# "PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, SECOND QUARTER, FY23 ENDED SEPTEMBER 30, 2022"

October 20, 2022

***MANAGEMENT:***

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**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 Earnings Conference Call for the Second Quarter of FY23 ended September 30, 2022. We have with us today on the call, Dr. Anand Deshpande, Founder, 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 on listen-only mode and there will be an opportunity for you to ask questions after management's opening remarks. Should you need any assistance during the call, please raise your hand from the participant tab on the screen. While asking questions, I request you to please identify yourself and your company name. Please note, this conference is being recorded. I now hand the confidence to Mr. Sandeep Kalra. Thank you and over to you, sir.

**Sandeep Kalra:** Thank you. Good afternoon. Good evening. Good morning to all of you, depending on where you're joining from. I would like to thank you for spending time with us on the eve of Diwali and would like to wish you the best for the festive season in advance. I would like to start this call by sharing certain important milestones that we achieved in this quarter. We reached the annualized run rate of US$ 1 billion, doubling our revenues over the past three years. We achieved quarterly revenue rate in excess of INR 2,000 Crores, our trailing 12-month EPS crossed INR 100 for the first time, we were included in the NSE IT index, which is representative of the best performing companies in our Indian IT industry.

We are humbled by these milestones and I would like to sincerely thank each one of our 22,400-plus Persistent team members for their resilience, our customers, our investors and other stakeholders on this call for their continued trust in us. With this, let me come to the quarterly financials. We are happy to report yet another solid growth quarter across all major business and financial metrics, despite a dynamic and rapidly evolving macroeconomic environment. The revenues for Q2 came in at US$ 255.56 million giving us a growth of 5.8% quarter-on-quarter and 40.2% on year- on-year basis. This is the first quarter where we have crossed the annualized run rate of US$ 1 billion, a milestone that we called out almost three years back. As you are aware, the cross-currency impact in this quarter has been significant for our industry. For us, the constant currency sequential growth for Q2 came in at 6.6% compared to the USD growth of 5.8% as mentioned earlier. This information is also available in our analyst deck. In rupee terms, the growth was 9.1% quarter-on-quarter and 51.6% on year-on-year basis, respectively.

This was the first full quarter of consolidation for MediaAgility. Adjusting for the revenue from acquired business, our organic growth for the quarter was approximately 4.8% on a sequential basis in USD terms and 5.5% in constant currency terms. As you're aware, this robust growth comes on the back of five successive quarters of 9%-plus sequential growth on dollar basis and marks another quarter of top quartile revenue growth in an increasingly challenging macroeconomic environment.

Coming to the profitability side, on the EBIT side, our EBIT for Q1 came in at 14.6%. This translates into an EBIT growth of 11.1% on quarter-on-quarter basis, and 59.4% on YoY basis. EBIT margin expanded by 30 basis points on a sequential basis despite the major cost headwinds related to wage hike, which became effective for us from July 1, 2022 for all our employees. Sunil will provide more colour on the EBIT margin movement later in this call.

Coming to the order book for the quarter, Q2 was yet another strong quarter for us in terms of TCV order wins. The total contract value for the quarter came in at US$ 367.8 million with new bookings TCV coming in at US$ 228.3

million. The annual contract value component of this TCV is of the order of US$ 271.2 million of which the new bookings ACV component contributed to US$ 137 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.

Coming to the people front, we brought in a total of 838 new colleagues in Q2, bringing our total employee base to 22,476 team members globally. This is at the end of September 2022. Majority of the new employee addition during the quarter can be attributed to our fresher hiring. We have honoured all the offers made to campus hires with approximately 3,000 freshers joining us over the past two quarters. With this, we have completed our fresher hiring program for the year. A small portion of the freshers have already become billable, while we expect others to become billable on customer projects over the next two to three quarters, providing us ample cushion on the supply side for future business ramp up and providing us a margin lever as well. The utilization for the quarter came in at 79.9%, a rise from 79.5% for Q1. Utilization rate is a function of our endeavor to operate efficiently while maintaining a healthy buffer to staff future projects on time. Apart from other factors such as revenue growth leverage, increased utilization over time will be an important margin lever for us as more of our freshers become billable on customer projects. The trailing 12-months attrition for the quarter came in at 23.7% compared to 24.8% in Q1. We have witnessed some amount of stabilization in this metric over the past three quarters. We do expect the TTM attrition to continue to moderate over the course of the second half of FY23 aided by fresher availability, better outcomes on our employee value-related interventions and a general moderation of hiring across the sector.

Before we delve more into the last quarter's performance, I would like to make some comments on the macroeconomic environment, along with our response and preparedness to deal with it. As is well known by now, the global economy is currently experiencing several headwinds, including inflation, tight labour markets, geopolitical tensions and currency volatility to name a few. A number of our customers are keenly watching the macroeconomic environment unfold and there are discussions about cost optimization impact of a stronger dollar on global companies' financials, bracing for an overall economic slowdown over the next several quarters and being prudent about longer-term spend commitments. In this context, our first priority is staying close to our customers, remaining relevant for their transformation as well as optimization initiatives and making efforts to help them stay competitive in their respective businesses. The current environment is also lending itself to long-term and larger deals if one can address the changing nature of the client demand. On one hand, our strongly differentiated capabilities across the enterprise software market are giving us a unique advantage in this marketplace, and we are witnessing strong deal wins and closures in this space, along with good pipeline generation in core product development as well as professional services. On the other hand, our capabilities across hyperscalers in BFSI and Healthcare Life Sciences space are making our offerings even more relevant to customers as they look to optimize their spend in business-as-usual and pivot some of the savings towards transformation journeys, while bracing for a potential revenue slowdown. We remain cautiously optimistic about our growth potential as we go ahead and are focused on executing well in the evolving macroeconomic environment.

Now coming to the acquisitions-related update. As we have been sharing with you in the previous quarters, the integration of our acquired businesses has been progressing well. We are in the final stages of our integration initiatives with Data Glove and MediaAgility, our latest M&A deals. We have also benefited from some early wins as a result of teamwork and crosspollination of capabilities across our unified customer base. We are confident all this will bode well for us as an organization, and each of our acquired entities will fuel a new avenue of growth for us over the coming quarters and years.

Coming to ESG - we continue to make good progress on the ESG front. We are pleased to share with you that Persistent has been accepted as a participant of the United Nations Global Compact. We have also participated in the Carbon Disclosure Project, the CDP project and Dow Jones Sustainability Indices and will share with you further progress on these fronts in subsequent quarters. We continue to make progress towards our climate action goal of becoming net zero by 2030 as well as improving on our diversity and inclusion metrics.

In summary, we are pleased with our performance in Q2FY23, with healthy revenue growth, order wins across our focused industry segments, a good pipeline generation and stable profitability despite cost headwinds.

With this, I will turn the call to our CFO, Sunil Sapre, to give out detailed colour on the quarterly financials and related matters. I'll come back after Sunil's comments to give you some more details on key client wins, analyst awards and other recognitions for the quarter. Over to you, Sunil.

**Sunil Sapre:** Yes. Thank you, Sandeep, and good evening, good day to all, and thank you for taking out the time to join us today. As you heard from Sandeep about the market outlook and some of the business-specific details, let me now walk you through the details of financial performance, including some details about the revenue and the margin movement. As you know, the revenue at US$ 255.6 million registered Q-o-Q growth of 5.8% and Y-o-Y growth of 40.2%. In constant currency, the revenue growth was 6.6%. And if you look at the half year, the total revenue stood at US$ 497.08 million with Y-o-Y growth of 42.4%. In terms of INR revenue, it was INR 20,486 million, reflecting growth of 9.1% Q-o-Q and 51.6% Y-o-Y. And in terms of half year INR revenue, it was INR 39,268 million, with growth of 52.1%. This quarter, you would have seen a significant increase in the IP-led revenue, which registered strong growth of 18.1%, mainly in the Accelerite portfolio we have, while our services revenue continued the growth trajectory with 4.9% Q-o-Q growth in dollar terms.

Coming to segmental growth for the quarter - we saw all the segments registering growth with BFSI growing by 3.1%, Technology companies by 8.3% and Healthcare by 4.6%. Coming to more details about revenue - in respect of linear revenue, the offshore linear revenue grew by 7.4%, comprising of volume growth of 4.8% and billing rate increase of 2.5%. The on-site linear revenue grew by 0.9%, primarily on account of volume growth of 2.5%, while billing rate declined by 1.5%. The contribution from nearshore geos was higher during this quarter, while Europe revenue was lower on account of the seasonal softness in Europe due to vacations, which together resulted in drop in the on-site realization rate by 1.5%.

As you would have seen, starting last quarter, we have been providing additional details on our client buckets. So, for the quarter gone by, customer count in greater than US$ 30 million bucket remained constant at 3. In US$ 20 million-30 million, the customer count rose to 3 as compared to 1 in Q1, as 2 customers in the lower category moved up to this bucket. In the US$ 10 million-20 million categories, the count declined to 6 from 7 with 2 clients moving to the higher revenue bucket of US$ 20 million-30 million, as mentioned in the earlier point. In the US$ 5 million-10 million category, customer count rose to 18 from 15 in the last quarter. And finally, in the US$ 1 million-5 million category, the number of customers increased from 104 last quarter to 116 in this quarter. So, the above customer categorization just for your reference is based on TTM revenue of these customers and you will observe from the fact sheet that we also provide historical details on these metrics to help you get a sense of the trend of these metrics over time.

You will notice that this consistent increase in the number of accounts we have in US$ 1 million-5 million and US$ 5 million-10 million categories over the last few quarters has helped reduce the client concentration. As you are aware, during the quarter, we had annual pay hike, which is effective July. This had an impact of 230 basis points on the margin. Provision for doubtful debts and higher CSR spend has had an impact of 20 basis points and 10 basis points, respectively. These were largely compensated by higher IP-led revenue, as I mentioned earlier, helping margin by 80 basis points, favourable currency, which helped by 90 basis points and margin from the higher services revenue. There are also other items. As you would know that last quarter, we had travel expenses, including visa filing costs, which is a seasonal item, which is not there this quarter. We also had slightly lower subcontracting costs this quarter. With this, EBITDA came in at 18.0% for this quarter as compared to 17.7% in the previous quarter and 16.6% in the Q2 of last year. EBITDA for first half of the year was at 17.9% vis-a-vis 16.5% in the corresponding period last year.

Coming to Depreciation and Amortization - amortization was higher on account of full quarter impact of MediaAgility acquisition. With higher revenue, of course, in terms of percentage, total Depreciation and Amortization was 3.4% of revenue. With this, EBIT was 14.6% as against 14.3% in the previous quarter and 13.9% in the corresponding quarter of last year. And for H1, EBIT stood at 14.5% as against 13.7% for the corresponding period last year.

Coming to treasury income, for the quarter, the income was lower at INR 61 million as against INR 89 million, mainly on account of interest on borrowings for part-financing the acquisitions and reduced treasury size due to some of the surplus funds being used for M&A. If you look at the interest income of this year's H1 versus last year's H1, as you know, effective first quarter of this year, we have been consolidating the ESOP Trust and the interest income of INR 104 million on loan given to ESOP Trust has been eliminated on consolidation. Further, this year, there is an M-to-M loss on long-term mutual funds arising from increasing interest rates in this year, whereas there was M-to-M gain last year. This, along with lower treasury surplus and interest on borrowings from our acquisitions resulted in lower other income on an H1-to-H1 basis. In respect of Forex loss, there was INR 91 million of loss as against a gain of INR 42 million, and this was mainly because of the sharp currency movement we saw, which resulted in M-to-M loss on hedges, which were taken a year ago at an average rate of around INR 77-78.

Profit before tax was INR 2,956 million at 14.4% as against 15% in the previous quarter. ETR was 25.6% as against 24.9% in the previous quarter, and we expect that to be at these levels for the rest of the year. PAT for the quarter was INR 2,200 million at 10.7% of revenue as against INR 2,116 million in the previous quarter at 11.3% of revenue. PAT for the first half of the year was INR 4,316 million at 11%, registering growth of 37.9%. EPS for the quarter was INR 29.61 against INR 28.50 in the previous quarter. The growth in EPS is 3.9%, while growth in reported PAT was 4% Q-o-Q. And as you know, for purposes of calculation of EPS, shares held by ESOP Trust are excluded. The operational CapEx for the quarter was INR 519 million. Cash and investment on the books were INR 15,719 million as at September 30 as compared to INR 14,792 million as at June 30. DSO came in at 60 days, same as in the previous quarter. Forward contracts outstanding at the end of September was US$ 195 million at an average rate of INR 79.95 per dollar. With hedges in the recent period coming at forward rates of 82-plus, the average rate will get adjusted over a couple of months.

With this, I thank you once again, and I wish you all a Very Happy Diwali and hand it back to Sandeep.

**Sandeep Kalra:** Thank you, Sunil. Now let me talk to you about our key wins for Q2 by industry segments. Coming to the Software, Hi-tech and Emerging industries, we were chosen as a Professional Services and Solutions partner to scale the adoption of software products in North America and EMEA for a leading European enterprise software player. This is the largest TCV deal win for us in Q2 with TCV of excess of US$ 80 million over five years. We were chosen by a leading EHS, environment sustainability and governance player - a software player in the segment for providing engineering services, building products for these segments. Coming to Banking Financial Services and Insurance, Persistent was chosen by a fintech unicorn based out of India for the end-to-end program ownership for development of an automated data-driven risk and pricing platform, which is used by leading banks, NBFCs and insurance companies in India and other emerging markets. Persistent was chosen by a pioneer in fractional trading and embedded finance to design and implement an integration platform for servicing the end customers using APIs.

Coming to Healthcare Life Sciences, Persistent was chosen to expand the Centre of Excellence for automation and low-code business process management platform for a large US-based biopharmaceutical services company. Persistent was chosen to build the next-generation data platform using deep industry expertise for a large biotech company, which is a leader in building life transforming medicines.

Moving on to the awards and recognitions for the quarter - Q2 saw us get continued recognition from industry-leading analyst firms and associations. To mention a few, MediaAgility, recently acquired by Persistent was named as a Niche Player in the 2022 Gartner Magic Quadrant for Public Cloud IT

Transformation Services. We were recognized by Dun & Bradstreet as a Top Performer in the Growth Performance categories in Software and BPM Sectors in their 22nd edition of the India top 500 Companies' publication.

In summary, we continued to deliver top quartile revenue growth in Q2FY23, along with healthy profitability, which remained resilient despite the key cost headwind associated with wage hikes. Even as we see good traction for our services among our client base, along with new deal wins and new logo addition, we remain watchful of the macroeconomic situation and are proactively staying close to our clients, aiding them in prioritizing their technology spend towards transformation and optimization. Our deep digital engineering expertise gives us significant competitive advantage in our market and our recent acquisitions have bolstered our cloud and industry capabilities, strengthening our key hyperscaler partnerships. We hope to build on the healthy growth momentum we witnessed in Q2FY23 as we go along. With this, I would like to conclude the prepared remarks and would like to request the operator to open the floor for questions. Operator?

**Moderator:** Thank you, sir. Now we open the call for Q&A session. We will wait for a few minutes until the queue assembles. We request you to constrain yourself with 2 questions and follow back in line for more questions. Please raise your hand from the participant tab on the screen to ask the questions. First question is from Bhavik Mehta.

**Bhavik Mehta:** Thanks for the opportunity and firstly, congratulations, Sandeep for a great set of numbers. I have two questions. Firstly, Sandeep, can you talk about how the deal signings are trending for you given the macro where we have heard that a lot of clients are cautious about their tech spend. So are there any delays you're witnessing in deal signings and also, if you can slice it down across your three verticals, how the client behaviour is different in the 3 verticals. The other question is, if I look at your book-to-bill ratio at 1.4, which is the lowest since you started reporting this metric, 10 quarters ago. So, should we be worried about a lower book-to-bill ratio? Or is this a timing issue where some of the deals were delayed? And so, we should overlook this number? And the last question is to Sunil. How should we look at margins for the second half? Because initially, the target was to achieve 13.9% similar to last year, but we are already at 14.5% in 1H, and a lot of the headwinds are behind, wage hikes are behind, attrition is coming down. So how should we look at the trajectory of margins for the second half? That's it from my side.

**Sandeep Kalra:** Sure. So let me take the book-to-bill part because it's the easiest one, the other ones are a little longer. So, I don't think you should worry about the book-to-bill part. If you look at our bookings, we have been consistently delivering very healthy ACV and TCV bookings. If you look at our TCV bookings for trailing 12-month basis, it's roughly about US$ 1.45 billion. Our ACV bookings are roughly about US$ 1.1 billion. So, for a company that is doing US$ 255 million on a quarterly run rate basis, I do think from what we understand of our business, this is a fairly healthy set of bookings and that bodes well for our trajectory going ahead. So, I won't read too much into book-to-bill and worry about it.

Now in terms of the deal signings, I will try and keep it brief because we want to take a bunch of questions. So, I'll give you an uber answer. And if we have time towards the end of the call, I will try and get into each of the segments. And I'll just take one segment for now. So, if you look at our deal signings so far, we've delivered pretty much for the last two quarters, anywhere upwards of US$ 370 million in TCV and relatively good US$ 270 million or so in ACV terms. Now there are some deals that could have slipped from the last quarter to this quarter, but that is the nature of the game. So far, there are not much delays. Now, interesting thing would be how Q3 pans out because Q3 is a short quarter. There are too many things happening in this quarter in terms of Thanksgiving. There's Christmas, there may be furloughs, there may be other things that are there. So, this will be a short quarter, and we will have to see as the quarter pans by the decision making, given the macro, given the short quarter, impacts of the deal closures in this - the pipeline is good, we will have to just let the quarter pan out.

Now we deal with three different segments, as you rightly said. We deal with the Enterprise Software segment or the ISV segment on one side and BFSI, Healthcare Life Sciences. If you look at it, some of the things that we have been seeing from our company-specific perspective, we have a fairly strong foray in the product development side, whether it is horizontal ISVs or it is vertical-specific ISVs, and that is the tenet we take to the enterprises as well. We have been seeing pretty good deal wins. We announced two large deal wins in the last two quarters. One was US$ 70 million in the quarter before. The last quarter was US$ 80 million, single TCV kind of deal wins. So, from that perspective, we very strongly believe in the enterprise software/ISV segment. We have the best right to win and seat to the table. So that continues to give us good pipeline. Similarly, on BFSI and Healthcare Life Sciences, we do see some delays in deal signings, et cetera, but not to the extent that one should be worried about. And again, as I said, we'll let the Q3 pan out. Sunil, over to you for the margin part.

**Sunil Sapre:** Yes. So Bhavik, on the margin side, there are basically three important elements. One is what you call the currency movement, which was positive in this period. As you know, 90 basis points being contributed by that, which gets reflected in EBIT. But a part of that gets unwound after EBIT in form of Forex loss on the hedges that we would have taken in the past. So, net-net, say, about 40-50 basis points of benefit comes in the effective eventual margin, so to say. The other element is with respect to IP revenue and what is the composition of IP revenue in terms of royalty and our own IPs under the Accelerite portfolio. And thirdly, the operating efficiency improvement and the leverage that we should get as we keep scaling. So, two of these factors in terms of operating efficiency and leverage and IP revenues, are internal while currency movement is external. But in terms of IP revenue, it has certain seasonality. It's not like every quarter we may have that kind of IP revenues. But on an overall basis, I would say that we feel confident to hold the margins at these levels, should currency not be playing another volatile kind of thing. We generally hope that currency will hold at this level or maybe a little bit softer in the last quarter, but the current indications are that what we call we will not see the dollar-INR going back to 78-79, so very soon. It might - dollar may appreciate further before it flows back. So that's our current expectation. And you are right, there is potential to hold it and work on operating efficiency to improve it further.

**Moderator:** Thank you. The next question is from Manik Taneja.

**Manik Taneja:** Hi. Thank you for the opportunity and congratulations for the very consistent performance in the current quarter as well. Sandeep, I wanted to get your thoughts, given the decline that we've seen in our top client revenue performance this quarter, should we expect some tail impact going into 3Q and 4Q as well? That's question number one.

And does this change the outlook that we have provided in the past of 4%-6% kind of a sequential growth for the foreseeable future. And the second question was for Sunil. On the revenue productivity trends, we have seen offshore revenue productivity increase for three quarters now. How should we be thinking about this dynamic going forward? Thank you.

**Sandeep Kalra:** Manik, let me take the first question. So, look, we have been working with that brand for more than 18 years in different forms and shapes. Now we have seen many cycles where every client has their own specific nuances. Every client has their own business, their own macroeconomic environment impact. They all have to do their puts and takes of their own priorities. And we've always seen whenever there has been some amount of work between us and them in supporting any of the requests that may be there in terms of any restructuring and whatever else, we've always come back stronger over the quarters. As far as the immediate Q3, Q4 is concerned, I don't expect any major material impact, a couple of million dollars here or there in our bigger picture of things. When we are at a US$ 1 billion run rate, it is not anything material, if that happens. And even if that happens, we have the assurance from our top customer, that all these are short-term adjustments that they're doing, and they are committed to working with us on their newer things as well. So, I would not be reading too much into it.

And second, look, our proof of the pudding is we have performed consistently over the last nearly 10 quarters. It's been 10 quarters of sequential revenue growth, profitability, stabilization or growth. And even in the COVID times, we have come through very well. So even this quarter, current quarter, if you look at it, and this is for you and all other investors on the line, 5.8% in dollar terms, 6.6% or thereabouts in constant currency terms. Even after adjusting for the client-specific issue that you're talking about, talks about the robustness of the system that we have built. So that is where I would want to leave it. And as far as the 4%-6% growth that you talked about, that will be our endeavor to continue to do that and let the macroeconomic environment pan out. But our endeavor would be, we would be best-in-class. Growth would be the preference for us. Profitability same or better would be the second thing for us. So, with that, I'll hand over to Sunil for the next one.

**Sunil Sapre:** Yes. So Manik, this offshore rate realization is a function of two items essentially. Our ability to manage fixed price projects, which we do in some of our businesses, both on site - I mean, both the export business as well as domestic business. And the other part is how much is our pricing power in terms of ability to get COLA increases and so on. So, over the last few quarters, this was, you can say, a conversation that we had with several customers, and many of them were amenable considering the high attrition that the industry was facing. So, this is what you call a combined result of this. The change from quarter-to-quarter could happen so far as the rates, if you hold them steady, it is more out of the efficiency of execution of fixed-price projects. I hope that helps you get you a flavour of that.

**Moderator:** Thank you and the next question is from Karan Danthi.

**Karan Danthi:** Hi Sandeep and Sunil. Thanks for taking my questions. Since you have such a great vantage point into enterprise software deal flow, I think one of the concerns is Europe and just how the macro in Europe, given it's such a big market, is going to evolve from here. Some companies are saying like Snowflake - sorry, ServiceNow that there's been - it's been hard to sign those deals. I'm just wondering kind of how that plays into your business practice? And on a related note, which is - this is the second part of that first question. There is, again, this broader argument of consumption-based software businesses and deal-based software businesses. And I'm curious kind of what you're seeing in terms of the resilience of consumption-based software businesses versus deal-based software businesses. That's the first.

And then the second, I would ask, who would you, which, I guess, areas - essentially, we're dealing with the inflationary environment, software helps deflate. So, there's a clear need to adopt software faster. I'm just curious, since you have a lot of partnerships, where do you see acceleration because of the need to - meaning acceleration of adoption of certain verticals, vendors because of the need to deflate fast. And this is a broader comment on the cloud, which is, is there going to be faster adoption of the cloud or slower adoption to the cloud? And then who are the related vendors, I guess, that would benefit.

**Sunil Sapre:** This is a one-hour discussion in itself. But let me try and address it, and I'm sure you seem very knowledgeable about this. So, I'll keep it at a high level. Now whether it is the European market or overall market, a number of the enterprise software companies are global in nature. So, they will face some headwinds in the US, they may face higher headwinds in Europe and other parts of the world. There are also, the enterprise software companies are not just one block. As you rightly said, there are companies that are deal-based software, consumption-based software, born the cloud, the companies that are public companies for long, the companies that have gone public in the last 2, 3 years, there's dynamics - different dynamics for different people. So, let's take a company that basically was born in the cloud dependent on consumption-based software, went public in the last 2 to 3 years. Pretty much any company in that category would have been a unicorn before they went public, and they would have had this rule of 40, where the revenue growth and profitability put together, as long as you had that greater than 40%, you were golden. Your valuations were absolutely good. But now in an environment where there's a recessionary environment, looming on our heads, nobody knows when, how, how much deeper and how long it will last and so on.

There is going to be a slowdown of enterprise software and people are already starting to see it. Now what that means is if the revenue growth is not going to happen, they're already not profitable. A number of these companies that went public, for example, in the last 2, 3 years, they're not profitable. They need to really look at their profitability. They really didn't have a globalization strategy from their product development perspective, product support perspective, professional services perspective, a number of those didn't really care about those when the revenue growth was happening. They were focused on that. But in the new environment, that whole dynamic is changing. Now no longer the revenue growth is there, so profitability is important. So, globalization from a product development perspective, having a coherent strategy and working with partners like ourselves who are absolute experts in this, is becoming an absolute important thing for them. So, if we were to talk to any of our potential customers, our customers, existing customers, the CXOs, I'm not talking about the working level. The CXOs, they clearly understand, and they clearly engage with us, and that is where we are emanating a number of large deals. And these may be public companies. These may be private equity held enterprise companies. And they may also be unicorns that were successful, were moving towards profitability, but are now challenged. And they are across US, across Europe. So, I hope that gives you a kind of a flavour towards where we are seeing the discussions pan out and so on.

Now again, the debate about consumption-based software versus deal-based software, deal-based software companies would be companies which are more established for many more years and so on. I would say they have a little more pain at size and scale, although the consumption-based software companies, not everyone is at the size and scale of a Snowflake. They are smaller companies and that addressable market for us may be slightly lesser. But I'll park it there because this could go on and on. Now in terms of any vendors, I would not want to name vendors because we partner with all of the hyperscalers. I wouldn't want to say one hyperscaler versus other. There are different dynamics. Azure plays in a different space than AWS, AWS not many retailers would want to take. Azure is prevalent because of Microsoft percolation all through the enterprises across verticals. Google specializes in certain areas more than others, but we are seeing healthy things in different, different segments of the market, and we are partnering with each one of them. With that, I will stop on this. Hopefully, that answered you.

**Moderator:** Thank you. The next question is from Ruchi Mukhija.

**Ruchi Mukhija:** Congratulations Sandeep for Q2, very strong performance. I had a couple of questions, I try to be restrict to two. First was on BFSI. Now in terms of your client mix, it's quite diverse, ranging from large western banks to midsize and fin-techs versus insurance companies. So, do you see a difference in their tech spending pattern in current backdrop between large bank, midsized and fin-techs?

**Sandeep Kalra:** No, so look, if we look at the broader trend, and I'll restrict it to the broader trend. Most of the banks and insurance companies, they are expecting a mild recession in the US, and I talked more about the US because for Persistent per se, 79% of our businesses is US, and our business in Financial Services is mostly US and India. In India, we are pretty much there for any NBFCs and financial services organizations, more on loan origination systems and other things. So that's pretty much robust. Now when I look at the global things, globally, we are looking at the banks and insurance companies and similar organizations, prioritize the spend and the management of resources. They are definitely trying to cut cost in business as usual so as to be able to sustain their initiatives, which were started in the last 1 to 2 years in terms of their own transformation, launching newer digital products, et cetera, et cetera. Now if you look at things like digital payments, customer experience, business process, data analytics et cetera, we do expect, based on our discussions, these investments will continue. And the legacy stack will be the one where the money has to squeezed out to be funneling this and some money will go towards EBITDA improvement for them. I could give you more colour. And one last thing I would want to say -- we are not exposed much to the mortgage market. We're working with a leading mortgage platform provider where we have seen some impact, but it is not material to our revenues. So, our mortgage-related exposure is not much at all. So, from that perspective, thankfully, we are pretty much okay. So, I'll want to restrict it there. Any other questions I can answer.

**Ruchi Mukhija:** Sure. I'll move to the next one. Now we've heard from some of your peers that today, the nature of the demand is changing, you see more cost optimization focus along with the revenue growth initiatives. So could you share with us what are the differences that you see between these cost-focused contracts in terms of deal sizes, tenure delivery or execution cycle and also profitability?

**Sandeep Kalra:** Sure. So let me give you some examples. So, for example, and I'll take 2 segments this time, let's say, the enterprise software market. So, if you look at the enterprise software market, back to the earlier question that was asked by Karan, I guess, so we have been working with many customers. So, for example, I talked about a US$ 80 million deal where we are partnering with a leading European software, enterprise software company. This deal is about taking over a chunk of professional services, optimizing it from right shoring perspective, scaling it from a lower cost location perspective, bringing automation, et cetera, et cetera, and so on and so forth. So, this is a 5-year deal. This is not a smaller project and so on. So, this is about US$ 80 million. Now if I go to a leading, let's say, third-party administrator of insurance services, there, we have basically done a deal, for example, to take over the entire application support to take over infrastructure support, move a bunch of infrastructure and applications to the cloud, help them optimize their spend. Again, this is kind of a 5-year deal and so on. So, like that, there are multiple deals in different segments. Even from a transformation perspective, earlier, people were very happy taking transformation-related projects to be done totally on-site, very little spend offshore. Now they are very amenable to doing literally 20%, 30% on-site, willing to look at spending more from offshore so that they get more for the same money, and they are able to get their programs last longer, do the multiple phases of it and while saving money at the same time. So, there are contours of cost reduction, cost savings, both in transformation and in business as usual. So hopefully, that gives you a colour.

**Moderator:** Thank you. And the next question is from Nitin Padmanabhan.

**Nitin Padmanabhan:** Hi, thanks for the opportunity. Two quick ones, actually. So one is over the past few months, if you look at the velocity of deals or the decision-making cycles, I just wanted your experience there. And why - and the existing book of business that's anyway underway, are you seeing more client-specific issues? And do you see that sort of getting worse as it goes forward?

The second part is on the furloughs, and do you have clarity on furloughs going into the quarter? And the IP business, how are you thinking about that business today? Because growth has been pretty solid after a very long time. So is there any change in thought process within that business as you move forward. So those are the 2 bunches of questions. Thanks.

**Sandeep Kalra:** Yes, there are four questions. Let me try and address them quickly. So, in terms of velocity, as I said earlier, so far, we have not seen that we will be impacted that much. Q3 will be the proof of the pudding because the bar seems to be elongating. This is a short quarter. There are too many holidays. There are furloughs that are being talked about. Back to your point about furloughs - there are discussions about furloughs. There's no firm decision that has been given to us. There are some furloughs that have happened for many years. So, I wouldn't say that some of the customers are doing furloughs for the first time. We have seen this, not only us. The entire industry has seen some of the largest tech companies, some of the largest financial services organizations. They have a pattern. Every year, they do 1 to 2 weeks of furloughs. The only question would be, would this year, this quarter be different so that we will have to let it pan out. We will have a clarity by November, mid or December first week on all that.

Now in terms of customer-specific issues, as of this point in time, there are none other than whatever have been reflected in our financials so far. If there are any, we'll come back and report to you. Our endeavour would be to make sure, first, we avoid these things. But sometimes, you can't wish customer relationships to be only a one-way lane. You can't just expect customers to just give you more and more. If they have a macroeconomic headwind in their business, it's our job as well to sometimes work with them even if that means cutting down our expectation of what they spend on us, to be coming back as they kind of spend more over a period of quarters and years. So, I would not want to read too much into customer-specific issues - relationships are what matter. Revenues can go up and down, and our first intent would be to make sure that the relationship stays strong. And back to your point on any more customer-specific issues. No.

Now IP business, how are we looking at it? Look, IP business for us is one of the biggest differentiators as well. In our Accelerite business, we run at least 3 to 4 enterprise class products where if you fly Delta airlines in the US or some other airlines like that, there may be some IP that we may have, which may be patching their systems or do whatever else. There may be ATMs that you may be using globally, little known, our software may be running some of those. In India, you may be doing some of the purchases on some of the online stuff where we may be behind it. So, it is a big differentiator for us. It's also a profitability lever for us. And these are products right from what we have acquired from Intel, Citrix, all of this is public domain knowledge, to many others. Now if we can take them, modernize them, sell more of them, it gives us additional profitability. So, we will endeavor to do that and also use some of this as a reusable IP in our customer engagements and so on. So, our endeavour would be wherever we can do it, get better revenues and profitability. We'll continue to do that. And that's where a focus team is on that part. And we'll keep reporting anything if it changes on this. So, I'll keep it there. We have 14 minutes left, and we want to take more questions, So Nitin, I hope that answers you.

**Moderator:** The next question is from Chirag.

**Chirag:** Hi Sandeep. Congratulations on various remarkable execution and good set of numbers. So, I have a few questions. Like in terms of IP revenue, we, our number of clients billed are higher compared to previous four quarters. But if you look at the contribution in terms of revenue, it is on lower end. So, is there any low margin selling or a client billed during this quarter?

**Sandeep Kalra:** So, I wouldn't say there is any low-margin client billed during this quarter. That is not the case. Now IP revenue for us is, again, 3 kind of IP revenues. One, that comes from our top customer where we have certain deals where we get a revenue share. Number two, if we go and sell a solution, which has embedded components from a partner, whether it's low code, no code related stuff or some other solution, that's the second part. Third part is our erstwhile Accelerite portfolio. I wouldn't believe knowing what I know about the business that there's anything that has material low value kind of deal from a margin perspective then. So, I would leave it there.

**Chirag:** Okay. And Sandeep, one more question. In terms of client engagement size is the bifurcation which you've given in factsheet. If you look at the numbers in category of US$ 5 million-10 million range, it has increased significantly in the last 1 year. But in US$ 10-20 million brackets, it remains stagnant. So are we targeting more lower ticket engagement size to diversify portfolio? Is there any such strategy between please?

**Sandeep Kalra:** No. So, I think you should read it in conjunction with the number of customers in the US$ 20 million-30 million size as well. So, if you look at FY22, we had two customers who were greater than US$ 30 million. Right now, we have three. If you look at the number of customers in the bracket of US$ 20-

30 million, that has also increased. So overall, if you look at it, every category is showing progression. So, from that perspective, we are happy about it. Can we do better? Absolutely. So, I don't think there's a cause of worry, but we'll try and do better.

**Moderator:** The next question is from Suraj Malu.

**Suraj Malu:** Hi. So, I have two questions. So, first question is our top client which is IBM. It has seen a degrowth over the past three quarters. So, could you please throw some light as to what went wrong with our largest clients who have been contributing around 20% of our revenues?

**Sandeep Kalra:** So first of all, I would not want to name anyone and so on, there are confidentiality issues out there right there. Now I wouldn't say there are any issues. And if you look at even whatever name you gave, the results and so on, they're doing well. So, our top client announced their results yesterday, and they are doing well, and I sincerely wish they keep doing well and even better. Now as far as our relationship is concerned, if there are revenues that go down, it may not be because of issues. It may because - and we had clearly called out about three quarters back, there was a deal that we had for five years, which was not very profitable for us. We had worked collaboratively with them. We had folded significant part of that deal back into the top customer, and we had continued a certain percentage of T&M. So that was one part. Now over a period of time, as the macro evolves, everyone has to take a look at where their spend priorities are, where they want to spend their US$ 100 if they have US$ 100 to spend, whether it is on existing products, new products and so on. And so, if they are reprioritizing any of their spend, and we have to work with them, we'll happily work with them. They have been good supporters of us for the last 18 years and will continue to get the spend back as we kind of work with them on new programs. So, I won't read too much into it. And again, look, no customer will be a one-way lane throughout life. And relationships, as I said earlier, are more important than the spend in this quarter or the next quarter. It will come back if we have a good relationship.

**Moderator:** The next question is from Rishi Jhunjhunwala.

**Rishi Jhunjhunwala:** Yes, thanks for the opportunity. Just a couple of questions to understand stuff better. Sandeep, one thing is that we have been announcing our overall TCV for past eight quarters now. And over this period, of course, macro has deteriorated. Just wanted to understand, have you seen any kind of change in conversion of deals into these deals into revenues. So, for example, if you have on almost like $1.1 billion worth of ACV in the past four quarters, would that translate into a similar amount over a 12-month period itself? Or have you seen delays in those conversions as well?

**Sandeep Kalra:** Rishi, very good question. So, look, there are delays that happen because of two things. There are delays that can happen because of customers once they sign even the ramp up the way it is, at times, it gets delayed. And there's no science to predict it before it happens. So, there is some amount of revenue leakage that happens because of that. And at times, there's revenue leakage that happens because we are not able to fulfil in time, in line with what the customer expects and that causes another set of delays. I would say, roughly, if you were to say what is the impact of it, anywhere between 6% to 8% would be the impact of this. And we try to minimize this impact because this is revenue leakage for us as well. And it also causes delays at the customer side at times. So that is where, I would say, and it is not this that it has gone one way or the other over the quarters. This has been the case because the labour market for talent that we need has been tight. And even now, while attrition has come down, even now there's pent-up demand at our end, if you could get a significant number of qualified people as of today, we could bill them and fulfil that demand, which is leading to some of the revenue leakage that may happen.

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

**Mohit Jain:** Sir, two questions. One was related to the top client decline. Is there a chance that we would have booked this TCV sometime last year, which we need to revise because of the ramp down that we have seen in this quarter? That was one - and second was related to DSOs. Now operating cash flow is a little on the lower side for the first half. So, is there a change in working capital requirement for any of your clients?

**Sandeep Kalra:** So, the first part, I'll take first, and then I'll have Sunil address the DSO part. So, look, the decline that has happened is basically in contracts, which are renewed on an annual basis. Most of our contracts outside of the IP contracts are renewed on an annual basis in this particular case. So whatever we have lost is basically for this year because it would have got renewed in this quarter. Because most of the U.S. corporations have a Jan-December financial year. So from that perspective, there's no TCV that needs to be reversed. And by the way, to be absolutely transparent, we have already taken that hit in the ACV that we have announced. Whatever is lost, we've already deducted from the ACV and TCV that we have announced for the quarter. So, we already negated that.

**Sunil Sapre:** Yes. And Mohit on the operating cash flow. What happened in the first quarter of this year, particularly is that, see, this quarter typically has the company performance bonus that we pay to employees. And insurance spend that happens, which is a, you can say, once in a year kind of thing. The other aspect is also because of significant fresher addition. We had significant pay out on account of the licenses. So, these three spends basically are bunched at the start of the year because of which the operating cash flow was lower. But there is nothing beyond that, and it is not as if on the working capital, your question about whether DSO would tend to increase or something is not the reality. But market is of a nature that we need to be constantly at this to ensure that customers are adhering to the payment terms we have agreed with them.

**Moderator:** Okay. We'll move to the next one. The next question is from Abhishek Bhandari.

**Abhishek Bhandari:** Hi, thank you Sandeep. Sandeep, I have just 2 small quick questions. First, can we correlate that lower revenue growth or possibly a decline in your top client is also a lever for margin improvement? And two, if you can update on your M&A thoughts, particularly in Europe, given the significant correction in market valuations. And now I think we are almost three quarters down from our previous acquisitions. So, we should be preparing for the next ones. Thank you.

**Sandeep Kalra:** I'll keep it brief. On the lower revenue growth from the top customer and margin correlations, there could be a minor impact from that, although you don't basically wish it that way. So, there could be some minor impact there. Now in terms of M&A, in terms of Europe, so we had been saying that overall, we want to pause on the M&A. We want to be able to digest what we have done in terms of M&A. And I'm very happy to say our M&A, whatever we have done, whether it is Data Glove, whether it is Shree Partners, whether it is SCI, whether it's MediaAgility, all of them have been going well on the integration part. So now in a way, we are getting ready to go back into the market and look at targets. And Europe will definitely be one area, but we'll be a little cautious about making sure that we watch the overall conflict in Europe, the macro in Europe. And if there are good opportunities in Europe that we can look at in line with our acquisition strategy, we'll definitely do that. But overall, even otherwise, we'll get active in the M&A market in the next few months.

**Moderator:** Next question is from Sandeep Shah.

**Sandeep Shah:** Thanks for the opportunity. I wanted to understand, if you look at in FY24, industry may witness a demand slowdown and last time we witnessed the demand slowdown as an industry was FY21. In that year, Persistent has done extremely well. And what has gone correct in our favour was a strong positioning on the digital side, which demand has started increasing after the COVID. In FY24, the dynamics could be different where demand on the cost takeout could be higher. So, on the cost takeout side, I think we are doing extremely well on the enterprise software ISV segment. But are we also having enough positioning in the BFSI and Life Sciences? Or we have to tweak the model? And can you describe that in terms of pipeline of cost takeout deals in all the three segments? And the last question is how to read Salesforce downgrading the guidance in terms of delay in decision making - any impact for us in terms of delaying client package implementation revenues or Salesforce as a practice for us, both for enterprise clients and Salesforce as a client?

**Sandeep Kalra:** Yes. So let me take the second question first, and we have, Sandeep, we have two minutes on the call. So, I'll try and give you a brief answer on both. So as far as Salesforce is concerned, our Salesforce practice is roughly about US$ 130 million today on an annual run rate basis, roughly. And this includes Sales Cloud, Service Cloud, Marking Cloud, MuleSoft, other things, Tableau and so on and so forth. Now part of the work we do is project oriented. Part of the work we do is also do managed services for larger implementations that we have done and that may have been done by others or the customer and so on. So as of this point in time, it's too early to say how this will pan out. As of this point in time, a significant chunk for us is also longer-term contracts. So, we'll let it pan out, and we are watching this carefully as it goes along. Now FY24 versus FY21, I do think we have enough capabilities. We have enough capacity creation that we've done on cost takeout related deals over the last many years. And we have the sales leadership delivery leadership that understands this. And some of the deals that we have done over the last even 6 to 8 quarters have been on these lines. Although the proportion of cost takeout deals have increased in the last 1 to 2 quarters, and the pipeline is bigger there. So, rest assured, we have the capabilities. We understand both the enterprise software and the enterprise world. So, from that perspective, as a portfolio, I'm pretty confident if the industry does X, we'll only do delta X more than that and hopefully significantly more. So, with that, I think we should stop here. We are at 7:00 p.m. So, moderator, if we can take one last question, then we'll do the closing comments and go from there.

**Moderator:** And so, we will take the last question of Karan Uppal.

**Karan Uppal:** Yes. Thanks, guys, for opportunity. Just one question on ACVs. So, our ACV to TVC ratio has seen a healthy downfall in last eight quarters, which is that you are able to win larger engagements with clients. Now with current macro in mind, do you think this trend will sustain with you winning larger deals?

**Sandeep Kalra:** Yes. So, our endeavor would be to do larger deals and long-term deals. That is the intent. And we have been improving on it over a period of time. And I do think the macro being where it is, it is amenable to doing longer and larger deals. So, we let it pan out, but that's where the whole endeavor is. So, with that, we will stop. So, moderator, let me just make the closing comments and then you can do the closure.

So, as we said before, we have had a good run over the last many quarters, including the last quarter. We'd like to thank our 22,400-plus team members, customers, partners and our investors for their support in our growth journey. We remain optimistic on our prospects for FY23 and beyond. Even as we are closely watching the macroeconomic developments and staying close to our key customers, we continue to aspire to maintain industry-leading revenue growth combined with healthy levels of profitability. Thank you all for spending time with us on the call today. We wish you the best for the festive season ahead and look forward to connecting with you again in three months to provide an update on our ongoing progress. 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 call. Thank you.

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