“PERSISTENT SYSTEMS Q4FY22 EARNINGS CONFERENCE CALL”

April 28, 2022

MANAGEMENT:

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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
Persistent Systems Limited

Moderator:  Ladies and gentlemen, good day and welcome to the Persistent Systems earnings conference call for the fourth quarter of FY22 ended March 31st, 2022. 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 participants’ tab on the screen. While asking questions, request you to please identify yourself and your company. Please note that 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 evening, good morning to all of you, depending on where you’re joining from. It is good to be with you once again and we hope all of you are safe and healthy. As always, we would like to start this call by thanking each one of our 18,500-plus Persistent team members and our customers, partners for their resilience, and continued trust in us through all these ups and downs over the past couple of years.

We are happy to report yet another solid growth quarter across all major business and financial metrics, concluding in a banner growth year for us. With that, let me get into the business and financial updates. The revenue for Q4 came in at $217.32 million, giving us a growth of 9.1% quarter-on-quarter and 42.2% year-on-year basis. In rupee terms, this translates into a growth of 9.8% quarter-on-quarter and 47.1% year-on-year basis. This was the first full quarter for consolidation of SCI and Shree Partners accounts, while that of Data Glove was consolidated for one. Adjusting for these revenues, our organic growth for the quarter was 6.8% on a
sequential quarter basis and 36% on a year-on-year basis in USD terms. We are pleased to state that this is the 4th consecutive quarter in which we have achieved 9%-plus sequential quarter-on-quarter growth. We've also had consistent execution on profitability, resulting into nine consecutive quarters in which we have had an improvement in EBIT margins quarter-on-quarter. Coming to the full financial year, the revenue for fiscal year FY22 came in at $765.6 million, giving us a growth of 35.2% on year-on-year basis. On an organic basis, adjusting for the impact of SCI, Shree Partners, and Data Glove acquisitions, the revenue growth came in at a robust 32.8% for the full year.

Coming to the EBIT side, our EBIT for Q4 came in at INR 2,300 million, giving us an EBIT margin of 14%. This translates into a growth of 10.4% on q-on-q basis and 57.1% on y-on-y basis for the EBIT side. The EBIT margin was stable at 14% on sequential basis despite various headwinds including higher amortization costs and one-time expenses related to M&A transactions and continued talent supply challenges. Sunil will provide you more color on the EBIT margin movement across the quarters, a little later in call. For full year FY22, our EBIT came in at INR 7,922 million, implying a healthy 56.1% year-on-year growth over FY21. In percentage terms, this translates into an EBIT margin of 13.9% compared with 12.1% in FY21, implying an improvement of 180 basis points.

Coming to the order book for the quarter, the total contract value for the quarter came in at $361 million. The annual contract value component of this TCV is to the tune of $261.9 million. In terms of new bookings in the quarter, the new business TCV was $195.1 million out of which the ACV component was $131 million. For the full year FY22, the total TCV won was to the tune of $1.22 billion. The annual contract value component of this TCV is to the tune of $943.3 million. As you may already be aware by
now, these TCV, ACV numbers include all bookings small and large, renewals as well as new bookings across existing and new customers.

On the people front, during the quarter, we brought in 1,610 new colleagues, this includes 700 colleagues from our acquisition of Data Glove, bringing our total employee base to 18,599 at the end of March 2022. Fresh graduates constituted approximately 25% of the organic net addition in the quarter. We continue to add a healthy number of colleagues each quarter and that should help us continue our growth journey going forward. Utilization for the quarter came in at 80.6%, a 2.4% decline q-on-q as we added freshers in the system and also created capacity for further ramp ups as we go along in the future quarters. The utilization rate is a function of our endeavors to operate efficiently and also create the healthy buffer to staff our future plans.

That attrition for the quarter came in at 26.6% compared to 26.9% in Q3. As you can make out from these numbers and historical comparisons, the annualized attrition in Q4 has moderated considerably compared to Q3. Our efforts with respect to employee engagement, learning development interventions, career planning, as well as monitoring incentives linked to salary hikes and long-term incentives such as ESOPs have worked well and have been well received by our employees. We are watching the attrition levels cautiously. We expect the trailing 12-month attrition to remain elevated for the time being and decline gradually over the course of FY23 as the demand is expected to remain robust, while the addition of new batch of freshers will help in partially alleviating staffing issues for us and the industry.

There are a few other highlights that I would like to share for this quarter with you. On the leadership side, we welcomed a number of key senior leaders to Persistent. This is a part of our ongoing endeavors to further
strengthen our management team in line with the growth that we've seen, and we expect to see over the quarters. Yogesh Patgaonkar joined the company as Chief People Officer. He will be responsible for Global HR, People Engagement, Talent Acquisition, and Development initiatives. Yogesh worked with the RPG Group, L&T, and Mphasis in his earlier stints. Sameer Bendre, who was earlier Chief People Officer has taken over as Chief of Operations. He'll be responsible for ESG, Risk Management, Enterprise Information Systems, Administration, and Internal Audit functions. Sameer is a long-time Persistent veteran and has been with the company since 2004. We also welcome to our leadership team through the Data Glove acquisition, Rajiv Korpal and Rahul Bajaj, who will be the key leaders in our Cloud Practice going forward on the Microsoft site, with Rajiv leading the efforts for the Microsoft business unit. Leaving the quarter, we also welcomed Merlyn Mathew as our new Head for Delivery Excellence and Talent Management, Larry Modder as the Vice President for Sourcing Advisory, and we also welcomed Phil Fasano, the former CIO of AIG and Kaiser Permanente to the Persistent Advisor Network.

Giving an update on the acquisitions, as you would have seen over the last several quarters, we have been articulating that our strategy on the M&A front is based on tuck-in acquisitions. These are capability-based acquisitions that give us either an edge in an industry vertical or a service line or help us expand in a target geography. In line with the stated strategy during FY22, we announced the acquisitions of SCI in the Payment space, setting up a Payment business unit, Shree Partners through a vendor consolidation at a large client of ours, Data Glove in the Microsoft Azure space, and Sureline as well as MediaAgility in the GCP space. During the quarter gone by, we closed the acquisition of Data Glove on March 1, 2022. The integration of Data Glove is proceeding along expected lines and we will share more details in the future quarters as we go ahead. We
are expecting to close the acquisition of MediaAgility in the next one to two weeks, we'll update you on the same as we close the transaction. The integration of SCI and Shree Partners is working well, and we already have a few large opportunities in the pipeline through joint efforts. We expect to report positive developments on the same in subsequent quarters.

As you would notice, these inorganic investments bolster our capabilities in key hyperscaler domains, which are an integral part of our long-term strategy to be on the cutting edge of Cloud, Data, AI/ML technologies as well as going deeper in the industry verticals we operate in. We strongly believe that the hyperscaler ecosystems across IBM, Microsoft, AWS, Google, and Salesforce will increasingly strengthen their vertical offerings through industry-specific clouds such as Health Cloud, Financial Services Cloud, Sustainability Cloud, and so on. We are working with each of these hyperscalers to ensure our offerings are aligned to their roadmaps and our customers are able to leverage us to drive their forward-looking digital journeys. These investments will also make sure we are future-proofed and are able to play in opportunities like Metaverse as these emerge at scale.

Coming to the ESG side, we continue to make good progress on ESG. We are in the process of onboarding an experienced leader to lead our ESG initiatives. We will release a comprehensive report on our ESG roadmap and current initiatives later part of this quarter.

I would also like to share the fact that I and our senior management team have been traveling extensively over the past several weeks to meet key technology partners across the five hyperscaler ecosystems and multiple of our customers. The response from these partners and customers has been very positive and we've got significant validation for our differentiated offerings based on our organic and inorganic initiatives.
We’ve also met with the senior management of the hyperscalers, and they are enthused with their progress with us on the go-to-market side and our joint offerings. Our close collaboration with these partners holds good promise for our ongoing joint go-to-market efforts. With this, I will turn the call to our CFO, Sunil Sapre to give a detailed color on the quarterly financials and related matters. I'll come back after Sunil’s comment to give you some more details on key client wins and list of awards and other acquisitions. Sunil over to you.

Sunil Sapre: Yeah, thank you Sandeep and good evening and good day to you all and thank you for taking the time to join us today. So, you've got a flavor of the market outlook and business performance from Sandeep. Let me give you some more financial details for the quarter's performance. The quarter was another quarter of strong growth, revenue coming in at $217.32 million, a q-o-q growth of 9.1% and y-o-y growth of 42.2%. The growth of 9.1% has the organic growth component of 6.8% and the balance coming from acquisitions. This organic growth of 6.8% was after absorbing the drop of approximately $4 million in revenue relating to one of the revenue share contracts, which was restructured. As you will recall, we had announced the acquisitions of SCI-Fusion 360 and Shree Partners during Q3 and Data Glove in March 2022. So as Sandeep mentioned, there is full impact of, full effect of the acquisitions announced in the last quarter and one month for the acquisition of Data Glove. Revenue for the quarter in INR terms was ₹16,379 million, which reflects growth of 9.8% Q-o-Q and 47.1% YoY and for the full year revenue is at $765.59 million, a growth of 35.2% and in INR terms ₹57,107 million with growth of 36.4%.

Going on details of the revenue in terms of services and IP-led revenue, services revenue continued to grow strongly and registered growth of 14.6% quarter-on-quarter while IP-led revenue declined by 26%, mainly due to restructuring of one of the deals with our top customers. This deal,
which was in form of revenue share is now restructured into a T&M deal. In terms of the segment performance, BFSI grew by 10% quarter-on-quarter, some of the organic growth came in this segment, while some has come in the Technology segment, particularly the Data Glove acquisition is reflected in the technology segment. So, the growth in technology segment was 8.5% quarter-on-quarter and Healthcare grew by 9.2%. On the further details of linear revenue, offshore linear revenue grew by 11.5%, primarily on account of volume growth of 9.8% and billing rate increase by 1.5%. The onsite linear revenue grew by 20.1%, comprising of volume growth of 17.6%, billing rate increase by 2.1%.

You would have seen that we’ve been working on improving the client concentration, reducing the client concentration number. The number of customers in greater than $5 million category went up to 25, number of customers in $1-5 million category went up to 93 during the quarter.

This quarter had currency benefit to the extent of 30 basis points on the margin. The CSR expenses were slightly higher in this quarter and we also had one-time cost relating to acquisitions impacting margin by about 30 basis points. There were some old receivables, which we had provided for, which were recovered, which is why you see credit in the P&L on that account. So, with all these adjustments, the EBITDA for the quarter was at 17.2% as against 16.8% in the previous quarter. Depreciation and amortization was higher on account of new acquisitions and EBIT came stable at 14%, same as the previous quarter. On a full-year basis, EBITDA is at 16.8%, while EBIT at 13.9% as against 12.1% in earlier year.

Treasury income for the quarter was in the same range as previous quarter at ₹251 million, the forex gain was higher at ₹120 million as against ₹30 million in the previous quarter. With that, the profit before tax was ₹2,672 million at 16.3% of revenue as against 15.8% in the previous quarter. ETR
was slightly lower at 24.8% due to lower tax in some of the overseas jurisdictions. On a normal year basis, the ETR is expected to remain in the range of 25.5% to 26%. PAT for the quarter was ₹2,010 million at 12.3% of revenue as against ₹1,764 million in the previous quarter at 11.8% of it. For the full year, profit after tax stood at ₹6,904 million with the growth of 53.2% on y-o-y basis and in terms of percentage, it was 12.1% of revenue as against 10.8% in the previous year. Earnings per share was ₹90.34 per share as against ₹58.97 per share in the previous year.

The Board has recommended final dividend of ₹11 per share. This, along with the interim dividend of ₹20 takes the total dividend for the year to ₹31 per share as against ₹20 per share last year. The operational capex for the quarter was ₹533 million and as you know, we have loan given to the ESOP Trust, which is standing at ₹3,522 million at the end of March 2022. The cash and investments on the books were ₹17,373 million as at 31st March as compared to ₹18,964 million as at 31st December. DSO was slightly higher at 59 days as against 58 days in the previous quarter.

Coming to Cash Flow from Operations, the OCF-to-EBITDA conversion was 0.62, which you will find slightly lower than the previous quarter and let me give you a couple of reasons for the same. Our annual insurance premium payouts of ₹340 million, which typically happen in April every year, were made in March this time due to bank holidays at the start of April. During the quarter Jan to March, some of the new deals that were signed in Q3 and some of the renewals took some time for completion of paperwork and part of the efforts for January were billed in February due to which certain collections spilled over to April and this amount was to the tune of ₹350 million. So, the adjusted OCF to EBITDA considering these two items, had they not been spilling over to the next quarter and one item getting pre-poned to this quarter would have been 0.87 for Q4 and 0.97 for the full year vis-à-vis 0.62 for Q4 and 0.90, which are the ratios based
on reported numbers. Forward contracts as at 31st March 2022 was $175 million with an average rate of ₹77.74 per dollar. Thank you all and back to you, Sandeep.

Sandeep Kalra: Thank you Sunil. Now to give you a color on the movement of our customer segments and key client wins from the quarter. We saw healthy growth across our top account categories on a q-on-q basis. The top one customer saw a decline of $4.5 million predominantly on the back of the IP contract restructuring effective Q4 as Sunil talked about. We have spoken about this IP contract restructuring in the prior quarters and we completed this in this quarter, so that is the effect of this restructuring on the quarter-on-quarter basis. Overall, the revenue growth among top customers was very healthy, with the top 2-5 client category growing by 8.8%, top 6-10 by 18.2%, top 11-20 by 19.6% sequentially. On a year-on-year basis, top one customer saw a revenue growth of 10.6%, 2-5 client category grew by 43.1%, 6-10 category grew by 38.1%, and top 11-20 by 44.1%, respectively.

Our press release for the quarter carries a number of our deal wins across industry segments. Just to highlight a few of this segment wise, I’ll first talk about the Software Hi-tech and Emerging industries. We won a deal to manage and modernize end-to-end IT operations for a Private Equity-backed leader in Cloud and Telecom expense Development Software. This is a five-year Managed Services deal, involves re-badging of a certain number of existing employees as well.

We were chosen to design, build, and manage a Greenfield hybrid multi-cloud infrastructure transformation program for a Private Equity-led carve out from a leading global media company in Europe. This is a five-year deal structured in a Managed Services model. On the Banking Financial Services and Insurance side, we were chosen to modernize and migrate the enterprise data platform to the cloud for a Payment Network Provider.
This deal involves us taking ownership for design, development, and DevOps for modernization and migration for the enterprise data platform of the client and was won based on our credentials in the Payment domain.

We were chosen by a top-five bank in the US as a partner to modernize payments, wholesale digital experience, and capital markets regulatory reporting. This is based on certain amount of vendor consolidation in this account. This is one of the largest accounts we have, and we have been strengthening our strategic positioning as a trusted partner over the years.

In the Healthcare and Life Sciences space, we were chosen by a leader in immune driven medicine to engineer the next generation platform aimed at scaling their Diagnostics and Drug Discovery business. Our expertise in diagnostics, lab workflow, EMR, and patient experience were the key differentiations for winning this engagement, which involves building the new platform on Microsoft Azure. We were chosen by a large Biopharmaceutical company to enhance the patient relationship management and experience leveraging the Salesforce platform. We have been able to win multiple opportunities with this marquee customer based on our extensive experience across the Salesforce technology landscape.

Moving on to the awards and recognitions for the quarter. Q4 saw us get continued recognition from industrial leading analyst firms and associations. To mention a few, we bagged the top position in 2021 Engineering Research and Development Services ratings by Zinnov. This is the 9th year in a row that we have made it among the top providers in this esteemed rating. For the fourth year in a row, we were named to Constellation Shortlist™ for Innovation Services and Engineering. Outsystems, a leader in low code, no code space named Persistent the Partner of the Year in America for the third consecutive year.
In summary, we delivered an industry-leading revenue growth in Q4FY22 and for the full fiscal FY22. We continue to see good traction for our services in the markets we serve. We remain confident of our growth journey going ahead. Our ability to identify the emerging industry and technology trends and deliver value to clients through our digital engineering expertise has given us a significant competitive advantage in the market, which is the underlying reason for four sequential quarters of 9%-plus growth. Further, our strategic acquisitions have bolstered our cloud and industry capabilities as well as key partnerships with the hyperscalers. We plan to build on this momentum in FY23 by staying focused on accelerating our clients’ digital transformational journeys. 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 question may raise your hand from the participants’ 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 Dipesh Mehta.

**Dipesh Mehta:** Yeah, can you hear me?

**Moderator:** Yes.

**Dipesh Mehta:** Yeah. Thanks. A couple of questions – first. can you help us understand how our deal size is likely to change with the combined capability? We did few acquisitions in last few quarters, so how you expect it to help us, and obviously synergy benefit is likely to play over next few quarters, but considering overall capability, how you expect our deal size to change and how is it evolving, let's say over last few quarters? That is first question. Second question about margin, can you help us understand how one
should look at your EBITDA, EBIT margin trajectory going into FY23 if you can provide some puts and takes kind of thing, so tailwind headwind, if you can provide some sense on it? Thanks.

Sandeep Kalra: Sure. So, I'll take the question about the deal sizes, and I'll let Sunil answer the second part of the question. So, if you look at the deal sizes, look, we have done three major acquisitions, if we were to look at the last year. So, first acquisition was SCI, which is in the Payment domain and if you look at my comments a few minutes back, there are two major deals where I talked about the deal when being supported by the Payment capability that we have. So, one of them is for a Payment Technology provider and where, because of our capability that we had at Persistent and with a combined capability of SCI, we were able to craft out a large deal and this deal is in excess of $10 million on an annual contract value basis. So, there are deals that are being supersized because of the capability being brought in and that was just an example from an SCI perspective.

Similarly, if you look at the Cloud space, as we integrate the capabilities that we have from the Data Glove side and post closure from MediaAgility side, we expect to go even higher in terms of the capabilities and hence the deal sizes, and we'll keep reporting these as we go along. But, fairly good thing as far as initial integration of SCI is concerned and we had also talked about how Shree Partners had enabled us win large vendor consolidation and in the same account we are also fighting two large deals, which are, you know, multi-year and which are significantly higher than the double digit million mark on a TCV basis. Sunil, over to you.

Sunil Sapre: Yeah, hi. So, on the margins front Dipesh, there are, I would say, 4 broad point that one needs to note. One is the elevated inflation levels across the globe, which are going to translate to slightly higher wage hikes this year. The second aspect is with respect to the fresher intake that we have
had last year, and we will continue to have this year, which will help us in terms of the cost management in terms of the entire talent pool. The third element is with respect to the scale that, at which the revenues have grown, you have seen the services revenues growing at more than 40%, overall revenues growing at 35%, and the demand environment being strong, we will try to achieve the benefits of scale in the SG&A category. The amortizations coming from intangibles, I mean the acquisitions, that is something, which is between EBITDA to EBIT. They are going to be of the order of 70 to 80 basis points for the whole year.

So, we have broadly I would say, headwinds on multiple fronts and some cost benefits coming out of scale as well as the fresher intake that has happened. We also expect that with all the companies doing significant hiring, if not immediately in the next quarter or the first half of the year, but definitely in the second half of the year, there will be moderation in the attrition rate. While we are not breaking in too much of that for now, but we do hope that will happen. And the other benefit that we will have is from the conversations, which have been well-received by the customers and customers are also sensitive to the fact that in the current situation, talent is key and some of the customers where we have pricing benefit that will help us to offset some of the cost pressure. So, that is how you can look at the entire picture.

**Dipesh Mehta:** Do you expect net effect is 14% is defendable from EBIT margin perspective?

**Sunil Sapre:** Absolutely, so that is the entire objective for managing the cost.

**Dipesh Mehta:** Understand. Thanks.

**Sunil Sapre:** Thank you.

**Moderator:** Thank you. Next question is from Abhimanyu.
Abhimanyu: Good evening Mr. Sandeep, good evening Mr. Sunil. Am I audible?

Sandeep Kalra: Yes, you’re. Good evening.

Abhimanyu: Ok, thank you. This is first time I am trying the company call on Zoom, that’s why. Anyways, so sir, while some questions have been answered to some extent, I may repeat to in order to get a fuller response. Firstly sir, your IP-led business, which de-grew, you explained that is because from what I understood, some kind of reclassification if I’m not mistaken. But does this mean that IP-led business will further de-grow down the quarters or will it actually grow again as this quarter’s effect normalizes. So that is my first question, then I move on to my second.

Sandeep Kalra: Sounds good. Let me answer the first question quickly. This is not a re-classification, this was a contract that was you know a long-term contract for us, which was on a revenue share basis. We have restructured the contract part of it on a time and material basis, so the contract value may have reduced to about 30%-35% of the original contract, but it is on T&M basis with the gross margins being at the company average versus the margins which were at a much-deflated value because of the nature of this construct and the product under this IP. Now at overall IP level, we expect the IP revenues to grow. The IP revenues will grow maybe in the range of 10% to 15%, which may be lower than the company average in terms of the services growing much faster than that. So, that is the answer to your first question.

Abhimanyu: Okay, thank you so much Sandeep sir. My second question is, from what I understood, the receivables seem to have increased by a larger percentage than the revenue. Now is it because of the timing of payments, as I think you had alluded to it, but I just want to confirm that maybe some payment timings have shifted. What is the reason sir, is my understanding correct firstly?
Sunil Sapre: Yeah, your understanding is right to the extent that it is out of the revenue billed during the quarter Jan to March. So, like I explained, some of the efforts for January got billed little later during the quarter because of which the collection spilled over to the next quarter. So, it is not arising out of change in payment terms as such, it is more about the visible buildup, which will get squared off in the next quarter.

Abhimanyu: So, in a sense, this is not really a cause of worry.

Sunil Sapre: Yeah.

Abhimanyu: Okay, thank you so much, sir. Pleasure talking to you.

Sunil Sapre: Thank you.

Moderator: Thank you. Next question is from Vimal Gohil.

Vimal Gohil: Yes Sir, I hope I'm audible? Thank you so much for giving me the opportunity. Sir, my first question is a balance sheet-related question, if you can just help us highlight how much are the total payables that are there lying on the liability side of our balance sheet related to acquisition, what is the total amount there in current and non-current?

Sunil Sapre: Yeah. So let me give you total numbers and then, if possible, we will quickly give you the current and non-current part of it. See, the construct of the consideration, which is payable later in these acquisitions is in two forms; one is which is linked to the earnouts linked to performance, which are payable over a period of two years and there is a retention payout, which is based on the employees continuing over period of three years. Now, out of the total acquisitions, which we have announced in the last two quarters, the total payout at a gross level is $220 million, of which roughly about $150 million is in form of upfront consideration and balance is in form of the deferred consideration, or what we call as the contingent consideration in the balance sheet. Of these, the MediaAgility acquisition
is yet to close, so that amount will get spent in this Q1 of this current year FY23. So, that is broadly this thing. We will, maybe come back to you with the current and non-current split, but broadly that is how it is.

**Vimal Gohil:** Right, so out of that -- out of 220, 150 has been paid and the rest is lying on the liability side of the balance sheet, that understanding is right.

**Sunil Sapre:** Yes.

**Vimal Gohil:** Okay. Fair enough. So, my next question was for Sandeep sir. Now, given our acquisitions, it is extremely clear that we are very well-prepared for the whole cloud hosting or cloud transition, prepared for grasping the opportunity on, you know, things moving to the cloud. My question is slightly long term, what happens after that, I mean what after the workloads have moved to the cloud, how is Persistent prepared to grab that particular opportunity? I understand it's a slightly longer-term question, but I guess with things moving so fast, we are not very far from that stage as well. Thanks.

**Sandeep Kalra:** No. So, your question is absolutely valid and look that is the underlying premise for doing these acquisitions and becoming even more stronger. So let me let me take a minute to explain this. So, cloud is not just about lifting, shifting, and application, infrastructure, database, or you know overall data-related stuff, that's just the starting point. You know, that is where the journey starts. Then it is about transforming, whether it is lift-shift and then transform or transforming while you are doing a migration, and then there's a whole lot of things that are happening, which are cloud-native. So, whether it is application development, whether it is product development, lot of work is moving cloud-native to the cloud. Now, even if you look at the journey from a Microsoft perspective or any other thing, any other hyperscalers, they're also trying to build industry clouds.
So, we talked about how, you know, we see the future of cloud being a Microsoft Health Cloud, a Salesforce Health Cloud, a Google Health Cloud, an AWS Health Cloud, similarly Financial Services, Sustainability, Manufacturing, whatever else, right? So, over a period of time, cloud is going to become like a standardized platform and people are going to build their secret sauce on top. So, what we have done through these acquisitions and through our organic initiatives is basically, you know, furthered our capabilities and we are aligning very well with our hyperscaler ecosystems as they're creating those components in their, you know, industry clouds and we've been working, for example, on the Salesforce Health Cloud for more than 10 years even before it emerged. So, that is the journey we want to undertake with Microsoft, with AWS, with Google, and on the hybrid cloud side with IBM.

So, rest assured, it is not just about the initial migration lift-shift, it is far beyond that and the strategy that we have, the investments we have done on the five hyperscaler ecosystems is very well thought of and that will make us absolutely relevant for today and relevant for tomorrow as these industry clouds also emerge. So, that’s the way we are looking at it.

**Vimal Gohil:** Got it, sir. Sir, just one clarification, I mean, while we are working with ISVs given the current macro weakness that people are talking about, are some of these ISVs you know looking to sort of defer some of their engineering work, which could impact us? Are you seeing that or do you still see continued spend around product development where Persistent will play a huge role?

**Sandeep Kalra:** So, we are not seeing at this point in time any weakness in the ISV market. Look, the ISV market, again there is multiple players in this market, there are other startups which are venture-funded, there are private equity players which are mid-market, there are public companies, there are
companies that are born in the cloud, there are companies that are born before the cloud, they're modernizing and so on, so it's not just one market. And even with the, you know, let's say, let's pick a private equity investor, these are investments that are committed for multiple years and so the relationships that we have, we have very little exposure to venture-backed startups etc. because anyways their volume is much lesser. Midmarket to the larger ISVs, we are seeing them commit for the longer run, so we have not seen any pullback and that's where we are in very active touch with our customers to make sure that we understand any of these structural changes happening much before they happen. So as of this point in time, while there may be the conflict in Russia and Ukraine and we all hope that it subsides sooner than later, while there may be inflationary pressures and so on and so forth, the demand environment is still healthy, and we have not seen a pull back. So, that's the place where we are.

Vimal Gohil: And in case the funding sort of dries out, none of your venture-funded startups or rather mid-market I would call, mid-market companies that you work with, are any sort of issues in terms of funding etc. That is that you don't see it right now.

Sandeep Kalra: So as of this point in time, look, our exposure to venture-funded companies in terms of revenue percentage is very low, doesn't matter, they are very small part of our business, product development I talked about, and look, our mix today is product development and enterprise market and look, from an enterprise market keep in mind what happened in COVID, the enterprises that were prepared from a digital perspective were the ones that thrived and survived. Now, when we talk to the management teams right from CEOs down to CXOs of enterprises and we talk about the macro environment, the feedback that we are getting is this - right now they're not pulling back investments. Should there be a scenario going ahead
where if, let's say inflation goes much higher, the conflict between Russia Ukraine goes much higher, technology spend will not be the first one to be cut. So, technology spend is down the line in terms of being cut, so from that perspective, you know, enterprises are still healthy in a demand environment. Product companies fuel their digital transformation, they're still healthy, and we'll all wait and watch, and, you know, see if there's anything that happens, we'll come and report back, but from a demand environment perspective as of this point in time, it continues to be here.

Vimal Gohil: Sir one...

Moderator: Vimal, we request you to please come back on the queue, because rest many people are there to answer.

Vimal Gohil: Sure, sure, thank you.

Moderator: Thank you. Next question is from Dev Agarwal.

Dev Agarwal: Hello, am I audible?

Sandeep Kalra: Yes, you are.

Dev Agarwal: Yes Sir. So, thank you for providing me this opportunity. Sir, I wanted to ask question to Sandeep sir. Sir, can you give me the guidance relating to your revenues and EBITDA margins for FY23?

Sandeep Kalra: So, Dev, we don't give forward-looking guidance as we've said in earlier calls as well, but if you want to look at the order books etc, you can see that in our earnings material that we have shared. From an order booking perspective, we have done $943 million-plus in the trailing 12 months from and ACV perspective and $1.22 billion in terms of the total contract value and we have a certain trajectory, plus the M&A data is all out there. So you do the calculations, we don't give forward-looking guidance on the prospects and there's good a healthy pipeline.
Dev Agarwal: Yes sir. Thank you, sir. Sir, one more question I had, can you give me the revenue growth in, organic revenue growth for FY22?

Sandeep Kalra: Yes, we can. So, for the quarter it was 6.8% and in terms of the full year, let me just give you that, the full year organic growth was 32.8%.

Dev Agarwal: Okay. Thank you. Thank you, sir.

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

Nagendra Maurya: Hi, am I audible?

Sandeep Kalra: Yes, you are.

Nagendra Maurya: Yeah, good evening all and congratulations on good execution. Sir, I have a question on the debt side, I remember regarding the acquisition of the MediaAgility and Data Glove, we proposed to raise debt somewhere around $60 million right sir? So currently, I see in the book around INR 430 crore of the debt is reported on the balance sheet. So, I just wanted to confirm is it the peak debt that we have or we are going to reach further more debt for the MediaAgility going forward and can you provide the cost of debt and tenure of the repayment?

Sunil Sapre: Sure, sure. So, you know the debt that we have taken is for two acquisitions; one was bought a SCI-Fusion 360, which was $25 million and we have taken debt of $35 million for the Data Glove acquisition. So, these are the two, which are appearing in the balance sheet. So, for as MediaAgility is concerned, that transaction is due for closure very shortly now and then after that, that transaction will happen in first quarter in terms of the debt funding. In terms of the cost of this debt, you will have details in the balance sheet, but it is at a cost of about LIBOR plus 155 basis points and so far as the tenure is concerned, it's a three-year amortizing structure in terms of the debt repayment.
Nagendra Maurya: Okay, understood. Sir, I just wanted to say, your sense on the BFSI margin, I see there's some hit on the BFSI margin quarter-on-quarter, so can you give us a sense why there is decline in the margin on the BFSI site?

Sunil Sapre: So, if you look at the BFSI growth, as I mentioned, in terms of the split between the linear growth rate, the onsite revenue in case of BFSI has gone up during this quarter and that is the primary reason for the overall lower margin in BFSI for this quarter.

Nagendra Maurya: Okay understood. Does this have impact on the SCI and Shree Partner consolidation as well?

Sunil Sapre: No, SCI and Shree Partners are actually at the similar levels of the company average parts, there is no dilution happening.

Nagendra Maurya: Okay. Just one more question, can you provide the revenue contribution of these new acquisitions for this quarter?

Sandeep Kalra: $4.7 million is the contribution for this quarter from the acquisitions.

Nagendra Maurya: All combined, three.

Sandeep Kalra: All combined.

Nagendra Maurya: And okay, okay sir. Thank you.

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

Sandeep Shah: Hello, can you hear me?

Moderator: Yes.

Sunil Sapre: Yes Sandeep.

Sandeep Kalra: So, Sandeep before you start, let me just correct one thing, $4.7 million incremental contribution from the acquisitions in this quarter. So, it's not the total including, you know, whatever was, so if the last quarter it was X,
so X plus $4.7 million is the contribution this quarter. Sandeep, go ahead please.

Sandeep Shah: Yeah, thanks, thanks. Congrats on a good set of numbers again. Sandeep, just wanted to understand, if macro concerns unfolds where most of the corporates are also cautious about, do you believe where we play a role is more in terms of front-end digital deals, which are slightly discretionary in nature and with macro unfolds, you believe large outsourcing deals could be the favor of trend in terms of IT spend or we believe our portfolio is now a balance between these two and the impact will not be that big if macro concerns unfold?

Sandeep Kalra: Yeah, so I would say it is the latter. If you look at even the deal wins we have announced, some of the deal wins that we have announced, which are five-year deal wins are where we are basically working on longer-term things which are not necessarily fully on the discretionary side and even today when we look at our customers, our customers who are involving us on the digital side are also coming back to us and saying, okay can you also help us in our business as usual and then help us transform over a period of time. So I would say today it's a healthy mix and I am not overly worried even if the market was to slow down, the capabilities that we have, the kind of deals that we are working on, the kind of customers that we have garnered, and the prospects that we have in the pipeline will still hold good. So I'm not overly worried about the market going sideways or slightly down or whatever.

Sandeep Shah: And this in terms of new business recently, it's one of the best in this quarter as a whole and looking at your growth and the scale, which is going up very fast, you believe this could be the new floor in terms of new business TCV going forward, and there could be an upside as a lot of acquisition singer will kick in going forward?
Sandeep Kalra: So Sandeep, look at it this way, you know, you build a pipeline, the pipeline has multiple kinds of deals, there's some large deals, which are multi-year kind of deals, you close some and you are in a continuous – and it’s a running concern. You are continuously building pipeline, closing some, moving on. Some quarters you will have higher TCV where you close some of the larger deals, in some quarters you may have a slightly lesser TCV. The way I would want to look at our business is year-on-year, rather than quarter-on-quarter. Quarter-on-quarter there may be some variations, some quarters that TCV go up, some quarters may come down, but look at it this way. We closed $1.22 billion TCV deals in the last year, $943 million ACV in the last year, where we have announced revenue of $765 million-plus. So overall, if you look at our trajectory, overall if you look at the patterns that are there for you to see quarter-on-quarter, the bookings are increasing whether it is a ACV or TCV and we hope to continue that healthy trend.

Sandeep Shah: Just last thing, Sunil sir, if I am not wrong, you said amortization cost in FY23 will be 70-80 bps higher versus FY22 as a percentage to the revenue and would still like to defend EBIT margin at close to 14%.

Sunil Sapre: No, what I meant was that the total impact of amortization from the acquisitions will be to the tune of 70 to 80 basis points. On an incremental basis, it will be about 50 basis points.

Sandeep Shah: Okay, okay, and we would aspire to remain flattish in terms of EBIT margins?

Sunil Sapre: That is right.

Sandeep Shah: And quantum of wage hikes, which can come in Q2 as an impact?

Sunil Sapre: Our wage hikes are due 1st of July, so currently we are working on how the two or three moving parts with respect to the inflation, the market
expectations in terms of how people are perceiving the wage hikes, and
the third is, of course, in terms of, what you call, our ability to pass on some
of the wage hike to the customers. We'll come back to you after the first
quarter.

**Sandeep Shah:** Okay. Thanks, I will come in follow up.

**Moderator:** Thank you. Next question is from Mohit Jain.

**Mohit Jain:** Yeah, hello sir. 2-3 questions actually, all related to the quarter. So, one
is on the billing rate fluctuation, like in this case, we often find that the
billing rate fluctuates a lot on a quarter-on-quarter basis, so just help me
understand what is happening there and how should we look at the billing
rate in your case. Second was on TCV, are you guys sharing TCV excluding
the acquisitions to make it compatible on a YoY basis and third is related
to these other direct costs, so IP revenues have fallen but the purchase
royalty costs have gone up on a quarter-on-quarter basis? So, what are
these expenses and how should we look at the trends and purchase royalty
in connection to IP revenues.

**Sandeep Kalra:** I'll answer the TCV part, and I'll have Sunil answer the other two parts. So,
in TCV yes, the TCV so far what we have responded to or the data that
we've shared, it does not include acquisitions.

**Mohit Jain:** So the y-o-y numbers that I'm looking for 4Q versus 4Q does not include
Data Glove or Shree Partners or SCI?

**Sandeep Kalra:** No.

**Mohit Jain:** Perfect, okay.

**Sunil Sapre:** And Mohit, on the other two parts in terms of the billing rate, what
happens in our situation is that when the, particularly if you look at the
onsite revenue, if the composition of that revenue from Europe is higher,
it has some kicker in terms of the overall realization per person. Also, in this quarter, we have improvement in revenue from SCI, because last quarter because of the, you know, holiday season, that billing was slightly lower. So, these two parts being better, that has reflected in higher onsite realization.

Mohit Jain: So generally, Europe rates are better than US, is that a correct inference?

Sunil Sapre: That is right. Costs are also higher, so it's not about just the rates, but yeah, that is how it is. In terms of your other question on purchase royalty, so this is on account of some partner IPs where we are also doing the implementation work, so it is not necessarily linked to the business that got restructured or something, this is relating to other partners.

Mohit Jain: So right now, when we look forward, this line is not, so to say, linked to IP revenues that you guys report.

Sunil Sapre: No, they are linked to IP revenues. It is just that, so far as this quarter is concerned, you have a significant dip in IP revenue out of the restructuring of the contract and when the contract has got restructured and those revenues are coming in T&M form, they are getting reported as services revenues. The backfilling of that has happened by the partner IP revenues in the other partners, but the amount is not that big, but you get that impact in the purchase royalty account.

Mohit Jain: Sir I'm sorry I'm, need more explanation on this.

Sunil Sapre: We can give you an explanation of this. Not a problem.

Mohit Jain: So, you are saying IP revenues are not there but the IP expenses that you are showing is related to some other assignment, which is part of services.

Sunil Sapre: No, no, no it's not like that. See, there are two parts of IP revenue. One is what happens on revenue share basis, which has got restructured, so that
has gone away and it has gone into T&M in the services mode. The other part of IP revenues are in two formats; one is the partner IPs whether it is partnerships that we have with several other OEMs, like IT companies and so on, it can be Outsystems, it can be you know Saviynt and so many companies that we deal with. And the third portion is the own revenue out of our Accelerite portfolio. So, that is what is the composition of IP revenue. One big part out of that, which is relating to revenue share, that has got restructured. That's why you find overall dip in IP revenue, while purchase royalty if you try to link to that, it will not be right. Anyway, we can connect and give you more details.

Mohit Jain: Sure Sir. that is all from my side, sir. Thank you very much.

Sunil Sapre: Sure.

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

Madhu Babu: Yeah, hi Sir. So, this year we have gone a bit aggressive on acquisitions, so would you take a pause and try to consolidate them, or we are still hungry for more?

Sandeep Kalra: So, hi Madhu Babu. Yeah, so far you know you're right. We went aggressive on the acquisitions because, look there was a time when we were not doing many acquisitions, we have a stated strategy, we’ve been saying we want to do acquisitions, which are tuck-in acquisitions for capabilities, not for revenue, capabilities or a geographic presence. We have done our share of acquisitions for the time being. Our first step is to integrate these, for the next one to two quarters we are absolutely focused on integrating and making sure that, you know, the synergy revenues that we expect to happen. So one is whatever they were supposed to do on their own, one is what we can bring from taking their capability to our landscape, our capability to their landscape, that is the first order of
business, and then we will look at you know other acquisitions as we go along. And in the meantime, you know, if something comes very opportunistically, we will look at it, but otherwise for the next one two quarters, we are absolutely focused on integrating and performing.

**Madhu Babu:** Just one more sir, on Eastern Europe, which is seeing a lot of turmoil, EPAM and all getting impacted, so are we seeing incremental deals, because we also work on product engineering, and would that be a delta for us for this year? Thanks.

**Sandeep Kalra:** So yes, there are discussions that are happening, multiple levels, multiple companies. Nothing yet at scale to report significantly, but yeah, there are discussions happening and having said that, you know, we at a human level want to see this you know conflict go down and we would not want to gain at the expense of something like this. But yeah, there are deal discussions that are happening.

**Madhu Babu:** All the best, sir. Thanks.

**Moderator:** Thank you. Next question is from Karan Uppal.

**Karan Uppal:** I hope I’m audible?

**Moderator:** Yes.

**Karan Uppal:** Yeah, yeah, thanks for the opportunity. So first question has already been asked on M&A so this is the related question to that is, sir we are close to around $1 billion in the revenue run rate and our vertical spread is mainly through three main verticals BFSI, Healthcare, and Tech and Emerging, so as Persistent grows would you like to build capabilities in other verticals like Manufacturing, Energy, Utilities, Telecom, etc, maybe organically or inorganically? Your thoughts would be much appreciated.
Sandeep Kalra: So, two parts of the equation. So one if you look at the Tech companies, BFSI, Healthcare Life Sciences, you know this is itself a huge ocean in any GDP, BFSI and Healthcare Life Sciences are a significant spend, and so 80% of our revenues today come from the US, where this is a big spend and then Europe as well, this is a big spend. So, the propensity for us to keep growing by even focusing on these verticals is pretty good and we have been always at the leading edge in Tech companies. Now, having said that, when you look at your question, you said Tech companies and Emerging verticals, so the Emerging vertical for us is Communication, Media, and Telecom. So, we do have a certain footprint, that revenue run rate is more than $50 million and as it kind of comes to a significant mass, we will report it separately. So, there is definitely some verticals being worked upon, which are emerging verticals and as they become at scale, you will see them being reported separately. But otherwise also, our propensity to grow even in our footprint in BFSI, Healthcare, Tech companies, there's enough addressable market for us to keep going.

Karan Uppal: Okay and secondly, just again on M&A, so you have done acquisitions in Payments and the Cloud space. So, you said that in next one or two quarters, you are focusing on integration, but I just want to understand what's the strategy in which areas, maybe after two quarters you would like to fill the gaps?

Sandeep Kalra: Sure, so just to recap, we did acquisitions over the last few years in the Salesforce space. So, if you look historically, we did PARX and yourperience in Europe in Salesforce. Then we did CAPIOT, which was integration MuleSoft, TIBCO, Open Source. Then we did Sureline, which was basically an acquisition of IP in the GCP space, cloud space for migration lift-shift large scale projects and so on. Then Data Glove, Shree Partners, and MediaAgility. So, there's a bunch of acquisitions in different strategic buckets that we wanted. Now, what we would have done ideally in a wish
list, if the Russia Ukraine conflict would have not happened, we would have looked at something in Eastern Europe. So, as things go along, as things stabilize, we'll look at Eastern Europe presence, whether through a deal construct with a larger customer or doing an inorganic foray over a period of time. So, that would be the other part along with maybe some European footprint and so on.

Karan Uppal: Okay, sure sir. Thanks, thanks a lot and all the best for FY23.

Sandeep Kalra: Thank you.

Moderator: Thank you. Next question is from Abhishek Shindadkar.

Abhishek Shindadkar: Hi, thanks for the opportunity and congrats on a strong execution. Maybe I'll try my luck on, you know, the guidance again. Given that Data Glove and MediaAgility contribution could be significant this year and the growth rates for those two are also higher, any color in terms of what's the trajectory? That is first question, and second on the margins, so should we now assume that, you know, as a strategy we will kind of operate in the current margin band and try and grow as fast as we can? And the last is just a datapoint to question to Sunil sir. Sir, the incremental amortization number you gave does not include the MediaAgility contribution, if that is correct and should that also contribute roughly another 40 basis points to the incremental number. Thank you for taking my questions.

Sandeep Kalra: Sure, so since we have only three minutes left. I'll quickly answer two parts of the question and then handle the third part with Sunil. So, on the overall revenue trajectory, look, we have said we have aspirations of hitting a billion dollars, so over the next four to six quarters, you know, our aspiration hopefully will be achieved sooner than later. I'll just leave it there and balance you can do the triangulation between the order wins the M&A, the quarterly run rate and so on. I'm sure you will figure it out.
On the margin trajectory, our first goal is to make sure we keep growing. We have come to the industry-leading growth with a lot of effort, that's our first priority, margin optimization is second priority. We can remain at the same levels, given all the headwinds etc, that would be a good win, but growth comes first, maintaining margin is second priority and so on. Sunil, if you want to talk about the incremental amortization.

**Sunil Sapre:** Yeah, yeah. So actually, the incremental impact includes MediaAgility, it is not over and above that. The only thing what will happen is that the transaction is due for closure during, say this quarter, so from quarter-to-quarter, the impact may move and as a percentage of revenue, as we keep scaling the revenues, that number will get moderated. So, the overall impact is what you can look at for the year, but it is including MediaAgility.

**Abhishek Shindadkar:** Great, thank you for taking my questions and best wishes for FY23.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. Next question is from Arvind. Arvind, you are there? Okay, I think he is not able to unmute himself. We'll take that as the last question. Sandeep sir, we will take that as a last question.

**Sandeep Kalra:** Correct.

**Moderator:** Yeah. I would now like to hand the conference back to Mr. Sandeep Kalra.

**Sandeep Kalra:** We would like to once again thank all our 18,500-plus team members, customers, partners, investors for their unflinching support in our growth journey. We are bullish on our prospects for FY23, we aspire to maintain industry-leading revenue growth combined with healthy levels of profitability, and we appreciate your spending time with us on the call today. We look forward to connecting back with you in three months from now to provide an update on our ongoing process. 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.

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