"PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, FIRST QUARTER, FY23 ENDED JUNE 30, 2022"

July 22, 2022

MANAGEMENT:

Dr. Anand Deshpande
Chairman and Managing Director

Mr. Sandeep Kalra
Executive Director and Chief Executive Officer

Mr. Sunil Sapre
Executive Director and Chief Financial Officer

Mr. Saurabh Dwivedi
Head, Investor Relations

Mr. Amit Atre
Company Secretary

Moderator: Ladies and gentlemen, good day and welcome to Persistent Systems earning conference call for first quarter of FY23 ended June 30, 2022. We have with us today on 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 listen-only mode and there will be an opportunity for you to speak and ask questions after managements opening remarks. Should you need any assistance during the conference call, please raise your hand from the participant tab on the screen. While asking questions, request you to please identify yourself and your company. Please note, this conference is being recorded. I now hand over to Mr. Sandeep Kalra. Thank you and over to you, Sir.

Sandeep Kalra: Thank you, moderator. Good afternoon, good morning, good evening to all of you, depending on where you're joining from. It is good to be with you once again. As always, we would like to start this call by thanking each one of our 21,600-plus Persistent team members, our customers, our partners, and shareholders for their continued support. I would also like to take this opportunity to congratulate my colleague, Saurabh Dwivedi, our Head of Investor Relations with whom many of you interact on a regular basis. Saurabh and his wife were blessed with a new-born baby girl earlier this week. We would like to start this call with a video summarizing the quarter gone by. For those of you who may not be joining this call with a video, please bear with us and we'll go through the details in call as we progress through the call. Can I have the video please?

This was a quarter of growth across all major business metrics despite an evolving macroeconomic environment. The revenue for Q1 came in at $241.52 million, giving us a growth of 11.1% quarter-on-quarter and 44.8% on year-on-year basis. In rupee terms, this translates into a growth of

14.7% quarter-on-quarter and 52.7% on year-on-year basis respectively. This was the first full quarter of consolidation for Data Glove, while MediaAgility was consolidated for a period of nearly two months from May 4, 2022. Adjusting for the revenue from these required entities, our organic growth for the quarter was 5.6% on a sequential basis and 30.5% on a Y-o-Y basis in US dollar terms. As you are aware, this robust growth comes on the back of four successive quarters of 9%-plus sequential growth, most of which was organic.

Coming to EBIT, our EBIT for Q1 came in at INR 2,688 million, giving us an EBIT margin of 14.3%. This translates into an EBIT growth of 16.8% on a Q-o-Q basis, and 61.4% on Y-o-Y basis. Our EBIT margin expanded by 30 basis points on a sequential basis despite various headwinds including continued supply side challenges, higher travel costs, higher amortization, and visa cost, which happens once in a year in the Q1 for us. Healthy revenue growth and currency where the key tailwinds that aided margins. Sunil will go in much more details on the EBIT margin movement later in the call

Coming to the order booking for the quarter, Q1 was a record high for us in terms of TCV orders won. The total contract value for the quarter came in at $394 million, with new bookings TCV coming in at $230.3 million. The annual component of the contract value from this TCV is to the tune of $263 million, of which the new bookings ACV contributed $139.8 million. All of these data points are reflected in the transcript shared with you. As you may already be aware by now, these booking numbers, TCV and ACV include all bookings, small and large, renewals, as well as new bookings across existing and new customers.

On the people front, we brought in a total of 3,039 new colleagues including 545 from our acquisition of MediaAgility. This brings our total employee base to 21,638 as at the end of June 2022. This is the first quarter where our employee count has crossed 20,000 and it's a proud milestone for all of us at Persistent. Out of the total net hiring, we added 1,950 fresh graduates in line with our strategy to expand the sources of talent for a profitable growth going forward. These fresh graduates are undergoing training in various technology and business areas and will be deployed over the next three to six months. We expect to add another 1,350 fresh graduates in Q2 this financial year as a part of our fresher hiring program. The utilization for the quarter came in at 79.5%, a 1.1% decline from 80.6% for Q4. This utilization is excluding the freshers added during the quarter. For your reference, the freshers are taken in the utilization calculation post a three-month training period at Persistent.

Also, the utilization rate is a function of our endeavors to operate efficiently while maintaining a healthy buffer to staff future programs on time. Fresher addition and increased utilization over time will be key operational levers for us to absorb the impact of wage hikes in Q2 and other margin headwinds going forward, while giving us the cushion to grow the way our bookings are. The trailing 12-month attrition for the quarter came in at 24.8% compared to 26.6% in Q4 excluding the substantial addition of freshers as mentioned above. The trailing 12-month attrition for the quarter came in at 26.3%. We continue to focus on strengthening our employee value proposition through various initiatives including employee engagement, L&D interventions, career planning, as well as suitable monetary incentives.

We do expect the trailing 12-month attrition to gradually moderate over the course of financial year driven by fresher addition across the industry and better EVP outcomes at our own organization. There are a few other highlights from this quarter that I would like to share with you. The quarter gone by saw some changes in our Board composition. The term for three of our Independent Board Members, Pradeep Bhargava, Thomas Kendra, and Guy Eiferman came to an end at the recently concluded AGM. I would like to extend sincere gratitude to Pradeep, Tom, and Guy for their contribution to our Board. They've been strong pillars in our growth journey, and we would like to wish them the best for their future. At the same time, I'm excited to welcome Arvind Goel, Dr Ambuj Goyal, and Dan'l Lewin to our Board and we look forward to working closely with them for the next phase of Persistent's growth. We have shared more details on our Board members on our website and as a part of our AGM as well.

Coming to acquisitions, the integration of our acquired businesses is progressing well. We are pleased with the way our Data Glove and MediaAgility teams are integrating with the broader organization. We are seeing some early wins as a result of teamwork and cross-pollination 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 onboarded Ms. Chitra Byregowda as our Head of ESG. She comes with extensive experience in the field of sustainability, diversity, and inclusion, as well as employee well-being, and has worked with reputed IT services firms in similar roles earlier. We also released our inaugural ESG report for FY 2021-22 last month along with our annual report, wherein we have highlighted our short, medium, and long-term ESG goals. This report is available for your reference on our website as well as with the goals clearly articulated.

In summary, we are pleased with the strong start to financial year 23 with healthy revenue growth, strong order wins across our focused industry segments, a healthy pipeline, stable profitability despite increasing amortization on account of acquisitions. 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 comments to give you some more details on key client wins and list of awards, and other recognitions for the quarter. Sunil, over to you.

Sunil Sapre: Yeah, thank you, Sandeep and good evening, good day to all and thank you for taking the time to join us today and Sandeep has given you an overview of the business performance. Let me walk you through the financial details for the quarter ended June 30th. We had another strong quarter of growth, revenue for the quarter at $241.52 million and Q-o-Q growth of 11.1% and Y-o-Y growth of 44.8%. Of this, the organic growth was 5.6% and 5.5% came from acquisitions. As you will recall, we had announced these acquisitions, one Data Glove in March 2022 and MediaAgility during May 22. Revenue for the quarter in INR terms was ₹18,781 million, reflecting growth of 14.7% quarter-on-quarter and 52.7% year-on-year.

Our services revenue continued to grow strongly and registered growth of 13.5% quarter-on-quarter while IP-led revenue declined by 12.8%, largely on account of lower royalty income during the quarter. Coming to the segmental growth for the quarter, we saw all the segments registering healthy growth. BFSI grew by 15.6%, Technology Companies segment grew at 10.1%, some of the inorganic growth came in this segment, which is the Technology Companies segment, while Healthcare grew by 6.7%.

In terms of nature of revenue, offshore linear revenue grew by 11.1% primarily on account of volume growth of 9.3%, while billing rate increased by 1.6%. The onsite linear revenue grew by 17.4%, comprising of volume growth of 17.2%, while billing rate increased by 0.2%. Now to give you a little more color on the movement of customer segments, you would have noticed that from this quarter onwards, in line with requests from some of you, we have started to disclose revenue from our Top-20 and Top-100 customers in addition to revenue from Top-1, Top-5 and Top-10 customers as we have been earlier providing. On a year-on-year basis, Top-1 customer revenue saw marginal decline of 0.6%, Top 2-5 client category grew by 41.4%, Top 6-10 by 42.2% and Top 11-20 by 52.7%, Top 21-50 by 48.6% and Top 51-100 by 58.2%. So, what these data points indicate is a reflection of healthy broad-based growth across our customer segments and bodes well for us from a client concentration perspective.

Further, starting from this quarter, we are also providing additional details on the client buckets for the quarter gone by. Customer count in greater than \$30 million bucket rose to 3 from 2 in the last quarter, in \$20-30 million bucket the customer count has remained constant at 2, in \$10-20 million category as well, the count is steady at 6, in \$5-10 million category, the count was stable at 15, while in \$1-5 million category, the number of customers increase from 93 in the last quarter to 104 in this Q1 of FY23. Just to clarify, this customer categorization is on TTM revenue and not forward-looking revenues of these customers. The comparative data on these customer categories has been provided in the fact sheet as a part of our earnings disclosures. We hope these additional disclosures will give better insights into and confidence on the broad-based nature and momentum of the business.

Coming to the margins, as you know, during the quarter, currency movement was favorable and had 90 basis points positive impact on margin. The higher travel expenses include H1B visa filing costs this quarter, which is a seasonal feature. We could collect some of the receivables, which were provided for earlier, releasing some basis points to the margin and with that, EBITDA for the quarter was 17.7% as against 17.2% in the previous quarter and 16.4% in Q1 of last year. Coming to depreciation and amortization, amortization was higher on account of the new acquisitions. During the quarter, we acquired MediaAgility, while Data Glove was acquired in March 22. Thus, this quarter had the full quarter impact of Data Glove acquisition and about two months' impact of MediaAgility acquisition. With this, EBIT came in at 14.3% versus 14% in the previous quarter and 13.5% in Q1 of last year.

We have consolidated Persistent ESOP Trust's Financials starting from this quarter. As you know, the company has given a loan to ESOP Trust for purchase of shares from the secondary market and the interest earned on this loan as a result of consolidation has been eliminated in the financial statements. This was one of the reasons for lower treasury income. Secondly, we also spent significant amount of cash, about INR 400 crores to fund the acquisitions over the last two quarters, the acquisitions of Data Glove and MediaAgility. Thus, the treasury corpus has reduced to that extent over last few months, and then there is a small impact of mark-to-market on the long-term mutual funds due to increase in interest rates on the back of higher inflation. The treasury income for the quarter was ₹89 million as against ₹251 million in the previous quarter. Forex gain was ₹42 million as against ₹120 million in the previous quarter. With that, profit before tax was ₹2,819 million at 15% as against 16.3% in the previous quarter.

ETR was 24.9% as against 24.8% in the previous quarter and PAT for the quarter was 2,116 million at 11.3% of revenue as against ₹2,010 million in the previous quarter at 12.3% of revenue. EPS for the quarter was ₹28.50 as against ₹26.30 in the previous quarter. For the purpose of EPS calculation, shares held by the ESOP trust are reduced as treasury shares and hence, while the growth in EPS is 8.4%, the growth in reported PAT is 5.3%. Operational capex for the quarter was ₹1,136 million. Cash and investment on the books as on 30th June was ₹14,792 million as compared to ₹17,473 million at the end of March. DSO came in at 60 days as against

59 days in the previous quarter. Marginal increase in DSO was due to certain collections spilling over to the first week of July. Forward contracts outstanding at the end of June was $175 million at an average rate of ₹78.48 per dollar. With hedges in the recent period coming in at forward rate of ₹80-plus, the average rate will get adjusted upwards for a couple of months.

So, with this, I thank you all and I hand it back to Sandeep and we'll then come back in Q&A.

Sandeep Kalra: Thank you, Sunil. Before I get into specific details of our key wins and client metrics, I would like to briefly talk about the developing macroeconomic situation and proactive steps being taken by us. As you would know, there are a number of headwinds being experienced by the global economy. On our side, we are focused on staying close to our customers and making proactive efforts to help them in their strategic priorities, as they shape their businesses to address the changing macroeconomic environment. Many of our customers have started long-range transformation initiatives during the last one to two years and these are critical for them to deliver on their business transformation.

The current environment is also accelerating opportunities for us to help our customers optimize their spend, both on the enterprise segment as well as the tech segment, likes of enterprise software companies etc, in addition to helping the customers on the transformation initiatives. In fact, some of the largest wins in the recent quarter have been with a focus to help our clients optimize their businesses, prepare for any potential downturn in the future. We are seeing the nature of client demand changing and we are addressing the demand, be it revenue growth initiatives or cost optimization initiatives. Overall demand environment for us stays very healthy. We'd like to reiterate, thus far we have not seen any material delays to any client decision making and our pipeline and deal wins reflect the same. Nonetheless, we will be prudently watching the situation and will continue to be on the lookout for any client or industry-specific developments.

Now to give you a color on the key client wins for the quarter, starting with the Software, Hi-Tech, and Emerging industries. We were chosen by as an engineering partner to enhance the road map of a select suite of products for one of the leading European software companies. It is an enterprise software company and the deal is a seven-year deal in excess of $50 million and it is the largest single deal by far for us from the European continent. We were chosen by one of the largest technology companies to provide near-shore support in domains such as networking performance, high availability, device deployment, directory services, and user experience etc. This deal is a multi-million deal and is an example of a large deal achieved through our go-to-market synergies with one of the acquired businesses.

On the Banking Financial Services and Insurance side, we were chosen by one of the largest listed third-party administrators of insurance services to modernize its data center and provide cloud transformation and infrastructure services. This is a five-year cloud and infrastructure managed services deal and is another example of a large transformation deal one over the past few quarters. We were chosen by one of the leading India-based NBFCs for their wealth management business to create a data platform for intelligent insights, customize reporting, and digital transformation for their CRM function. This is a multi-year multi-million dollar win for us on the Salesforce platform.

Coming to the Healthcare and Life Sciences side, we were chosen by one of the leading health tech players for platform architecture modernization and engineering for their core administrative processing system targeted at health plans. This is a five-year engineering deal and is one of the larger ones in the healthcare domain for us in the recent quarters. We were chosen by one of the largest multinational healthcare and insurance providers as a digital transformation and product engineering partner for their clinical business unit. This is a three-year multimillion-dollar deal with end-to-end program ownership.

Moving on to awards and recognitions for the quarter - Q1 saw us get continued recognition from industry-leading analyst firms and associations. To mention a few - for the 9th consecutive quarter, we were in the ISG Booming 15 Under a Billion. We also entered Brand Finance Top-100 India brands for the first time and were recognized as the third-fastest growing Indian brand overall. We were also recognized as one of the Top-10 IT brands in India. We were recognized as a Disruptor in the Salesforce Services 2022 Radar View report and were featured as a Challenger in Applied AI and Advanced Analytics Services 2022 Radar View report. We were recognized as an Honored Company, one of seven such companies across Asia, ex-Japan by Institutional Investor magazine in the 2022 Asia Executive Team, Small and Mid-Cap rankings for Technology IT services and software industry. We also received recognition as the 1st rank in Investor Relations team category and 3rd rank for our Investor Relations program. Additionally, Saurabh Dwivedi, our Head Investor Relations ranked first in the IR Professional category.

In summary, we continue to deliver industry-leading revenue growth in Q1FY23 along with a stable profitability profile. We continue to see good traction for our services in the markets we service among our client base and we are closely watching the macroeconomic situation and are staying close to our clients. We are proactively helping our clients in reshaping their priorities and ensuring we remain relevant to them and are a part of their solution as they look to their forward-looking strategies. We are confident of building on the healthy momentum we witnessed in Q1FY23. With this, I'd like to conclude the prepared comments and would like to request the operator to open the floor for questions. Operator, please open the floor for question answers.

Moderator: Thank you, Sir. Please note, all participant lines will be in listen-only mode. You can raise your hand for asking the questions. We will wait for a few seconds to keep up the queue. First question is from Abhishek Bhandari.

Abhishek Bhandari: Hello, can you hear me?

Moderator: Yeah Abhishek.

Abhishek Bhandari: Hearty congrats on very strong number. Sandeep, first to start with, could you give us the organic growth for this quarter and a related question on that is that now we are seeing an extraordinary momentum on the deal wins for us, which is much higher than many of our similar-sized peers and in fact even comparable to some of the larger ones. So, what exactly is happening in our sales team or our client portfolio, which is helping us in such a strong deal momentum over the last few quarters?

Sandeep Kalra: Abhishek, the organic revenue is 5.6% and the rest of it is because of the acquired entity. Now in terms of the deal wins, there are multiple segments we deal with, so on one side there's an enterprise software/tech company part in this Financial Services, Healthcare Life Sciences, but one thing that is working across the sectors for us is as we saw a couple of quarters back, the macroeconomic environment kind of looking to be a little soft going ahead. We started getting even closer to our customers, started working with them on understanding what they were thinking, and how they were looking at optimizing their own organizations in line with what they were planning for their future.

So, since we were close to them, we were a part of their solutions, and some of these deals, for example the large deal that we talked about in Europe, more than a $50 million TCV is a large enterprise software company where we are going to work with the forward-looking R&D and support for a number of their products and this would mean increased offshoring for them. This is a part of their planning to optimize their costs etc, and for us it's a long-range deal, that is one. Like that, in various segments, there are multiple of those deals, whether it is about making sure even for transformational programs, where our customers in Europe or US are facing inflation to the extent of 8% or 9% respectively. We are able to work with them, make sure that we are a part of their programs, and give them the leverage of offshoring, nearshoring, and so on and so forth. So, it's more about execution driven and understanding the patterns that are emerging in the market and taking our services, pivoting on the patterns that we're seeing in the market.

So, it's all about I guess the execution and our capabilities being more relevant to our customers.

Abhishek Bhandari: Thanks Sandeep. Sandeep, my second follow up is on the margins. If I remember correctly, somewhere in the media today you said, you expect to maintain the margins in FY23 versus FY22, which again is quite a strong comment, given the headwinds on the wage hikes which the entire industry is facing and even if I look at our own employee addition, which has been fairly strong in Q1. So, if you could give us some color on what are the various plus and minus on the margins, which makes you confident that you could sustain the margins or possibly even improve it?

Sandeep Kalra: Sure. So, I'll take the first shot at it and if I miss something, Sunil will corroborate. So, if you look at it from our perspective, what we said in the media interview that you're talking about is if you look at the full year compared to the full year, we are confident of being near that, plus or minus a small band. Now within that, Q2 for example, for us is where we do the salary increases, there will be an impact. There will be an impact between 250-300 basis points on the salary account in terms of the salary increases, because the salary increases this year are going to be tad bit higher than regular years. But then there is other things, whether it is our revenue growth, which gives us a leverage on SG&A, whether it is the currency impact, whether it is our rate increase initiatives that we are doing and so on, so we'll try to you know see how much of that we can over a period of time accommodate. Now, there are other things that are company-specific for us as well. As you know, we did our ESOP program, which covers about 80% of our population and we started it a few quarters back. Going into the fag end of this year, in the third and the fourth quarter, the impact for those programs is going to be substantially lower compared to what it was for us in the first two quarters.

So, there are many such levers that are there at our disposal in addition to, you know, making sure that we are growing at a very healthy clip, which gives us the leverage on the fixed cost as well. So, there are puts and takes and we will execute through these as we go along. Hopefully, that gives you a good color on this.

Abhishek Bhandari: Thanks Sandeep, and if I can just ask a last one maybe on your M&A outlook. You know, we have done a significant amount of investments in last quarter and, you know, those numbers are running quite well. In terms of your going forward outlook, do you think in the past you have intended to do some acquisition in the European market? If you could share some light over there, especially given that valuations of many of these companies have come down because of market conditions.

Mr. Sandeep Kalra: Sure. So, our first order of business is to make sure that $220 million that we have committed to the acquisitions over the last several quarters, part of which is upfront, part of which is earnout retentions and so on. We make sure that the integration of those entities goes well, which is going well and we get the synergy revenue to quick end, which would be another lever for us for increasing our revenue and profitability over a period of time. That's our first order of business. We're not looking to pursue acquisitions for the next three to six months unless there's something that opportunistically comes our way. We don't have a pipeline that is very active right now. After three to six months, once we have integrated this, and we are also clear about the macroeconomic scenario, we will look at things in a structured manner and there may be even better opportunities for all we know going ahead, given the macro environment. So, for now, we are focused on integrating, performing, getting the revenue synergies going, and then we'll see.

Abhishek Bhandari: Thank you, Sandeep, thank you, Sunil and the entire team, and all the best.

Sandeep Kalra: Thank you.

Moderator: Thank you, Abhishek. The next question is from Mohit Jain.

Mohit Jain: Hi Sir. just two or three questions. One is on, if you could give us some estimate on what kind of recurring business do we have as of 1Q versus last year, meaning how it has progressed and how much is essentially project-driven or in any way you can define it. And then a follow up for Sunil Sir.

Sandeep Kalra: So, look if you were to look at -- I don't want to give you a forward-looking guidance because somewhere you can always link it, but let's look at some data points. If you look at our TCV wins from the overall quarterly perspective that we have been having, right now for the current quarter, the total TCV wins, TTM if I was to look at it stand at about $1.3 billion or thereabouts, and from that perspective, that overall bookings have been increasing, the book-to-bill ratios have been increasing, the TCV/ACV ratios have been increasing. So from that perspective, if you were to loosely held say, the order backlog, that has been increasing. We don't announce it, so I don't want to put a number to it, but we do measure it internally and it is very healthily moving in the right direction.

Mohit Jain: Okay and the second was on for Sunil Sir, receivable days and capex, so it looks like in this quarter, receivable days have sort of gone up, so should we expect normalization during the year or if there are client specific thing, which has resulted into higher receivable days for the quarter. And similarly for capex, like capex for the quarter was way too high I guess, so should we expect it to be maintained or was there a one-time development or something else, which came up during Q1?

Sunil Sapre: Yeah. So far as DSO is concerned, it is largely attributable to some collections that actually spilled over to 1st July. So, there is…

Mohit Jain: There has never been increase in unbilled Sir, so essentially DSO seems to be okay, unbilled is where the increase is.

Sunil Sapre: Yeah, yeah. So, what happens in our situation is when these two acquisitions have happened back-to-back right, there is certain amount of customer contract innovation and these kind of administrative stuff that slightly takes little longer time, so it will happen particularly the MediaAgility acquisition, some of these customer innovations are yet to completely get completed, that's where it is sitting in unbilled revenue.

Mohit Jain: But there is no increase for any client or something in terms of working capital or…

Sunil Sapre: No, no, there is no structural increase or payment terms increase or anything like that and in terms of capex you mentioned, yes I mean not specifically seasonality, but as you know we have added significant amount of freshers, so there has been, you can say, the laptop purchases and hardware equipment, we also have a couple of offices that required capex. So, we are just kind of launching an office in Gurgaon, so after MediaAgility acquisition, which had a facility in Gurgaon, but we wanted a bigger facility, so that is one area and 2nd is of course this quarter happens to be seasonally a little higher on the software capex side. So, other than that, from next quarter onwards it will be a little lower.

Mohit Jain: So, sir when we are looking at capex/sales like last year, we were close to 7% I think, so this year do you think it will get back to 2%-3% kind of number or do you think this is also a year where we may spend a little higher on capex to similar range and then taper off from FY24?

Sunil Sapre: Last year, actually if you know, we acquired an office facility in Pune on the back of increase in our headcount, so that had consumed about INR 110 crores in terms of the capex. So, that is not likely to repeat, so you're right, that percentage will come down.

Mohit Jain: Okay, that's all and all the best. Thank you.

Moderator: Thank you. Requesting all to ask only two questions at a time. Next question is from Chirag Kachadia.

Chirag Kachadia: Hello. Congratulations on very excellent execution and a good set of numbers sir. I'm part of this company as an investor since last four years and you always deliver on mark. Sir, I have a few product questions like where you see your company next 10 year, let's say like what is the inspiration of management, because we as in India created a very good reputation in global market as an IT industry. So, where we see ourselves in next 10 years on global front?

Sandeep Kalra: So, I'll take it in baby steps first and then I'll build it up to your question about the 10 years. So, if you look at it, right now we had said a few years back when we were roughly in the $500-$600 plus million range that we want to be a billion-dollar company over the next three to four years. If you look at our current revenue base, we are at a run rate of about $966 million, so our first goal of becoming a billion-dollar is in a line of sight and not only have we invested in our sales and marketing towards building this, but we have also acquired a number of companies if you heard the comments before, so we have acquired companies in the domains of Microsoft Azure, in the domains of Google from a Cloud perspective, some company that has a for example a company called SCI, which has a Payment-related domain expertise. So, we're trying to build a set of expertise that can help us in going from one to two, two to four over a period of time.

So, if you were to look at the next three to four years after we have achieved our billion-dollar aspiration over maybe the next several quarters, we will attempt for the $2 billion first and then go from there. Part of it will also be some amount of IP. Today ,IP is about 7%-8% of our business and will prudently invest in all of that and I would want to keep this short because this is a very philosophical question and will encourage you to contact us separately and we can possibly have a discussion on that, but this is the direction right now - a billion-dollar over next few quarters, billion to two over the next several years, and then we will go from there, and we have built the right set of capabilities and the expertise in digital engineering that should carry us forward.

Chirag Kachadia: Sir, one more question, if we look at our EBIT margin, vis-à-vis to the other industry players, so there is enough scope of improvement. So, what are the levers, which is possible not in near-term, but let's say 5-7 years down the line that we reach more than 20% or in that range, kind of margin at EBIT front.

Sandeep Kalra: Yeah, Sunil would you like to that that.

Sunil Sapre: Yeah, so if you actually reflect back and see margins over a period of time, there was a time when we had much lower onsite headcount, EBITDA margins used to be in the range of 22%-23%, from there when we accelerated our own investments in the digital engineering side or building capabilities for that and we did certain, you can say acquisitions, the onsite headcount increased from a level of 8% about 6-7 years ago to currently about 16% or so. The second thing that you will find is that in the recent period, particularly with significant headcount addition in this quarter, you may find that the utilization is slightly softer. Now, if you look at utilization both onsite and offshore, we have significant levers to improve that.

The other factor which impacted during the pandemic is everyone, not just us, but the industry had to resort to hire subcontracting because of the limited ability of people to travel, so in our case since the revenue growth was happening at a rapid pace, that was the first priority to fulfill business and we did not, you can say, want to ensure that growth is back right, the customer acquisition is very critical, and on-boarding of right resources is very critical, and that's where some of the costs had to be associated.

As Sandeep mentioned about the sub program also, that has taken certain costs, so once this start getting normalized and the revenues are increasing significantly, you will find this EBIT margin also coming in to reasonable levels. We have already grown from 8.8% or the lowest that it had hit, about 9%, to now about 14.3%, so about more than 5% kind of growth has already happened, but definitely there is a lot of scope to improve and our focus on customer, you can say mining, you will find that we are giving more visibility to you about the broad-basing of the revenue growth, reducing customer concentration, so these are the other steps that will help us to improve the margin as we go along our next few quarters. I hope that helps you get an overall perspective.

Chirag Kachadia: Thank you so much and also very best.

Moderator: Thank you. The next question is from Nitin Padmanabhan.

Nitin Padmanabhan: Hello, hi. Good evening, Sandeep, good evening, Sunil. So, two quick questions for Sandeep actually. So, one is on the pricing gains front in terms of getting pricing increases from customers, considering the macro, it's a bit of a dichotomy, because you have supply side pressures, yet there's a macro concern. So, is that in any way inhibiting pricing increase conversations with customers, so that's the first one.

The second is on freshers right, so I think the industry sort of throws out almost a million engineering graduates a year and almost 200,000 or maybe 20%-25% is what we say is employable usually from an industry perspective, so in that context, because there has been such massive hiring by the industry, is it getting difficult in terms of quality and in terms of being able to put these freshers to really bill them, is that creating concerns from an industry perspective or for you, that's the second. And one for Sunil is, that could you quantify the visa cost this quarter and what are the potential offsets on the wage increase next quarter? So that'll be the broad sense.

Sandeep Kalra: So, let me go through the pricing part and the fresher's part and then we'll have Sunil answer the visa part. So, on the pricing side, look we've been working on the pricing increases for the last several quarters. Now pricing increase can happen in two ways; at a very, very high level. The two ways being when you are booking newer orders, you price them at the newer price that is totally in our control, and we can decide to walk away if the price is not palatable to us because there's enough demand. Second way is where your existing contracts come up for renewal and you ask the customers to basically help you with a price increase.

So, the first one anyways when we are doing the newer contracts, we are pricing at the price that is practically doable and for the years to come, any contacts that we are signing, we're putting a COLA clause by default, that was not the case a few years back. Now, for our existing contracts coming up for renewal, some of the contracts we have got the pricing increase over the last several quarters, some of them are due as we can go along and yeah, the macro environment is there, but macro also has inflation built in.

So, if there's a reasonable customer in USA or Europe and their own cost is going up, if inflation is at 9%, I'm sure their employees are also being given that much amount of raise and if we go back and have a logical argument with them, we are finding they are accepting, they are empathetic, they may not give us that percentage, they may give us some percentage. So, that argument still holds, macro being macro, yeah it may be a ploy used by customers to push back, but most of the reasonable customers are working with us even though they may give us lesser rate increases than we want. So, that is the thing on that.

As far as freshers are concerned, look, for us freshers are an important part of our growth. So, we have been managing our relationship with engineering colleges, the same way we manage our partnerships in the technology space. So, these are engineering college partnerships, we have people who are dedicated on this campus programs and their whole job is to make sure that being good partners with the engineering colleges that we want to go to, we get the day one, day two, so we get the good people to join us. Second, our brand is pretty strong when it comes to the engineering colleges and the young talent. People understand we work on the latest technologies, they're not going to be another seat on the floor working in an infrastructure support program and so on, they're going to work on some of the latest generation technologies. So, our ability to attract talent based on our relationship, based on the kind of work we offer is pretty high. So, we are not that concerned, obviously you know when people are coming in, we need to train them on the technologies we want to deploy, so we start in the colleges in the last semester, we fit up with programs when they join us as full-time employees, and then deploy them. So, that is the overall part on the fresher's side and Sunil, if you can please answer the other part.

Sunil Sapre: Yeah, so Nitin the visa cost is to the tune of $1.1 million and there is also in terms of project-related travel about $200,000, the cost relating to new acquisitions for various team events as we are integrating them during this quarter. So, that's the number that won't repeat in the next quarter. So, that's like something positive on the margins for the second quarter. The second question that you asked about the pay hike, how much will it impact and so on. So, pay hike, the total impact will be to the tune of 250 to 300 basis points. We are just rolling out these letters, they are effective 1st July. Now in terms of the levers to improve the margins, obviously the biggest lever is in terms of utilization, both on site and offshore and the significant order wins and as we get, what do you call, going with this quarter.

The second lever I mentioned about is the subcontracting cost. That is another area, which offers us opportunity with travel opening up and thirdly, the broad-basing of the cost base with these freshers getting added and as slowly they get part of the billable workforce, that will also help us achieve the benefit. As we go along during the year, in the second half of the year particularly, there is also potential synergy revenues that you're working towards from the acquisitions. As you know as SG&A costs are already baked in, that is something that will give the margin. This is broadly the way in which - currency of course we are not counting so much because that's an external factor, but that may have also some positive development at least for a quarter or so. I hope this helps.

Nitin Padmanabhan: Sure, absolutely. Very, very helpful and all the best. Thank you so much.

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

Dev Agarwal: Hello. Okay. Hello, am I audible?

Moderator: Yup.

Dev Agarwal: Yes, yes. Sir, I wanted to ask one question on related to acquisition. So, means how much time does it take to completely integrate any acquisition, so generally I'm asking. So, over the years based on your experience if you can guide.

Sandeep Kalra: Look, I can give you a very high-level answer. So, at a high level, it takes anywhere between six to nine months to fully kind of integrate the acquisitions and kind of get them to work as a part of the integral team. But again, this is very subjective with respect to each of the acquisitions.

Dev Agarwal: Okay. Thank you and congrats for the good numbers. Thank you.

Moderator: Thank you. The next question is from Dipesh Mehta.

Dipesh Mehta: Thanks for the opportunity and congrats for strong execution. Two small questions. First, about the weakness what we are seeing in top clients, if you can provide some sense for two quarters, I think these are showing some softness. Second question is about whether any impact on reported

IP revenue from the acquisition we close, because IP revenue is showing weakness, can you part the answer in terms of royalty revenue, but anything more to it. Thanks.

Sandeep Kalra: Sunil, you want to answer that.

Sunil Sapre: Yeah, so Dipesh this IP revenue as you know has certain seasonality, it has three elements we have covered in our FAQ sheet also. So, the bigger part is of course the royalty revenue, which was soft in this quarter. The second part is our own revenue from the Accelerite products, is our own licenses and that is holding steady, there is no, this thing. The third category, which is the partner IP, when we are actually executing projects where we deploy partner licenses, that is something which moves along with the projects and that is the third area which has also…

So, last quarter we had significant bump up in that. Now, that is something, which is seasonal and not directly a linear kind of nature of, so that's the reason for IP softness and I think other question Sandeep he had on the top client revenues coming down or something.

Sandeep Kalra: Yeah, so the top client revenue coming down is also a factor of the IP contract that we had announced it would be unwinding, because that was not a very profitable contract for us. We had restructured that contract to be a fraction of, maybe 30%-35% of the overall revenues and that is the reason why the top client revenues are down and that is also reflected in the royalty income and so on.

Dipesh Mehta: Understand. Thanks.

Sandeep Kalra: Thank you.

Sunil Sapre: Thank you.

Moderator: Thank you. Given the time limit, we would request all to ask only one question. The next question is from Aayush Rastogi.

Aayush Rastogi: Hello. I'm audible?

Moderator: Yes.

Sandeep Kalra: Yes.

Aayush Rastogi: Okay. So, I just wanted to ask two questions. So, first of all you have reported the highest TCV in this quarter, so I just wanted to pick your brains if you can just provide the breakup of the TCV between the acquisitions part and the organic basis, that is Persistent. And the second question was like you have reported a very strong quarter-on-quarter growth for Europe, while some of your peers have given a commentary regarding the slowdown in Europe, so I just wanted to pick your brains if you can throw some light what is making you confident on growing in Europe as in terms of large deals or the TCV break up.

Sandeep Kalra: Sure. So, as far as our TCV is concerned, most of it is the Persistent TCV and the acquired entities are yet to fully kick in. Having said that, they are also as Persistent today as you know the erstwhile team is, so we are not going to differentiate between that even going ahead from even an announcement perspective. Now, in terms of Europe, look, we have been building up our team in Europe, we built some good relationships, and we'll be selective about where, which part of Europe, because Europe is also big, different parts of Europe. So, we are slowly rebuilding our business and our capabilities are being well recognized that's leading to good deal wins and to be fair, our European revenue is fairly small, so that is where it is. As far as we are concerned, we have a decent pipeline and we'll keep reporting the progress as we go now, and I want to be conscious of time because I'm told the queue is long, so we'll keep the answers short and we will take only one question at a time moderator from one person please.

Aayush Rastogi: Sure. Thank you.

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

Karan Uppal: I hope I'm audible?

Moderator: Yes.

Karan Uppal: Yeah, and thanks for the opportunity and congrats on very strong quarter yet again. I just want to understand your strategy in terms of the client mix. So, number of clients billed in the services business is growing at a very solid rate and it seems that you are expanding the net very well, but if I look at it, will you at some point to recalibrate it going deep within the existing clients versus expanding the net. So, your any thought could be appreciated.

Sandeep Kalra: Sure. So very valid question, the short answer is yes, there is a prioritization that we will absolutely do in terms of cutting the tail. The fact of the matter is over the last 4-5 quarters, we have acquired many companies and they're not necessarily very big companies, so they come with a number of customers who have lower revenues and to be fair to our customers that are coming in, we want to be making sure before we kind of do the long tail rationalization, we are giving them a chance to either scale with us or to find another home for their business. So, that's the story there and we will over a period of time definitely rationalize the tail.

Karan Uppal: Okay. Thanks. Thanks for that and second, just quickly on BFSI, I just want to check, it has been growing very well since last 4-5 quarters. So, if you can provide the sub-verticals within the BFSI, what is firing for you and any stress you anticipate due to challenging?

Sandeep Kalra: So, Karan, I just keep it very short right now and we'll come back to you if you have time. So, we are not seeing any major challenges in the BFSI segment, some of the bigger customers do have their own budgetary pressures, but the mix that we have within BFSI is fairly robust. Big and medium-sized customers, fin-techs versus insurance companies versus banks versus whatever else, so we have a pretty healthy mix and so there's a counterbalancing that is happening of one versus the other and we'll come back to you if we have time. We want to be respectful of other people in queue.

Karan Uppal: Sure. Thanks a lot.

Sandeep Kalra: Thank you.

Moderator: Thank you. Next question is from Manik Taneja.

Manik Taneja: Hi. Thank you for the opportunity. My question was similar to what Nitin earlier asked, given the kind of fresher intake that you guys are doing including the industry, do you think we should probably look at a much lower blended utilization going forward?

Sandeep Kalra: So, the utilization, Manik, so there's someone on the call needs to mute themselves please. So, Manik, long story short, for one or two quarters, there may be different utilization, but as these guys get trained and they are very sharp people especially with respect to newer technologies. So, as they get trained and deployed, the utilization will pick up, but yeah, one to two quarters it may take a dip. But then, you know, it is a longer-term investment that we have done and the industry has done and so structurally, it will be good for the longer term.

Moderator: Thank you. The next question is from Abhishek Shindadkar.

Abhishek Shindadkar: Yeah, hi. Thanks for the opportunity and congrats on a solid quarter. My question is regarding, you know, recently one of your peer highlighted that funding for projects with limited revenue visibility are challenged. Your thoughts on the same and did we lose any revenue in Q1 because of similar reasons or fulfillment-related challenges at your end or customer end?

Sandeep Kalra: So, we have not lost any revenue in Q1 because of customers saying they don't have budget for a program. There may be small adjustments here there, but there's nothing major to report about it. Now, the second thing about have we lost any revenue because of ability to fulfill. Yeah, there is a delay that happens in our ability to fulfill, because even today if we could technically get between 1,000-1,500 trained engineers, we have the capacity to take it, absolutely right now, staff are programs that we have booked.

So, there is some amount of revenue leakage that happens because of delays that may happen, because of our ability to staff or at times when programs get started, there may be a delay in them ramping up, but there's nothing from a budgeting perspective or macro leading to budget cuts and leading to our revenue loss. That is not happening.

Moderator: Thank you. The next question is from Rishi Jhunjhunwala.

Rishi Jhunjhunwala: Yeah. Thanks for the opportunity. Just one question, there is a very sharp increase in our sales and business development headcount, so just wanted to understand, I mean, what is the thought process around increasing it substantially now looking at where the macro could potentially be over the next 12 months and do you think that this is an optimal number on a per client or an overall revenue per sales rep basis?

Sandeep Kalra: So, Rishi if you look at it the - I got disconnected. Sunil you want to answer? It is MediaAgility and…

Sunil Sapre: Yeah, Rishi, just while Sandeep’s line comes back, it is mainly arising out of these acquisitions that we have done and then which are of classification of people that they would be doing. As the teams get integrated, so like we have solution architects, overlay sales where people have ample opportunities, so as they get, you know, integrated, this number will not look, this thing. This is the first quarter of integration, the impact is more out of these acquisitions than our organic addition.

Sandeep Kalra: So, Rishi this is not a structural addition as Sunil said. In terms of us going and hiring more sales guys, this is an integration of acquired entities.

Moderator: Thank you. Next question is from Apurva Prasad.

Apurva Prasad: Thank you. Congrats, hope you're well, Sandeep and Sunil. So, quickly what would be our exposure on the mortgage side within the BFSI, particularly some of the large accounts. That's one, and second, how would you describe or talk about the progress that we've seen in the Red Hat OpenShift business.

Sandeep Kalra: So, our exposure to the mortgage part is not significant, so we're not impacted by the mortgage slow down, if that is the question. The second part, if you look at the Red Hat OpenShift, so it's progressing, but it is not something that is a big revenue driver for us as of this point in time. It has got a ramp of its own, which is slightly less than the company growth rates. So, that is at a summary level. And moderator, we are at the end of the time. If we can take one last question and then summarize, that'll be great.

Moderator: The last question is from Gaurav Rateria.

Gaurav Rateria: I hope I'm audible?

Sandeep Kalra: Yeah, you are.

Moderator: Yes.

Gaurav Rateria: Yeah. Thank you for taking my question. So, just quickly a client mining initiative, how many $1-5 million clients we have visibility, whicrh can go into the bucket of $20-30 million over the next two years and secondly, amongst the business that we do, what is the proportion, which is more short-term project-oriented versus which is part of longer-term digital transformation agenda of clients, which is multi-year project, which will continue? Thank you.

Sandeep Kalra: Yeah, so since we are out of time, I'll just quickly answer this. As far as we are concerned, we don't give forward-looking guidance, but there is a significant number of customers that can move from the 1-5 to 5-10, and from 5-10 to 10-20, and so on. So, the quality of revenue is pretty good, quality of customers, and the efforts that are being put to mine them are structural, so rest assured there's a significant amount of movement that can happen. We don't want to quantify because that'll be giving some kind of forward-looking guidance.

Now on the other part, it’s a slightly longer answer, but I would say if you look at our order backlog, it has moved very healthily and part of the reason why it is moving very healthily is because a number of engagements that we have are not short-term projects. They may have short-term projects as some component, but a significant part of our revenue is long range, whether it is capacity-based offshore development centers, long range transformation programs, enterprise software company relationships where these engagements are product ownership-based for longer-term and so on, so forth. So, with that, I would like to stop and moderator, we will take the Q&A off now and to all our investors and the analysts on this call, sincere thanks for spending time with us. We are confident of our revenue trajectory. Based on a very strong start to the year, we are confident of delivering a good FY23 and beyond and we look forward to talking to you in three months from now. With that, we want to close the call. Thank you.

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

Sunil Sapre: Thank you everyone.

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