NSE & BSE / 2022-23 / 170

January 24, 2023

The Manager
Corporate Services
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai 400 051

Ref: Symbol: PERSISTENT

The Manager
Corporate Services
Bombay Stock Exchange Limited
14th Floor, P J Towers, Dalal Street,
Mumbai 400 001

Ref: Scrip Code: 533179

Dear Sir/Madam,

Sub: Transcript of investor/analyst call held on Thursday, January 19, 2023
Ref: Our earlier intimation under reference no. NSE & BSE / 2022-23 / 166 dated January 19, 2023 ('Intimation')

In continuation to the above-referred intimation and Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of the investor/analyst call held on Thursday, January 19, 2023, for your information and records.

The transcript of the Analyst Call is also made available on the Company's website

The link to access the same is as follows: Analyst-Call-Transcript-Q3FY23.pdf (persistent.com)

This is for your information and records.

Please acknowledge the receipt.

Thanking you,

Yours Sincerely,
For **Persistent Systems Limited**

Amit Murari Atre
Digitally signed by Amit Murari Atre
Date: 2023.01.24 18:52:14 +05'30'

Amit Atre
Company Secretary
ICSI Membership No.: A20507
Encl: A/a

"PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, THIRD QUARTER, FY23 ENDED DECEMBER 31, 2022"

January 19, 2023

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

Operator: Good evening, ladies and gentlemen. Good day and welcome to the Persistent Systems earning conference call for third quarter of financial year 2023 ended December 31, 2022. We have with us today on the call, Dr. Anand Deshpande, Chairman and Managing Director, Mr. Sandeep Kalra, Executive Director and Chief Executive Officer, Mr. Sunil Sapre, Executive Director and Chief Financial Officer, Mr. Saurabh Dwivedi, Head of Investor Relations, and Mr. Amit Atre, Company Secretary. Please note, all participants' lines will be in 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 conference call, please raise 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 the conference over to Mr. Sandeep Kalra. Thank you and over to you, Sir.

Sandeep Kalra: Thank you, operator. Good evening, good morning, good afternoon to all of you, depending on where you are joining from. I would like to start by wishing everyone a very happy, healthy, and prosperous new year 2023 and I hope the new year has started well for all of you. 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 revenue for Q3 came in at $264.35 million, giving us a growth of 3.4% quarter-on-quarter and 32.8% on year-on-year basis in dollar terms. On a constant currency basis, this translates into a sequential revenue growth of 3.5%. This information is also available in our analyst deck, with prior quarter data available for comparison. In rupee terms, the growth came in at 5.9% quarter-on-quarter and 45.4% on year-on-year basis, respectively.

Our revenue growth in Q3, though impressive was impacted by seasonal furloughs, less working days, and certain client-specific ramp downs in our top client. Coming to EBIT, our EBIT for Q3 came in at 15.4%. This translates into an EBIT growth of 11.6% on a quarter-on-quarter and 60% on year-on-year basis. The EBIT margin expanded by 80 basis points on a sequential basis, aided by growth leverage, better lateral utilization, increase fresher billability as well as positive currency impact. Sunil will provide more color on the EBIT margin movement later in the call.

Coming to the order book for the quarter, Q3 was a record high for us in order of TCV order wins. The total contract value for the quarter came in at $440.2 million, with new bookings TCV coming in at $239 million. This implies a robust growth in TCV of 20% on quarter-on-quarter and 30%-plus on year-on-year basis. The annual contract value component of this TCV is of the order of $326.3 million, of which the new booking ACV component contributed to $143.8 million. We've surpassed the $400 million-mark in our TCV bookings for the first time, reflecting robust pipeline conversion. Please note as always, these TCV-ACV numbers include all bookings small and large, renewals as well as new bookings across existing and new customers.

Coming to the client engagement buckets, let me give you some color on the client engagement size and the behavior we saw in the last quarter. Coming to the top two customers, our top customer contributed to revenue decline in this quarter per the planned ramp down initiated on some programs in the last quarter. We are hopeful of reversing this trend and getting the top client back on the stable and growth trajectory over the next several quarters. Revenue from our second-largest customer declined slightly on account of seasonal furloughs that happen every year. Outside of the top two customers, we saw a broad-based growth on our other customers in top 50.

I'm pleased to note that in Q3 FY23, the top-50 customers other than the top two contributed to a very healthy 7.7% sequential quarter-on-quarter and 53.8% year-on-year growth. Also, it is very heartening to see the progression of our clients across important thresholds, with two additional customers moving in the greater than $30 million and three customers in the $10 to 20 million revenue bracket. In terms of the geography breakup, from a geographical perspective, we saw a 1.5% sequential growth in North America market, 12% in Europe, and 10.4% in India. The lower growth during the quarter in North America during the quarter was predominantly on account of top customer decline and furloughs in couple of other large customers, as spoken before.

Coming to the people front. In Q3, we are happy to share that as a result of our significant investments in training our freshers over the past four to six months, we were able to deploy about 600-plus freshers. Just to remind everyone, we had brought on board 3,000-plus freshers in H1 of FY23. As a result of this, we were able to reduce our dependence on lateral hires, adding a net of 93 technical lateral hires while balancing our talent pyramid. This was an important margin lever for us in Q3 and will continue to provide us tailwinds on the margin front over the next several quarters.

Utilization for the quarter came in at 77.6% as against 79.9% in Q2. It should be noted that excluding freshers, our blended utilization came in at 83.3%, higher by 340 basis points quarter-on-quarter. The freshers were not included in utilization metric in Q1 and Q2 of FY23, as they were still undergoing training. As already stated, going forward, the improvement in utilization of these trained freshers will be an important lever for project ramp ups and margin improvement. The trailing 12-month attrition for the quarter came in at 21.6% compared to 23.7% in Q2. The annualized attrition for Q3 is slowly reaching a level, which is in line with our long-term average.

We believe that the TTM attrition will continue to moderate going forward, aided by better outcomes on our employee value-related interventions and a general moderation of hiring across the sector.

Moving on from operational metrics to certain strategic highlights for this quarter - Q3, is usually the quarter in which we declare the interim dividend and I am pleased to share with you that the Board of Directors declared an interim dividend of ₹28 per share for FY23 on the face value of ₹10 per share. This compares to last year's interim dividend at ₹20 and total dividend for last year at ₹31. It is our endeavor to maintain a consistent dividend payout ratio, while we augment growth through capability-led acquisitions.

Coming to the culture initiative, about nine months back, we had embarked on an important initiative to transform our culture in the light of the challenges associated with high growth in an environment of remote operations and work from anywhere. This involved engaging our colleagues across our multiple locations in India, Europe, Americas, and embarking on a number of long-range initiatives as a result of that, aimed at strengthening our culture and overall employee engagement. I am pleased to share that this exercise has brought together teams across locations and with diverse backgrounds to identify with the common cause of taking Persistent to the next orbit of our growth. We're pretty enthused with the progress and we'll share more details on this in the coming months and quarters.

Coming to planning and road map for our future - Building on our culture-related initiatives, we did a two-week planning workshop in Poona and Goa called The Persistent Huddle 2023 in which 300 of our global leaders brainstormed about our FY24 plan as well as the $2 billion road map.

This further contributed to energizing the team and has brought clarity about our goals and the journey to our next milestone. We plan on doing an investor day in second-half of calendar 2023 to share more details on our $2 billion road map with you.

Coming to the addition of senior leadership - We are pleased to welcome Dr. Rajesh Gharpure as the Chief Delivery Officer for service lines. Rajesh has over 27 years of experience in global delivery and operations, Digital Transformation, consulting and finance at LTI. He brings with him rich industry experience running large global delivery organizations, building competencies, providing thought leadership to clients, and leading various internal transformation initiatives for organization growth and excellence.

Coming to an update on our acquisitions - All our acquired businesses over the last four to five quarters have now been fully integrated and each one of them has shown good growth including contribution to our go-to-market and operational synergies. The teams have come together as one Persistent to win large deals in Fin-tech, Insurance, Healthcare, Consumer tech, and Retail sectors. We are hopeful we can repeat the same synergy-led performance in the coming quarters and years. Given the fact that these acquisitions are panning out along expected lines, we are starting to get active once again on the M&A front. In line with our stated strategy, we continue to look for tuck-in acquisitions to expand our geographical markets and complement our current capabilities. We will report progress on this over the next several quarters.

Now coming to ESG and some other administrative updates - We continue to make good progress on the ESG front. Last quarter, we talked about our participation in Dow Jones Sustainability Indices survey. I'm pleased to share with you that Persistent has achieved a score of 47 in the Dow Jones Sustainability Indices survey this year. We have taken ambitious goals to take our score on this important metric up to 65 over the next three years. Also, for the first time, we participated in the public disclosure category of the Carbon Disclosure Project.

On the administration side in Q3, we opened several new offices including offices in Bangalore, Indore, and London. In the month of January, we inaugurated a brand new 1,200-seater state-of-the-art dedicated Learning and Development Center in Hinjewadi. The center is in line with our commitment to constantly upskill our talent and deliver best-in-class capabilities to our customers in leading technology areas and the center has been aptly named Ramanujan per our employee suggestions after the famous Indian mathematician. In the coming quarters, our expansion plans include locations such as Jaipur, Kochi, Chennai, Calcutta, and New Jersey. Our endeavor is to provide world-class facilities to our employees and locations close to them and encourage them to work collaboratively from office a few days every week.

In summary, we are pleased with our performance in Q3FY23 with continued healthy revenue growth, record high order wins across our focus industry segments, good pipeline, and improving profitability despite the macro headwinds.

Now, I'll turn over the call to our CFO, Sunil Sapre to give a detailed color commentary on quarterly financials and related matters. I'll come back after Sunil's comment to give you some more details on key client wins, analyst awards, and other recognitions for the quarter. Sunil, over to you.

Sunil Sapre: Thank you, Sandeep and good evening and good day to all. I wish you a very happy new year and thank you for the time that you're spending with us today. Sandeep has walked you through the market outlook and business performance. I will take you through the details of financial performance for the quarter ended December 31.

The revenue for the quarter at $264.4 million registered growth of 3.4% quarter-on-quarter and 32.8% year-on-year. Within this revenue, the services revenue grew by 3% quarter-on-quarter, while IP-led revenue grew by 8.6%. You will notice that our IP revenue continued to grow this quarter on the back of 18.1% QoQ growth last quarter. As you're all aware, the quarter Q3 witnesses furloughs and lesser working days due to festival season, due to which services revenue grew by 3% vis-à-vis 4.9% quarter-on-quarter last quarter.

Our total revenue for first nine months stood at $761.4 million, with Y-o-Y growth of 38.9% with services revenue registering growth of 47.3% and IP revenue showing decline of 17.6%. You will recall that last year's nine months included royalty revenue from one of the contracts that was restructured at the end of Q3 of FY22 and was converted into a T&M contract with a revised scope. Thus, IP revenue for nine months of this year does not include any revenue from the restructured contract and the revenue billed on T&M basis is included in services revenue.

Coming to revenue in rupee terms, the revenue was ₹21,693.7 million, reflecting growth of 5.9% quarter-on-quarter and 45.4% year-on-year and for nine months the revenue was ₹60,961.2 million with a growth of 49.7%.

Coming to segmental growth for the quarter, BFSI grew 2.6%, Healthcare 3.1%, and Technology companies grew 4.2% quarter-on-quarter. In respect of linear revenue, the offshore linear revenue grew 3.3% comprising of volume growth of 5% and billing rate decline of 1.6%. The onsite linear revenue grew 2.5% on account of volume growth of 4% and billing rate decline of 1.3%. The slight decline in the billing rate is also a result of our presence in nearshore centers in Costa Rica and Mexico, which get classified as onsite.

As a result of fresher intake, as Sandeep mentioned in the earlier quarters, the net addition to lateral headcount this quarter was minimal. Improved utilization during the quarter coupled with freshers getting progressively billed helped us in managing the costs. Additionally, favorable currency also helped margin by 60 basis points. The headwind to margin in Q3 included furloughs and lesser billing days, which was partially offset by higher IP revenue and on the cost side, the headwind was in form of some increase in Travel and Facility costs.

Overall, the EBITDA came in at 18.5% in Q3 as against 18% in the previous quarter and 16.8% in Q3 of last year. EBITDA for first nine months of the year was at 18.1% as against 16.6% in the corresponding period last year. Total Depreciation and Amortization was 3.2% of revenue as compared to 3.4% of revenue in the previous quarter and for the nine months period, Depreciation and Amortization was 3.3% vis-à-vis 2.8% in the corresponding period of previous year. So, you will notice that while we have done acquisitions, the impact of which is seen in amortization, the consistent growth in revenue has allowed us to manage the impact of amortization within a reasonable range. With this, EBIT came in at 15.4% as against 14.6% in the previous quarter and 14% in the corresponding quarter of last year.

In terms of YTD nine months, EBIT margin stood at 14.8% as against 13.8% for the corresponding period last year. Coming to items after EBIT, during the quarter, we have reversed export incentives worth ₹297 million relating to earlier periods of 2015-16 to 2017-18. The company believes that its services are eligible for export incentives and the dispute is purely an interpretation issue, given the highly technical nature of this matter. With the intention of avoiding prolonged litigation and settling the dispute, the company has requested the relevant authorities for settlement of the case and has submitted an application before Settlement Commission on

29 December 2022. While the hearing against this application is awaited, the company has recognized a provision of ₹297 million for the quarter ended 31st December.

The treasury income was ₹87 million as against ₹60.8 million mainly on account of increased interest rates and treasury size. Forex gain was ₹105.4 million as against loss of ₹91.3 million in the previous quarter. Profit before tax was ₹3,227.9 million at 14.9% as against 14.4% in the previous quarter and so far as ETR is concerned, it was 26.3% as against 25.6% in the previous quarter. With this, the PAT for the quarter was ₹2,379.5 million at 11% of revenue as against ₹2,200 million in the previous quarter at 10.7% of revenue. For nine months, the PAT was ₹6,696 million as against ₹4,894 million, reflecting growth of 36.8% and in terms of percentage to revenue, PAT is 11% of revenue as compared to 12% in the corresponding period of previous year.

EPS for the quarter was ₹31.9 as against ₹29.61 in the previous quarter. The growth in EPS is 7.7%, while growth in the reported PAT was 8.2% quarter-on-quarter. As you know, for purpose of EPS calculation, shares held by ESOP trust are excluded.

Coming to some other items, firstly the DSO, which came in at 67 days as against 60 days in the previous quarter. There are three key reasons for this increase. Firstly, in case of certain customers, there was spillover of payments to first week of January due to holidays, causing an impact of 2.5 days. In respect of certain IP deals we have in the Accelerite portfolio, we have deferred credit arrangements with certain large enterprise customers. This has an impact of 3.5 days on the DSO. While this will take a few quarters before it starts getting normalized, these are with very good customers of good credit quality.

Other than this, for certain customers who have December as the fiscal year-end, the services for December also got converted into invoicing, which would in normal course pass through unbilled stage for a month. This is reflected in lower unbilled revenue and this had an impact of 1.1 days in billed DSO, while there is a decrease in unbilled DSO.

Next item on the operational CapEx for the quarter, was ₹292.4 million and the cash on books is ₹16,907.9 million as compared to ₹15,719 million at the end of last quarter. Forward contracts outstanding as at 31st December was $214 million at an average rate of ₹81.55 per dollar.

Thank you all and I hand it back to Sandeep.

Sandeep Kalra: Thank you, Sunil. I will now talk about the key deals for the Q3 quarter by industry segments. Starting with Software, Hi-tech, and Emerging industries, Persistent was chosen by a leader in online retail in the US to set up a dedicated Global Technology Center across multiple technology tracks including infrastructure and platforms, marketing technologies, search and recommendation, and fintech and loyalty. This is one of the largest deals in our recent history with a TCV of about $70 million over three years and embodies the key tenants of our systematic large deal program. This is a proactive deal with scope for further growth on account of vendor consolidation. Cross-functional collaboration between the various teams from acquired businesses was a key to winning this deal with significant collaboration between our data and integration business as well as Google business unit, since this online retailer has chosen Google Cloud as their predominant cloud. This also entails cost optimization play, leveraging globalization, and vendor consolidation as I mentioned earlier of smaller vendors over time while driving enterprise digital transformation at scale.

Persistent was chosen by a global technology leader that has some of the most well-known brands used by millions of people around the world. We would be partnering in the development of niche virtualization product of the company. This is a double digit million deal spanning across three years.

Coming to Banking Financial Services and Insurance, we were chosen by a leading HR Applications Development platform company to support their next generation HR applications development and enhance the quality of existing features for a leading platform. Persistent was chosen to transform the legacy check platform and enable cloud readiness to future proof the business for one of the largest U.S. banks. This is another example of the synergy playing out with our Payment business unit formed through our SCI acquisition.

Coming to Healthcare and Life sciences, Persistent was chosen by one of the largest global instrumentation companies to modernize its technology stack and streamline its customer order orchestration financials and warehouse management platform. This is a double digit million multiyear deal leveraging our low code-no code expertise. Persistent was chosen to leverage enterprise integration expertise to improve the quality and delivery of service for one of the largest multinational medical devices and healthcare companies. This is again a multimillion, multiyear deal.

Moving on to the awards and recognitions for the quarter, Q3 saw us get continued recognition from industry-leading analyst firms and associations, to mention a few. Persistent was named as leader in Everest Group Software Product Engineering Services Peak Matrix 2023. For the 10^{th} consecutive year, Persistent was identified in the Leadership Position in Zinnov Zones 2022 Engineering Research and Development Services ratings. Persistent was named as a Leader in Agile Application

Development Projects in ISG Provider Lens Next-Gen ADM Services for US for 2022.

In summary, we continue to deliver top quartile revenue growth in Q3FY23 along with healthy profitability in spite of a difficult macro environment. We continue to see good traction for our services among our client base along with new deal wins and new logo additions at scale. We remain watchful of the macroeconomic situation and are proactively staying close to our customers, aiding them in prioritizing their technology spend towards transformation and cost optimization and are optimistic about our growth momentum.

With this, I would like to conclude the prepared comments and would like to request the operator to open the floor for questions. Operator, over to you.

Operator: Thank you very much, Sir. We will now open the call for the Q&A session. We will wait for a few minutes until the queue assembles. We request participants to restrict to two questions please and then return to the queue. For more questions, please raise your hand from the participant tab on the screen to ask a question. First question is from Abhishek Bhandari.

Abhishek Bhandari: Hello. Thank you for the opportunity. A happy new year to the management and congrats on good result. Sandeep, I had two questions. First, in the TV interview today in the morning you said the top client seems to be bottoming out over next few quarters. That, coupled with the strong tailwinds, should we assume that we should go back towards 4% to 6% kind of growth what we were doing before Q3?

Sandeep Kalra: So, two parts to the answer. The first part about the top customer bottoming out, it is pretty much bottomed out there may be a small bit of decline maybe and we will try to avoid that in the next quarter and there are some very good discussions, which may also over the next several quarters bring that trajectory back to growth in the top customer as well. So, that's the first part. Second, in terms of the growth, look, we don't give forward-looking guidance, but the endeavor would be to reach whatever percentages you said.

Abhishek Bhandari: Sandeep, the second question is on your medium-term margin guide or your margin aspiration rather, where you said you want to lift the EBITDA margin by almost 200 to 300 basis point over medium-term. So, if you could clarify what does that medium-term mean and also what are the big levers you have in terms of improving the margins significantly from here? Thank you.

Sandeep Kalra: Sure. So, if you look at it when we talk about the medium-term, we're talking about the next two to three years and if you look at our track record over the last two to three years, every quarter we have attempted to stabilize and improve the margins. So, our attempt would be to go up by 200 to 300 basis points over the next two to three years. Obviously, the levers in that are right from the scale of revenue, as we scale the revenue, some costs are not proportionately scaled with that. Second, if you look at it, we have brought in freshers at scale, we have trained them, we are deploying the freshers, and building our own talent pipeline for the longer run, building our own talent rather than going out and hiring people from the market. So, that would be the second piece of it. Third piece of it if you look at it, if you look at our client mining efforts, so even in this quarter we have moved from greater than $5 million customers being 30 last quarter to 34 this quarter. So, that is the other part of it where we are trying to bring more service lines into the same customer, leverage our SG&A much more effectively. Last, but not the least, our ability to do larger deals, longer term deals, it also has an annuity component built up, which also reduces our start-stop effect of the bench that may be and so there is a bunch of these and a few other operational things that we will do including building more and more solutions and some amount of IP, not as in a product-product, but IP that can make us better, faster, and more profitable in implementation of services. So, hopefully that gives you a color.

Abhishek Bhandari: Thank you, Sandeep, and you have a good 2023.

Sandeep Kalra: Thank you.

Operator: Thank you very much, Sir. The next question is from Mr. Bhavik Mehta.

Bhavik Mehta: Yeah, am I audible?

Operator: Yes, Bhavik.

Bhavik Mehta: Yes. So, couple of questions. Firstly, just on the margin bit again, you did 15.5% this quarter, and assumption is that without furlough you could have even touched 16%. So for CY23-FY24, how should we look at margins, where do you think is the sustainable level of margins given the growth you're projecting. So that's one and second is on hiring. So, hiring has been slowing down over the last couple of quarters. Obviously one way to look at it is that you are increasing the fresher utilization and making them billable, which helps, but given the kind of growth you see, given the dea wins which you have, do you think you will have to start ramping up hiring going ahead or is this the new normal of hiring and the focus will be on just improving utilization further from hereon?

Sandeep Kalra: Sounds good. So, I'll briefly answer both of these. So, as far as the margin is concerned, look, we have been working on improving our margin over the last several years and we have made significant progress. Now, we will endeavor to do incremental progress, but that will not be at the cost of growth. So, we have to make sure that we have a pretty good growth even in whatever macroeconomic circumstances may exist today or few quarters from now and so on, so that is our priority #1. Now, we have already talked about the medium-term 2-3-year aspiration of taking it up by 200 to 300 basis points and we'll stick to that, so we'll keep making progress on that. In terms of hiring now, look, we have been saying very consistently over the last several quarters, we have had 3,200 freshers over the last many quarters and for the last six months, one of the biggest investments in Persistent has been in our Learning and Development investments whether it is in terms of Learning and Development staff, our own delivery leaders and their teams getting involved in training our freshers, making sure that we are building the talent the way we need in different technology tracks, the software platforms which offer online courses and so on.

So, there has been a significant investment right from hiring the people, training the people. Obviously, we are intending to deploy them and the whole attempt is to create a longer-term cycle where we not only for the last year, this year also just to give you insights, we've already offered 1,200 freshers and this will come over the next several quarters and I'm very proud to say, we are among the only companies in India today who have hired 100% and given full credence to all the offers we have given and onboarded all the people. So, from that perspective, rest assured, it is not lost on us that the growth has to be the priority, but we have to build our own talent for the longer run and look our engine. If it can hire 800 laterals to 1,200 to 1,500 laterals, we have that engine and we can activate that any day if we need to hire more laterals and our focus for the next few quarters first is to take the inventory and then we can keep bringing whatever number of laterals we need to.

Bhavik Mehta: Okay. Got it. Thank you and congrats once again for another good quarter.

Sandeep Kalra: Thank you.

Operator: Thank you very much, Sir. The next question is from Mr. Manik Taneja.

Manik Taneja: Hi, good evening. I hope I'm audible?

Operator: Yes, Manik.

Manik Taneja: Thank you once again for the opportunity and congratulations for the resilient performance. Sandeep, I wanted to pick your brains around the comment that you made around top customer growing going forward, so this is a customer which in absolute terms of revenues has gone nowhere for us. We've had some down years, last year it grew and this year once again it has declined sharply. So, there is some element of the IP restructuring that we did in this customer account, but if you could help us understand what's happening from a services landscape at this customer, that was question number one. The second thing is the industry essentially has seen significant tailwinds from price increases over the last couple of years. If I'm thinking now over the next 12 to 18 months timeframe, just wanted to understand how do you see the situation play out? Yeah, thank you.

Sandeep Kalra: Okay, let me take the second one first. It's an easier question and I can wrap it up quickly. So, little known fact, for the last 12-18 months we were at it in terms of price increases. And look, nobody has a crystal ball. But, when the inflation was so high, the customers were amenable before the real cloud of macroeconomic, etc, started coming in. And thankfully, with respect to our customer cooperating with us, we had done good amount of price increases earlier itself. And that's also in a way, to add to what I said earlier, been a margin lever for us. So that has panned out well. I don't think the market would be very ripe for doing a lot or price increases in the next 6-12 months, maybe things will change after that. So, we are well taken care of as far as Persistent is concerned. We have done what we needed to do proactively, and that has been the thing for us – proactive deals, proactive margin expansions, proactive fresher hiring, proactive training deployment. So, that is what has helped us so far.

Now, coming to the top customer, look, it was a very conscious decision, as you know well. And for other investors on the call who don't know, there was a fairly large contract which we had with a top customer, which was not very profitable for us, and we requested to kind of terminate it at the culmination of 5-year period of the contract. So, that's where it also contributed to the top customer revenues coming down for us significantly, to the extent of roughly about $25-30 million impact is just because of that contract itself in terms of the decline.

Now, the top customer of ours has been, obviously they have seen a CEO change, the company has done well over the last 12-18 months. If you look at their results and performance, they are stabilizing and doing very well. So, there are many discussions which are also aligned with their forward-looking path that we have, and we are confident given our 18-plus years of history with this customer and the strong relationship we have across the leadership, that we should be able to go back in and grow over the next several quarters. I'll just leave it there with pride that our relationships are fairly strong. Our revenues may have gone a bit sideways for certain quarters. But as long as our relationship is strong, I'm confident our relationship will lead to revenue growth as well.

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

Sandeep Kalra: Thank you.

Operator: Thank you very much sir. The next question is from Mr. Abhimanyu Kasliwal.

Abhimanyu Kasliwal: Good evening, sir. Thank you so much Sandeep ji. Congratulations for the wonderful performance in this quarter. My question was regarding Other Income. I mean, I'm not really speaking about operations, they're going brilliantly. But I'm curious that Other Income has jumped up this quarter QoQ. Is this a sustainable increase? What does it consist of? Because, the Other Income was a good percentage of the Net Profits, at least 10'ish or slightly more. So, what would be your take on that.

Sunil Sapre: So, Abhimanyu, if you're referring to Other Income the way it appears in the newspaper advertisement, it has two components – one is the income on surplus funds i.e. treasury income, and the other is the forex gain. So, if you see the last quarter, what happened was, the appreciation in the dollar that led to loss on hedges that we'd booked in the earlier year, whereas in this quarter, the way hedges panned out, that loss was less, whereas the actual gain on realisations, that when we collect the money from the customers, that came in at the spot rate which at elevated to almost 82-83 levels, as you know during this quarter. So, against a loss of 9 crores last quarter in terms of forex loss, this quarter there is a gain of 10 crores. So, that's where you see almost a 20-crore swing and that's what is leading to that number that you're referring to as jump in Other Income. I hope that helps you get a perspective on that.

Operator: Thank you very much sir. The next question is from Mr. Vimal Gohil.

Vimal Gohil: Thank you for the opportunity, sir. My question on your acquisition has already been answered, so thanks for that. Another question that I had was on subcontracting costs. They've been unusually sticky despite the fact that the company has made a lot of efforts on opening up on-shore centres. So, I just wanted to get a sense on that. Plus, it was quite… I was quite surprised to see that particular element of our subcontracting cost not there, it did not have a mention in your margin levers. There probably we have one of the highest subcontracting costs as a percentage of sales in the industry right now. So, I wanted to get a sense of how will that pan out going forward.

Sandeep Kalra: Sunil, do you want to take it or should I take it?

Sunil Spare: I think what I would like to mention is, subcontracting costs for us have been in the range of 12 to 14%. And the way it has happened is, if you look at the furlough impact in this quarter, what happens is, you may have subcontractors who are continuing on these engagements, and just the fact that revenues are not there, and in terms of that, that is why it reflects in higher percentage to revenue. In terms of absolute levels at which we are operating with the subcontractors, yes, definitely there is a reason and room to see how we can optimize this. But these are across geographies and we will take the rightful approach to see how this can be consistently reduced. So, it has to be sustainable and that's where some of the challenges in the midst of people's willingness to move across zones, within the US also, has been a challenge, and we have had to continue with some subcontractors. Sandeep, if you want to add anything?

Sandeep Kalra: I think that's fair.

Vimal Goel: Sir, just on macros plus how we are sort of reacting to it, product ER&D is relatively, does it seem to be more insulated in terms of how the macro is panning out in the west? And the related question to that is, the reaction from enterprises v/s ISVs. Enterprise product roadmap may have some delays, while ISVs may continue to spend on their existing bread & butter products, which will help us. So, if you could just take us through how will both of these segments pan out for you, and how will it also impact our TCV and ACV tailwinds going forward?

Sandeep Kalra: I'll try and keep it brief, but please bear with me, because this is a very philosophical and a bigger level question for us. So, if you look at the enterprise side of the house, now there are multiple things that are happening there. On one side, the enterprises are trying to conserve cash while making sure that they are able to do the digital transformation that they had started. So, a number of these exercises started about a year, 2 years back during the COVID period. So, they're not going to be immediately stopped or anything. So, they are trying to squeeze the business-as-usual cost and still keep the transformation going.

Second part, when I talked about even, if you look at the biggest deal that we announced, so what is happening there? People are continuing on the transformation journey, but they are using more globalization. Earlier, people were willing to pay anything to get cloud, data, AI kind of technical talent here in the US. So, that is now moving, for saving cost, all of that will move to offshore or a significant amount of that will move to offshore, near shore and so on. What does that mean for the enterprises? It means cost saving. What does it mean for people like us? It means more business.

Same way, if you look at it, if the enterprise spend is going to be slightly squeezed, or squeezed in different forms and shapes, whether it is transformation or BAU on software vendors, the software vendors' revenue will go down. And we have talked about it on our earlier calls as well. As far as the enterprise software companies are concerned, they go by a rule of 40, which is basically your revenue growth and profitability growth. As long as it's more than 40, you are golden. That's a very thumb rule metric. Now, if the revenue growth is not going to happen because enterprises will try and squeeze the product vendors, maybe they will spend lesser for the next 6-12 months or more, the enterprise software companies' revenues will come down, and their imperatives for again, optimizing their profits will go up. And if they have to continue to be competitive and they have to be on their roadmap, they need to work with people like us and optimize their costs. And again, while they optimize, there's opportunity for us. So, we have to be clearly seeing, yeah there's a cloud called the macro, there's a headwind, but there's a tailwind, the silver-lining where we can help, whether it is the enterprise or the enterprise software companies, optimize while delivering to their goals.

I'm keeping it at a very high level because we could go on, on this topic for long. But the headline news here is, if we are able to analyze the trends, if we are able to work with the enterprises or with the enterprise software companies, there's enough for a company like Persistent to do, and we are very differentiated as far as it comes to enterprise software and taking the same tenets in terms of digital transformation to the enterprise. That should hold us very well along with the acquisitions that we have done over the last several quarters. Hopefully that answers.

Operator: Thank you very much sir. The next question is from Mr. Ravi Menon.

Ravi Menon: Thank you. I just want to congratulate you for a great show this quarter. I wanted to ask you two things. One is on the enterprise side. You have rightly said that you have seen some more move offshore for some of these, but are people cutting back on any programs at all? Are they putting some things in cold storage or shelving some of it when they are trying to conserve cash? Are there any programs that we should think about as discretionary at all, or have most of the cutbacks already happened as people worried about recession even entering as they were going through CY22?

Sandeep Kalra: So, Ravi look, even in the digital transformation programs, these are not programs that are monolithic programs. Today everyone does these programs in phases, it's all based on agile development. So, people are definitely prioritizing within digital transformation itself. If they had a plan of let's say spending $100, they may spend let's say $85. Part of it may be functionality decrease, part of it may be more globalization and so on and so forth. So, definitely I would be amiss if I was to say, no, everyone is doing 100% of the programs the way they were thought, 1 year, 2 years back. There is a certain amount of rationalization that is happening there. There's a certain amount of support-related rationalization that is happening, and that is happening even in the enterprise software side, where products that are not necessarily the biggest margin earners, there are certain things that are being reduced on those as well. So obviously, whether it is transformation or business as usual, there is reprioritization, reducing of dollars, and then within that dollars, seeing how much of that dollar can be shaved off by doing more globalization and outsourcing to people like us. So, all of that is in the play as we speak.

Ravi Menon: Thanks. And one follow up on the deal that you won with vendor consolidation. Who are the vendors that are getting consolidated? Are these local subcontracting outfits or people who are just skills providers who have slightly higher billings rates and are just part of this move offshore that you mentioned?

Sandeep Kalra: So, it is both. So, this deal, basically one of the largest system integrators in India, one of the largest of our peers was also involved. So, part of the work is moving away from them, part of the work is moving away from the niche vendors here in the US. It's a combination of both.

Operator: Thank you very much sir. The next question is from Mr. Mohit Jain.

Mohit Jain: Sir, I have 3 questions. One is, is there a difference that you guys are seeing in say ACV v/s TCV? ACV growth in this quarter was slightly on the lower side. Should we read it as an aberration or is it more like people are moving towards higher TCV and lower ACV kind of a setup for next year? Second was, I did not fully understand your remarks on receivable days, which is going up for us sharply. Should we expect it to sort of reverse? Are you guys saying it's because of holidays, that's why Q3 numbers are high, and therefore, where should we expect it, let's say, on a recurring basis? And, the third related question is also balance sheet related on the capex side. So, you are also, as per the opening remark, opening various centres, and our capex for the last 2 years is, in fact as an average for the last 4 years, is relatively on the higher side. So, should we expect that capex to remain high for the next 2 years also, or should we expect this to more or less converge to the industry as we move forward?

Sandeep Kalra: Sounds good. So, I'll take the ACV-TCV question and I'll have Sunil answer the other two. So, on the ACV-TCV, I don't think you should read anything into it. The only thing, if I was you, I would read is, look, all of you want us to do larger deals, annuity business and so on, and we are heads down on doing longer-term deals. The more longer term deals we do, the TCV will be much higher than the ACV, and that's what is reflected in some of the quarters where we have had better longer-term deal wins. ACV-wise, we are comfortable with the ACV that came in; I don't think there's any worry there or anything much to be read into that. Overall, it's a healthy pipeline conversion over time.

Mohit Jain: Sure.

Sunil Sapre: Mohit, on the question on receivables, the situation is like this that, you will see that out of the 3 items that I spoke about, the spillover of collections and conversion of unbilled DSO into billed DSO, these are not something that are recurring, and this is where we have the opportunity to reduce the DSO. So, from a level of 67, in the near-term we would target to be around 65. The reason for the slight increase is, as I mentioned about the 3rd item which is deferred credit deals, where it will take some time before they normalize and the repayments start coming in. So, they may take a little longer time to come off. So, the levels that we had seen earlier of around 60 days, it will take a few quarters to get down to those levels. ,

And on the question on capex, see there are two aspects playing out. In certain locations we have capex incurred on our own, and in certain locations we have plug and play kind of facilities being rented out. So, the fit-outs are done by the service provider, and that capex is not reflected in our books. If you have anything else, you can connect offline. I don't have the exact details of that right away, but I can update you on that later.

Operator: Thank you very much sir. The next question is from Mr. Chirag Kachadia.

Chirag Kachadia: Hello. Congratulations on a good set of numbers in a challenging environment. Sir, I have two broad questions. In one of the clients, we are facing a ramp down in revenue growth. As we have an aspiration to reach 2 billion kind of revenue going forward. So, what lessons did you take from this experience, since this is a very old client, to mitigate such incidents going forward? And second, what's our expectation as a sector and as a company from this coming budget.

Sandeep Kalra: So, I'll answer the first part quickly. The second is more philosophical and we will park that question if we have time, because we only have 12 minutes and there's a bunch of questions on the side as well. So, if you look at the first part, the lessons learnt and so on. Look, when you build a business, you are building a set of customers that you build over a period of time. If you look at our client concentration, right from Q4 FY21, if I was to give you a data point, our top 10 customers were 46.3% of our revenues. As of this point in time, they are 35%. So, we have brought in far more vibrance as we have gone along, and this is an ongoing exercise. And, if you look at the number of customers in the greater than $5 million revenue bucket, for the same period Q4 FY21, there were 17 customers in greater than $5 million annual revenue. Today, we have doubled that to 34. So, there's a lot of growth that is happening in logos, which are not among the top few. So, if you look at my earlier comments, I've given the numbers of the growth between the top 3 to top 50, and that's a fairly good sequential growth, whether it is on a QoQ basis or whether it is on a YoY basis. So QoQ top 3 to 50 grew 7.7% and 53.8% on YoY basis. So, there's lots that going on and that's how good businesses are built. So, we are comfortable, and at the same time, we are comfortable that our top customer will also start growing back over a period of time. So hopefully that answers.

On the budget question, we'll just part it because there are many questions on the side panel as well. Operator, if we can take some of the questions that have come online and then go back to the queue, that would also be good. So, let me answer a few other questions here and then we'll go back to the queue.

So, there's a question from Abhishek Sharda – What is your view on attrition rate? Is lower headcount addition a sign of weakness in demand?

So, Abhishek, the attrition rate is stabilizing because, if you look at it, there are multiple things panning out. One of the biggest things that is panning out is, the macro part for some of the companies, obviously not every company is growing at the same rate. So, for some of the companies they may be company-specific, client-specific or they're own growth-related things and so on. So, the demand for talent in several buckets, it's kind of moderating. Now, is lower headcount addition a sign of weakness in demand? For some sectors it may be, but for a company like ours, if you look at our order win, it is at an all-time high. So, from our perspective, we are not seeing a moderation in demand. But I can also tell you this - the harder we work, the better the demand gets. And so, we are at it through proactive proposals and so on. So, we don't see right now at a company level, lower headcount addition as a weakness; it is moderated between fresher deployment and laterals, and we have the engine to hire whatever we need to hire over a period of time.

Now going back to the operator, we can take some more questions and then we'll come back to the queue here as well.

Operator: Thank you very much. The next question is from Mr. Vibhor Singhal.

Vibhor Singhal: Hi. Am I audible?

Sandeep Kalra: Yes.

Vibhor Singhal: Hi Sandeep. Thanks for taking my question and congrats on great performance in a seasonally soft quarter. I had a couple of questions. One is, of course, on the overall, you mentioned about the top client bottoming out and probably even take up a growth trajectory going beyond. I just wanted some clarity on the top BFSI client, where we had also probably seen some kind of rundown. Is that also close to bottoming out, and do we see that trajectory there as well? And overall, I just wanted to get your perspective on these two sets of clients, specifically the top client, as you mentioned, why it has bottomed out. What will our endeavour be going forward? Do we see a percentage of its revenue come down over a period of time, not necessarily because the client might de-grow, but because the other parts of the company might grow stronger than the top client? Or, do you think this top client could also start growing in a few quarters and that is what we might be looking at?

Sandeep Kalra: So, a number of questions there. Let me just start by reverse order. As far as the top client is concerned, our endeavour is to grow that top client. We have fairly good relationships and we are confident we'll turn it around over the next several quarters in terms of bringing the growth back. Now, the percentage part of it, so there was a time when this top customer used to be literally 25% or more of our revenues. Today, with the diversification that we've seen and the overall growth that we have seen in our customer base, for the last quarter, it was 7.4%. So, our endeavour would be to make sure we grow the customer, we grow all other customers, and as someone asked before this, so there is always prudence in having a set of client buckets so that, there are times when different customers have different priorities, we are not overly dependent on any one or the other. So hopefully, that gives you the answer on the top client part. And if you don't mind, we'll take your other questions in a little bit because there's a queue and there are only 6-7 minutes left. So, we'll come back to your other questions in a bit.

Operator: Thank you sir. The next question is from Mr. Nitin Padmanabhan.

Nitin Padmanabhan: Hi good evening, congrats on the quarter. I just wanted your thoughts on Accelerite. How are you thinking about that business? It looks like there are decent wins and all. So, I just wanted your thoughts on how that business is evolving. And, obviously, with that business growing, obviously it's an additional margin lever. So, I wanted your thoughts there. The second thing I wanted to understand was, from an overall business perspective, this quarter obviously furloughs across the board. But on a going forward basis, do you think most of the weakness is done with and at least on a sequential basis, things should start improving, or are there continued headwinds one should expect even on a sequential basis?

Sandeep Kalra: So, I'll try and answer these questions in brief. So, as far as the Accelerite business is concerned, for people on the call who are not familiar with what Accelerite means for us, it's basically the IP business that we have, the product business that we have. Now, there is obviously growth in that because we are able to give a roadmap to the customers using those products and they are sticking more with us. And even as they grow, they are doing their through ups, so we get a revenue stream out of that. We are also able to sell in a few of our services customers on these products as a part of our solutions, etc; that's are second stream. And third, we are trying to repurpose the IP. So, there is definitely much more work going on to see how we can maximise the return from each part of our business, Accelerite being one of them as well.

Now, you talked about the furloughs, the weakness, etc. So, I'll just give a macro answer to that, being respective of time since there is only 5 mins left in this call. So, if you look at it, are there going to be headwinds going ahead there? There are definitely going to be headwinds going ahead. There are headwinds even now, there were headwinds last quarter as well. So, the way we are looking at it is, within these headwinds, there are patterns. There's a good intersection of Persistent capabilities and strengths and revenue pools that are available in the market. So, if we can figure out the silver-lining to the cloud of macro, and I've talked about it earlier as well, whether it is the enterprise, whether it is the software companies, I think there are deals to be had, which is a win-win for our customers and for us. And thankfully, our capabilities are pretty differentiated, especially on the digital transformation side, whether it is doing product development to support that or taking those products and doing professional services. So, look, there will be headwinds. Our task is to make sure that within that headwinds, we are proactive and we are growing to the best of our capabilities. So, I'll just leave it there.

Operator: Thank you very much sir. The next question is from Madhu Babu.

Madhu Babu: Hi sir. So just on the portfolio, what percentage of the portfolio you see as a higher risk because of macros, let's say 15-20% of the portfolio which you can assess internally? And second, even in a slowdown, can you see 3.5 - 4% kind of sequential growth can be maintained in the next 4-5 quarters? Thanks.

Sandeep Kalra: Look, we keep doing our portfolio-related analysis, etc. I can't give you a percentage of this is more prone to macro and this is not. All I can say is, we are trying to be as close to our customers, trying to understand their thought process of how they are looking at the macro, how they are optimizing for macro, how we can help them? At times, even if it to cannibalize our own revenue in the shorter run to be able to do more with them in the longer run, we've even taken those steps. Now in terms of growth, our endeavour will be to deliver somewhat what you said. All I can commit to you and other investors here is, we are at it, we are proactively working with our customers and will continue to grow in the top quartile of the industry. If it is X, we'll be at X + Delta X, whatever is that X as an average in the industry.

Operator: Thank you very much. The next question is from Mr. Rishi Jhunjhunwala.

Rishi Jhunjhunwala: Yeah. Thanks for the opportunity. Sandeep, just one question on ACV-TCV. So, in your experience in the past 3 years, have you seen any deviation of what you announce as ACV versus what eventually ends up being in terms of revenues? And the reason I also ask is, that even if you assume a 30% kind of attrition in your existing revenue book, based on your past 12 months ACV when you should comfortably do more than 20% growth in the next 12 months. I just wanted to understand whether either the revenue conversion could potentially be different from what you initially end up announcing as ACV, for any reason.

Sandeep Kalra: Right. So Rishi, very valid points. Yes, there is always a little bit of difference that happens in the ACV we announce and the actual revenue realization, and I'm pretty sure it's the same for every company. Now when we book a deal, there is a time to ramp up, and at times, that may get delayed a little bit, at times, different program phases may get delayed a little bit. We typically get about 6-8% as the impact of that, especially when the macroeconomic conditions are a little bit iffy. When everything is good, then everyone is on the horse to do the ramp ups as soon as possible, when the macroeconomic conditions are a little bit soft, there is about a 6-8% kind of leakage that can happen. And our endeavour has been to minimize this, but that is the realistic number. Balance about your 20% part, all the more power to you. From your ears to God's mouth, and we'll deliver.

Operator: Thank you very much sir. The last question is from Mr. Anmol Garg.

Anmol Garg: Yeah hi, thanks for the opportunity, sir. Just one question on the Europe part. We have seen very strong growth in Europe in this year as well as the last year. So, what is the outlook over there going in the next year? And particularly within the deal wins, do you think that we have enough deal wins from the European side to grow the European revenue similar as the company's average revenue for the next year as well?

Sandeep Kalra: So in terms of the deal wins, some of the larger wins we announced over the last several quarters were from Europe. So, from that perspective yes, about a $100 million-plus TCV over the last 3 quarters to 4 quarters has been won from Europe from big deals itself; forget the renewals and anything else. So definitely, there is certain amount of focus that has come in in Europe. We have invested in sales, sales leadership and otherwise as well in the geography. We will have to be a little cautious about the macro, how the Russia-Ukraine thing pans out. A lot of these things are also dependent on that, because it has downstream impacts on gas and other pricing in Europe, and the inflation and many other aspects. So, we are watching it cautiously, but we are optimistic of having Europe grow at the company average. I think we are at end of time, so Operator, if we can take one last question, then we'll stop here.

Operator: Thank you very much. The last question is from Mr. Sameer Dossani.

Sameer Dossani: Hi, am I audible?

Sandeep Kalra: Yes please.

Sameer Dossani: Any outlook on the second largest client, because that is one of the clients that you highlighted. What is the outlook, and if you can share what has been the journey over the last few quarters? And, do you think growth will come back in this account? Thanks.

Sandeep Kalra: So, for the second largest customer, it has been a stable customer. Except for the furloughs that were there in the last quarter, it has been a fairly decent customer in terms of the revenue size, the engagement, the kind of programs etc that we do. So, no concerns there for the time being. Obviously, no one has seen the future, but good relationship, good thing going from the last, I think we started the relationship in about 2010-2011 timeframe. So, it's been a fairly long relationship at multiple levels, multiple business units, fairly stable.

So, with that we will stop. Let me once again thank our 22,500-plus team members, our customers, our partners and our investors, all of you for your support in our growth journey. We remain optimistic in our prospects for FY23 and beyond, even as we are very 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 for spending time with us on the call today. We wish you the best for the new year and we look forward to connecting with you again in 3 months' time to provide an update on our ongoing process. Stay safe, stay healthy. Thank you.

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

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