Verticals has a decent portion of Communication, Media and Technology revenue underneath it. And it is tending to grow well. As it grows even higher over a period of time, we will start announcing it as a separate vertical. I don't think it will happen in the next financial year. But that is an emerging vertical. Similarly, we will look at with our organic and inorganic growth, if there are any other verticals that can be seeded to become bigger, we will also do that in the background. But we will start announcing them as they get to a critical mass of an annual revenue of $100 million or more. But there is definitely things being done in the background.

Abhishek Shindadkar: Perfect. Thank you for taking my question and best wishes.

Moderator: Yes, so Mr. Sandeep, that was the last question.

Sandeep Kalra: Perfect. So once again, thank you to all of you, and to our team members, customers, partners and investors for their unflinching support in our growth journey, especially in these pandemic times. We remain bullish on our prospects for the future, and we will look forward to reporting on our progress three months from now. In the meantime, please stay safe, stay healthy. Thank you.

Moderator: Thank you very much to the Persistent Management. Ladies and gentlemen, on behalf of Persistent Systems Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines and exit the webinar. Thank you.

Sandeep Kalra: Thank you.

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