# "PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, FIRST QUARTER, FY24 ENDED JUNE 30, 2023"

July 21, 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*

**Moderator:** Ladies and gentlemen, good day and welcome to the Persistent Systems earnings conference call for the first quarter FY24 ended June 30, 2023. 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, and Mr. Saurabh Dwivedi, Head of Investor Relations. Please note, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need any assistance during the conference call, please raise your hand from the participants' 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, moderator. Good evening, good morning, good afternoon to all of you, depending on where you're joining from. We would like to start this call by thanking each one of our customers, partners and investors, as well as our 23,000-plus team members for their resilience and continued trust. Let me now start with our quarterly financials. We are happy to report yet another good growth quarter across major business and financial metrics, even as the macroeconomic environment remained uncertain.

The revenue for Q1 came in at US$ 282.9 million giving us a growth of 3% quarter-on-quarter and 17.1% on year-on-year basis. In rupee terms, the growth for the quarter came in at 3% quarter-on-quarter and 23.7% year-on-year basis.

Coming to EBIT, our EBIT for Q1 came in at 14.9%. This translates into a growth of 29% on year-on-year basis. On a quarter-on-quarter basis, the EBIT margin declined by 50 basis points as the tailwind of revenue growth was offset by higher visa cost, higher amortization cost and doubtful debt provision. Sunil will provide more color on the EBIT margin movement later in the call.

We are happy to report that we have implemented salary increments for our global employees as per our regular cycle effective July 2023. We expect to offset most of the margin headwinds due to the wage increase through cost utilization measures, which are being set in motion from Q2 onwards. We remain committed to our goal of improving EBIT margins over the medium-term.

Now coming to the order book for the quarter. The total contract value for the quarter came in at US$ 380.3 million, with new bookings TCV coming in at US$ 237.2 million. The annual contract value component of this TCV is of the order of US$ 271.9 million, of which the new booking ACV component contributed to US$ 144.1 million. While the demand environment remained stable, there were a few instances of delays in customers' decision making, owing to which some deals got pushed out to subsequent quarters, and we are hopeful of closing these deals in Q2 and subsequent quarters. Please note that as always, these TCV-ACV numbers include all bookings - small and large, renewals as well as new bookings across existing as well as new customers.

Coming to the client engagement size, let me give you some color on our client engagement size. We are pleased to report that our top customer revenue saw a healthy growth of 13.4% Q-on-Q in USD terms. This was on the back of 30% plus growth in the previous quarter. We continue to partner closely with our top customers to help them achieve their digital transformation objectives, while also exploring meaningful opportunities for long-term transformation. Our overall portfolio of top-50 customers grew by a robust 5.7% during Q1. As you would appreciate, our base of top-50 customers is a portfolio of our strongest relationships and different customers are likely to take leadership in driving growth of this portfolio in different quarters. We are excited to report that the progression of our clients across important revenue thresholds continues, with one additional customer moving into the US$ 20 to 30 million band during the quarter, scaling up from the lower client revenue bracket. The total count of US$ 5 to 10 million customers increased to 21 from 17. The total count of greater than US$ 5 million customers is up to 38, compared with a count of 34 in the last quarter and 26 such customers in Q1 FY23.

On the geography side, North America grew 4.9% Q-on-Q in USD terms, while India revenue grew by 1.5% Q-on-Q. Europe revenue declined 2.8% Q-on-Q on a smaller base.

Coming to the people front, in Q1, we added 241 colleagues on a net basis, taking our total headcount to 23,130. We continue to increase the deployment of freshers on customer projects, though significant room still remains in improving fresher utilization, and this will be an important margin lever for us in the next few quarters.

The blended utilization for the quarter came in at 78.3% as against 77.3% in Q4 FY23, aided partly by increased fresher utilization. On the trailing 12-month attrition, we saw the quarter come in at 15.5% compared to 19.8% in Q4. Attrition has come down to a more comfortable band compared to the last few quarters. The decline in attrition should nonetheless be seen in the context of general moderation of hiring across the sector and positive outcomes from our employee value-related interventions by our HR.

Moving on from operational metrics to certain strategic highlights for this quarter. A number of you have been inquiring about generative AI and our forays into the same, so let’s start with that. As a pioneering digital engineering firm, Persistent has been committed to innovation and staying ahead of the curve across major technological developments. We have been working in the field of AI and the related technology segments for the last several years and have been working with several enterprise customers in their data transformation and AI programs as well as with technology companies in building the technology for enterprises. Our many AI practitioners, researchers and senior leaders have been closely following the Generative AI developments and are enabling us to strategically adapt to these evolutions in the field of AI and meaningfully participate in the growing opportunities of Generative AI.

Over the last several quarters, we have been working on strengthening our partnership with leading hyperscalers, AWS, Microsoft and Google around their Gen AI initiatives, as you would have noticed from our earnings presentation and fact sheet. In Gen AI domain, our target is to train 16,000 of our employees over the next several quarters. We have developed playbooks to be effectively use code assess tools such as AWS Code Whisperer, Microsoft GitHub Copilot to systematically boost productivity of our Gen AI use while resolving the privacy and licensing challenges, working closely with our hyperscaler and other technology partners. An advanced level training will focus on competencies such as AI engineering, enterprise architecture, deep understanding of IP, data privacy, security, product liability, trust and identity considerations as we move deeper into Generative AI. We have and will continue to train our architects and developers to build AI-infused applications from the get-go to ensure that AI is embedded into our work culture.

We have also been leveraging Gen AI technologies in our own internal landscape as customer zero and are unlocking significant productivity across several use cases across functions such as HR, marketing and IT purposes. With all this, we are finding good momentum on the business side as well and are in discussion with over 50 plus clients on Generative AI-related project opportunities. These are a combination of Gen AI Advisory, Gen AI Powered Payer Programmer, Legacy Code Based Migration, Conversational AI, Enterprise Search, Enterprise Data Modernization, Gen AI Security as well as Gen AI broader engagements to name a few. We expect the adoption of Gen AI to pick up significantly over the next several quarter and years. At this point of time, while the revenue from this may be smaller, the adoption of this should significantly increase over the next 3 to 4 quarters and in subsequent years.

Coming to the update on the M&A side. At this point, all our earlier acquisitions are fully integrated and we are proud to say we are winning deals jointly based on the joint capabilities and these are fructifying through the combination of Persistent and acquired companies. We are once again active on the M&A front and will report progress on this front over the next several quarters.

On the board front, we welcomed Dr. Ajit Ranade as an Independent Director to our Board of Directors. Dr. Ranade, a renowned academician and economist brings to Persistent his impressive experience of 32+ years to help guide our strategy and accelerate our growth journey. We are looking forward to working closely with him as well as our other board members for the next phase of Persistent's growth.

We have shared more details as a part of our Q1 earnings release for our investors' reference.

Coming to the updates from our AGM, we recently conducted our 33rd Annual General Meeting earlier this week on 18th July. I am pleased to share that all the resolutions that were put to vote have been approved by the shareholders with requisite majority. On behalf of all of us, I would like to take a moment to thank all our retail and institutional shareholders for their support in this regard.

Coming to the administrative updates, on the administrative side we opened a new office in Jaipur, India as our latest COE for Salesforce-related technologies, Krakow, Poland as an extension of our nearshore capabilities in Europe and Dallas, Texas as the latest hub for our Private Equity-related competency.

In the coming months and quarters, our expansion plans include locations such as Kolkata, Kochi and Chennai. Our endeavor is to provide world class facilities to our employees in locations close to them and encourage them to work from office a few days every week.

In summary, we are pleased with our performance in Q1 FY24 in a challenging business environment.

I would now like to invite Sunil, our CFO 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, 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. Thank you for taking the time to join us today. Sandeep has given detailed update on the business side and the market perspective. Let me now take you through the details of financial performance for the quarter.

Before I start detailing on the quarterly financials, I would like to call out some of the changes that we have made to our quarterly disclosures, which most of you would have noticed. We have provided additional disclosures in the nature of revenue contribution from top-50 clients, the total client base with annualized revenue in excess of US$ 250 K per annum, effort mix between Global Delivery Centers and India, and Return on Capital Employed.

At the same time, we are discontinuing certain data points including metrics across Services and IP business, such as the breakup between Services and IP revenue, Services and IP client base and Person Months, and as a result of that, breakup of Direct Cost between Employee Related Expenses, Purchase Royalty and Project Related Travel Expenses. These details are, of course, available in the detailed financials, on the face of the fact sheet, it is not there.

As our business has become more complex, comprising of Fixed Price and Managed Services deals, the breakup across IP revenue is becoming less meaningful and hence the discontinuity of this disclosure. Moreover, you will also observe that post restructuring of one of the contracts with our top client some quarters ago, the IP-led revenue as percentage of total revenue has been less than 10%. It has been ranging between 7% to 9%. In view of the same, going forward, we will be reporting the total revenue. This being the quarter in change of disclosure, I would like to share that our Services revenue grew by 2.7% quarter-on-quarter and IP revenue grew by 8% quarter-on-quarter. The few other data points, which I mentioned above, which we are discontinuing is about the Revenue by Delivery Centers, the Billed Person Months and Onsite Offshore Utilization, while we continue to disclose Blended Utilization Rate including Trainees. As most of you are aware, we make the changes to our metrics at the start of the fiscal year, and we have made these changes as I have just called out, keeping in mind the industry practices and based on inputs we have received from the analyst community over a period of time.

Let me now share with you details of the financial performance.

The revenue for the quarter came in at US$ 282.9 million with a growth of 3% quarter-on-quarter and 17.1% year-on-year in dollar terms. Revenue for the quarter in INR terms was INR 23,211.8 million, reflecting growth of 3% quarter-on-quarter and 23.6% Y-o-Y. As I mentioned, Services revenue grew by 2.7%, while IP-led revenue grew by 8%.

Coming to sequential growth for the quarter, BFSI grew 6.2%, Technology companies grew 3.3% while Healthcare and Life Sciences grew by 2.8% quarter-on-quarter. On the effort side, our blended utilization including trainees was 78.3% as compared to 77.3% last quarter and attrition was 15.5%, reducing from 19.8% last quarter.

As you are all aware and as Sandeep mentioned, we achieved US$ 1 billion in annual revenue in FY23 and it was only possible because of continued support by our customers, partners and employees. We had organized events across the globe to commemorate our journey with them and express our gratitude for their support. These events were well participated. The total one-time expense for these events and employee gifts amounted to INR 486 million, which impacted the margin by 2.1%. As you are aware, the board recommended a special dividend of INR 10 per share as a gesture of our appreciation of the support and continued trust by our shareholders.

Let me now give you a walk-through of other details for the quarter. As you all know, this is a quarter where we do the H1B visa filings. This cost came in this quarter and accounted for 40 basis points of impact. We have been encouraging all our employees to work from office at least 2 to 3 days a week and during the last couple of years in order to be closer to our employees and also attract talent in various parts of the country. We have opened offices in Indore, Jaipur and Ahmedabad, and as you recall with our acquisitions that we did about a year ago, we have now presence in

NCR at Gurgaon and Noida. This coupled with expenses on food and travel due to increase in the offices, had an impact on margin by about 20 basis points. The slight increase in the doubtful debt provision had about 10 basis points impact on the margin.

With the above, EBITDA for the quarter was at 18.2% as against 18.5% in the previous quarter. Depreciation and amortization expenses were at 3.3% as against 3.1% in the previous quarter. Last quarter, there was final allocation of purchase consideration for acquired entities, resulting in a credit of INR 40 million in amortization expense. In the normal course of business, there is an increase in amortization on account of investment in software tools for Learning and Development and for improved cybersecurity measures. As a result, in absolute terms, amortization which was INR 434 million in Q3 and had declined to INR 404 million due to the credit as I mentioned above, is currently at INR 476 million in this quarter. With this, the operational EBIT for the quarter was at INR 3,466 million at 14.9% as against 15.4% in the previous quarter.

Treasury income for the quarter was INR 154.58 million as against INR 129.05 million, mainly on account of increased interest rates and treasury size. Forex loss was INR 64.1 million as against INR 189.1 million in the previous quarter. Profit before tax for the quarter was INR 3,070.5 million at 13.2% and if we adjust one-time expense for the US$ 1 billion celebration expenses, the PBT comes to 15.3% as against 15.1% in the previous quarter. ETR was 25.5% as against 26.2% in the previous quarter. PAT for the quarter was INR 2,287.7 million at 9.9% from a margin perspective adjusting for one-time expense, net of tax. Comparable PAT was INR 2,649.9 million before one-time expense, which is 11.4% of revenue as compared to INR 2,515.1 million in the previous quarter at 11.2% of revenue. EPS for the quarter was INR 30.49 and adjusting for one-time expense, it would have been INR 35.32 as against INR 34.9 in the previous quarter.

As I mentioned, we have disclosed ROCE for the quarter, which came in at 30% as against 28.8% in the previous quarter. Operational capex for the quarter was INR 140.4 million. Total cash and investments were INR 14,089 million as at 30th June 2023 as compared to INR 15,991 million as at 31st March. The cash balance at the end of Q1 was partially impacted by annual bonus payouts that happened in this quarter as well as AMCs and health insurance premiums, which is a seasonal item in this quarter. DSO came in at 67 days as against 68 days in the previous quarter. Due to long weekend in the US coinciding with the quarter-end, collections amounting to US$ 9.8 million spilled over to first week of July, otherwise DSO could have come lower and more importantly it could have helped the cash. Forward contracts outstanding as on 30t June were US$ 230 million at an average rate of INR 83.53 per dollar.

Let me explain the Working Capital movement and reasons for lower cash conversion during the quarter. As mentioned above, this quarter had payout of annual performance bonus to employees which amounted to INR 1,886 million. Software License purchases and Health Insurance premium renewals amounted to INR 890 million. There was an increase in GST receivable primarily on account of the software licenses, as mentioned above, and purchases of furniture and fit outs at our new Learning and Development Centre at Pune totaling INR 570 million. The unbilled revenue went up this quarter due to delay in receipt of POs from few customers, some of which have already been received in July and have been invoiced. As regards collections, as mentioned above, due to the long weekend, collections to the tune of INR 800 million came in the first three working days of July in the U.S.

All these factors cumulatively impacted cash conversion during the quarter. You will observe that first quarter of the year is reasonably lower for us in terms of cash conversion, but this time, higher spend on software purchases, increase in unbilled revenue and higher spillover of collections bunching together impacted the cash. This is under focus and we expect the same to even out over the next couple of quarters.

With that, I thank you everyone and hand it back to Sandeep.

**Sandeep Kalra:** Thank you, Sunil. I'll now talk about the key deal wins for Q1 by industry segments, starting with the Software, Hi Tech and Emerging Industries. We were selected by a leading provider of a SAS platform for Customer Service, Sales and Customer Communication. This is a large deal for us spanning over three years in which we will establish an Offshore Development Centre to undertake engineering on existing as well as new products of the customer. Persistent was elected as a strategic partner by multinational conglomerate in Digital Communications domain for engineering and support of its network services orchestration platform. This is a multiyear, multimillion dollar deal and involves vendor consolidation and transfer of work from onsite to offshore over every year. Persistent was elected as a strategic partner by one of the leading hyperscalers to develop Generative AI strategy and proof of concepts, database connectors, etc for servers, and data integration.

Coming to Banking, Financial Services and Insurance. Persistent was elected by the financial services arm of a Fortune-500 automobile company to drive digital transformation of its customer acquisition platform, sales journey platform, customer service and contact centre, as well as marketing automation platform. This is a multimillion, multiyear deal encompassing implementation as well as management. Persistent was elected as a digital transformation partner by a leading US-based financial software company to migrate applications from the environment of one of its acquired businesses to the customer's platform and provide managed services for such migrated applications. Persistent was elected by the US subsidiary of a leading Japanese bank as a strategic IT services partner to develop data science platform for risk management, identity and access management applications as well as regulatory and compliance applications.

Coming to Healthcare and Life Sciences. Persistent was elected by one of the largest Fortune-500 companies in the Healthcare domain to undertake engineering on data and machine learning platforms of the company as well as to partner with them in innovation and transformation broadband. This is a more than US$ 50 million TCV deal for us spanning across three years. Persistent was elected by a large UK-based medical equipment manufacturing company for building and managing a unified data platform encompassing supply chain, manufacturing, regulatory, product quality and finance functions. We were selected by a leading company specializing in the detection of early stage cancers to reengineer its platforms for curation, analytics and laboratory information management as well as migration of its Data Lake platform to the Cloud.

Coming to the awards and recognitions for the quarter. Q1 saw us get continued recognition from industry leading analyst firms and associations to mention a few. Persistent was featured in Everest Group's 2023 PEAK Metrics Service Provider of the Year awards under the Top 10 ITS challengers list. Persistent was named as a Leader in the Everest PEAK Metrics on Payments IT services 2023. We were recognized as a Major Contender in Everest Group's Healthcare Data and Analytics Services PEAK Metrics Assessment 2023. We were awarded by the Times Power Brands 2023 under the Excellence and Talent Acquisition category. We also won several awards from ISG including being named a Leader in ISG Provider lens, Digital Engineering Services Quadrant U.S. 2023, a Leader in Salesforce Ecosystem Partners 2023 ISG Provider Lens, and last but not the least, Top 15 Sourcing Standout in the Q1 2023 ISG Global Index.

In summary, we continue to deliver top quartile revenue growth in Q1 FY24 despite a challenging macro environment. We remain watchful of the macroeconomic situation and are proactively staying closer to our clients, aiding them and prioritizing the technology spend towards transformation as well as cost optimization and we are cautiously optimistic about our growth momentum. I would like to once again thank our management team and global team members who have persevered through these uncertain times and delivered yet another growth quarter for all of us. Our decision to go ahead with normal wage increase in this macro environment is a testament to our gratitude for the staff.

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

**Operator:** Thank you, Sir. We will now open the call for Q&A session. We will wait for a few minutes until the queue assembles. We request participants to restrict to two questions and then return to the queue for more questions. Please raise your hand from the 'Participant' tab on the screen to ask questions. The first question is from Abhishek Bhandari.

**Abhishek Bhandari:** Yeah, thank you. Good evening, Management Team. Sandeep, I have two questions. First is, you have been talking in the past of your aspirational growth number of 3%-5% every quarter. Good to see you still doing around 3% this quarter. But if I heard you correctly in the CNBC interview today morning, you alluded to 2%-4% to 3%-5% depending on macroeconomics. I couldn't quite get it. Are you saying that if the macro remains uncertain, you could go below your 3%-5% number?

**Sandeep Kalra:** So, look, we don't give the forward-looking guidance. But having said that, we have said it very clearly in a good economy will be between 3%-5%, in a bad economy we may get to 2%-4% and we have persevered through it even in the current macro. You have seen all our peer results, we have persevered and we have delivered 3%. So, our endeavor is to deliver the best growth we can and we are at it and our bookings et cetera, if you look at our traditional bookings, although this quarter was a tad bit lower, a few things slipped over, not necessarily lost but slipped over and have closed or are closing. So, our endeavor is to do what we have said and we'll go from there.

**Abhishek Bhandari:** Sure, thank you for that. The second question is on the margin part. You know, given that probably the growth is slowing down a bit for us, do we still believe that this year we could have a margin expansion compared to last year? While I understand your medium term you want to go up by 200-300 but more from the next 4-5 quarters, what could be the upward bias on the margin? And what would be the levers driving that?

**Sandeep Kalra:** Sure. So, if you look at the overall front and not just margins, our first priority is to make sure that we have a healthy growth momentum carry forward. That is our first thing and we are investing in our growth, whether it is on our sales and marketing side, whether it is on our capabilities on Generative AI or other technologies that we are dabbling in, Cloud, Data, Security management. So, that is the first priority.

Now, we are not hung up on optimizing the margins in the next 2-3 quarters. We have said our aspiration over the next 2-3 years is 200-300 basis points and we are at it. In terms of the levers, we still have a significant amount of underutilization in the freshers that we took. There is 12-15 months that many people have spent with the company, they have been trained, they have been shadowing different programs. We have significant dry powder in terms of talent. So, that is one lever obviously. Then there are other things whether it is our lateral utilization, which also if you look at it today, we are in the range of 78%. If we move from 78% to the highest that we have seen in the rate of 83%-plus, every percentage of utilization gives us 30-basis points and there are many others including revenue increases and so on. So, we have certain levers, but our first priority is to make sure we grow healthily and then we'll go from there.

**Abhishek Bhandari:** Got it. Thank you, Sandeep, and maybe one small last follow up. You know, while you hinted at some of the AI-related initiatives both from an internal and external perspective, but if you could give some idea about any large investment you think would be needed to probably grow the service line? And if so, is it going to be more in terms of acquisitions or how you're thinking about bolstering your AI capabilities?

**Sandeep Kalra:** Sure. I'm sure a lot of other people are also interested in this, so let me just spend a minute on this. So, if you look at Persistent, right from the get-go, we have been working on data. The name Persistent also comes from the persistency of databases and Anand himself is a PhD in databases. That's our genesis. Over the years, we have done multitude of AI products related work, whether it is for technology companies building the technology, for the hyperscalers itself we are working on their Machine Learning-related technologies, which is the underlying thing behind all this for enterprises in Healthcare Life Sciences. We have worked with them on doing platforms for tracking the progression of renal diseases and predicting the newer patients renal disease progression or diabetes progression or in Financial Services in trade finance and many, many, many use cases. So, this is not new to us. Now, it doesn't make sense for us to go and acquire another services company because this field is pretty new. Our own capabilities are pretty good. We are working with our hyperscaler partners. We are very closely collaborating with people like AWS, Microsoft and Google to understand their foray. We are using ourselves as Customer Zero. If you look at press releases that we have done, we have collaborated with Microsoft to use Viva and Open AI in our own environment. Today for our HR, we are using that business case. Now for our own developer productivity, we have experimentation going on with AWS as well as with Microsoft. Similarly, in many of the customer environments we are working on, Bard or Open AI, we are working closely with Google on their technologies. So, there's a significant investment that we are doing in putting a team together, which is basically going to evangelize this with our customers and even internally and somewhere down the line in the next 2-3 quarters, we would have trained all our engineers on the different technologies. whether it is developer productivity, whether it is building these LLMs or foundation models or deploying them in an enterprise. We are not going to do acquisitions as of now in this because there's nothing to acquire. Everyone is learning and we are ahead of them. So, that is our foray and we are putting investments into our own teams and their learning.

**Abhishek Bhandari:** Thank you, Sandeep, for the detailed answer and all the best for the year.

**Sandeep Kalra:** Thank you.

**Operator:** Thank you, Abhishek. The next question is from, Chirag.

**Chirag:** Hello? Am I audible?

**Sandeep Kalra:** Yeah, you'll have to speak a little louder but you're audible.

**Chirag:** Yeah. Sandeep, I have a couple of questions. During the quarter, one of our global peers reduced the guidance, so how are we reading that? And do we make any changes in our client strategy and all to mitigate such uncertainty, which can come during the year? Second, we are opening offices in Tier-2 and Tier-3 towns to attract the talent and all, so does it give us a lever going forward that we will have a labor cost relatively lower compared to what we get at Tier 1 cities and town?

**Sandeep Kalra:** Sure. So, let me start with the first question. See, as far as our global peer is concerned who reduce the guidance and so on, look, every company is different. We can't manage other people's guidance. All we can do is perform well and within the hand that is delivered to us, whether it's a good macro or a bad macro, we are trying to do our best and this is economy in which we have to be proactive. We have to proactively, based on our understanding of our customers and prospects, we have to take a cost optimization pitch and so on and that's what we have been doing. And this is the 13th sequential quarter for us for revenue increase and profit stabilization and increase. That should give you a proof point of we are at it. We can do better, obviously, and we will try and do whatever we can but we are not giving any forward-looking guidance, reducing or increasing. We have delivered well and we'll continue to execute.

Now as far as the Tier-2 and Tier-3 cities are concerned, the basic rationale for us was as the pandemic happened, a number of our employees also moved back to their home towns and some of these Tier-2 and Tier-3 cities that we have opened offices in. Wherever we saw clusters of our own employees moving back and we also saw clusters of talent availability and to your point, yes, it could be a margin lever for us as we go ahead, because if we are taking our offices to where the talent is and not necessarily hiring in a high cost location like a Bangalore or Hyderabad or maybe even Pune, and we are diversifying our pool that we are getting the catchment area spread out to, that is the whole strategy and we are also expecting this to not just expand the pool but also reduce the attrition, both of which can be margin lever.

**Operator:** Thank you, Chirag.

**Chirag:** Thank you. One more question, if you allow. Yeah.

**Sandeep Kalra:** I would request if you can join back to the queue.

**Chirag:** Yeah, sure.

**Operator:** Okay. Thank you, Chirag. The next question is from, Sandeep. You can ask your question. If you're on mute, unmute and ask.

**Speaker:** Can you unmute, Sandeep Shah?

**Sandeep Shah:** Yeah. Can you hear me now?

**Sandeep Kalra:** Yes.

**Sandeep Shah:** Yeah. Yeah. Thanks for the opportunity. The first question is, Sandeep, this time the impact on the growth looks like is more with the leaking buckets, not with maybe top clients but set of clients. Whether this phenomenon is correct and whether it is restricted to one or two verticals or is it broad-based? And second, the projects which are actually getting stopped and paused, do you believe it may come back or clients are actually rethinking in terms of not starting those projects and those may be actually canceled?

**Sandeep Kalra:** So, look, if one has to take a bigger picture of the organization, at an Uber level, it is not this that everything is getting impacted. There are different shades of customers. There are customers who are getting impacted in this macro a little more than others and so we have seen some of these, including some of the strongest hyperscalers, take care of their own cost ahead of whatever it is and so we had, for example, last quarter said one of the largest hyperscalers, we had a ramp down of US$ 3 million a quarter. And I can tell you without naming anyone else, it's not just us but most of their strategic suppliers went in with the same hand. Now, some of the weaker customers may postpone the deployment of capital. I don't think these are getting canceled. If there are any material things that get canceled, as we declared last quarter, openly we will come and say it. So, there may be a little bit of a pushing out. In terms of new ramp ups, there may be a little bit of spend pullback. What we are hearing from our customers is clearly the next 1-2 quarters are where it is tough and then they are also expecting the market to open up for themselves and, hence, we are also hoping to see acceleration over the next 3-4 quarters. That is where we are. Nothing that we can say this particular vertical, this particular customer set is suffering more than others.

**Sandeep Shah:** Okay. Thank you. All the best.

**Sandeep Kalra:** Thank you.

**Operator:** Thank you, Sandeep. Next question is from Prajay.

**Prajay:** Hello? Am I audible?

**Sandeep Kalra:** Yes, please.

**Prajay:** Yes. Sir, I just have a small question. So, when we are saying that it's a 200-basis point to 300-basis points of improvement, are we talking about PAT margin or EBIT margin? Just want clarification on this.

**Sandeep Kalra:** So, we are talking about the EBIT level, that’s what it is.

**Prajay:** Okay, fair enough. Thank you.

**Operator:** Thank you. The next question is from Dipesh Mehta.

**Dipesh Mehta:** Yeah, thanks for the opportunity. Two questions. First of all, I just want to get some sense about the vertical. BFSI, I think, most of peers indicated challenges in growth. We have very strong performance. HLS, we are seeing some weakness. If you can provide some sense how we look at these two verticals and Hi-Tech also? Second question is about the expenses side. Software License expenses has significantly increased as a percentage of revenue over the last couple of quarters. So, if you can provide some sense what is driving it and how one should model it? Thank you.

**Sandeep Kalra:** Sure. I'll answer the vertical-related question and I'll let Sunil answer the software licenses-related question.

Now if you look at the vertical side of it, while BFSI came in strong, first from our customer conversations, we can see that the next few quarters are going to be tad bit soft for BFSI and we'll see how it pans out in actual execution.

Now from a Healthcare Life Science perspective, the degrowth that we saw was particularly restricted to what we call Scientific Instruments and Medical Devices segment. There are four segments in Healthcare that we deal with - Scientific Instruments, Medical Devices, Payer-Provider and Pharma. Now when we look at the Scientific Instruments segment, there are a few of our customers who had seen a windfall in terms of their revenues because of their play in the COVID value chain, whether they were people who were providing reagents or test kits or equipment in the whole value chain. So their revenues are now going down and they are recalibrating to their new reality and that includes some spend with us. If you look at our bookings, from our bookings, the largest deal that we won in this quarter was with a Payer and a Tech company in the Healthcare segment. So, if I look forward from what we know today, Healthcare Life Sciences is going to be a good growth segment for us, while it may have seen one quarter dip. Banking Financial Services will be a little tepid. As far as Technology is concerned, that is a segment where we have the strongest right to win and seat to the table. So, that is going to be a good forte for us going ahead. Hopefully that answers you and Sunil will answer the question on software licensing. Sunil, over to you.

**Sunil Sapre:** Yeah. So, hi Dipesh, in terms of software licensing, there are basically, as you know, two items, one which is used in project deliveries for customer projects and the second for own use. So, own use basically we have made you can say, strengthened our own cybersecurity defense. We have also done some investments in Learning and Development related software. So, these are two areas where you can see there is an increase in that type of expenses. So, far as the delivery-related expenses are concerned, these are basically part of larger engagements where we use software of third parties, which are embedded in our deliveries. So, that is the main reason for this.

**Operator:** Thank you, Dipesh for your question. The next question is from Ravi Menon.

**Ravi Menon:** Hi, thank you for the opportunity. Sandeep just want a sense of, you know, are things slightly improving or what do you think, you know, will happen with client budgets? What we've heard from other people is budgets get allocated, but, you know clients, are just not ready to spend as they're waiting for the macro to improve. So, any improvement in the conversations over the last three months?

**Sandeep Kalra:** So, I would say incrementally over the last several quarters, it has been a little more pullback than actually decision-making getting accelerated. People have the money, but they are all delaying their decision. They're also, like you know a number of you are worried about the macros, they are also worried about the macro. So, there is definitely a delay in decision-making, which is leading to a little bit of stress, if you may, on the sectors that we deal with and downstream, the revenues that we get. So, even if we look at our own revenues, there was a time, the last, if I go back in four to six quarters, we were growing anywhere between 5% to 9%. Our growth today is 3% and it's a direct reflection of the environment, while 3% in our sector today I would be proud that we have delivered on the best, but obviously it has come down from the times where we were four to six quarters and so from our conversations, we are clear people are expecting this to be maybe around the bottom in the next one quarter, two quarters and then accelerate from there.

**Ravi Menon:** And do you think that, you know, your top customers seem to be all doing well, is that expected to sustain or are there any pockets of weakness outside this top-10 that you would want to call out or whether it's a particular geographic segment or a vertical?

**Sandeep Kalra:** So, look, if we knew anything that was material, we would have announced it on this call. So, there is nothing that as of today that is known to us, which is a material negative impact on us. We are at it. We are, you know, working towards maximizing our revenues, delivering well on profitability, there's nothing that is known to us, which is a material impact, whether it is top customer or top-10 or top-50 and so on.

**Ravi Menon:** Great. Thanks. Thank you and best of luck.

**Sandeep Kalra:** Thank you.

**Operator:** Thank you. Participant who wish to ask question can raise your hand from the participant tab on the screen. The next question is from Mr. Vibhor Singhal.

**Vibhor Singhal:** Yeah, hi. Thanks for taking my question. I hope I'm audible?.

**Sandeep Kalra:** Yes.

**Vibhor Singhal:** Yeah, thanks. So, Sandeep my question is basically on the revenue composition. I think for the second consecutive quarter we have seen the top client contributing significantly to our revenue. This quarter, our top client forms 40% of our incremental revenue Q-on-Q and last quarter that number was almost 60%. So, just want to and of course in the preceding quarters before that we as a strategy had kind of ramped that client down and we were always talking about their share of business actually reducing in our overall composition. So, what is the kind of strategy that we're looking at in terms of top client and also I know you don't share that details explicitly, but the revenue from the top client in terms of margin profile, is it any different from our overall company margin profile or pretty much similar as the other projects are?

**Sandeep Kalra:** Okay. So, there are a number of points out there. So, if you look at it historically, we had ramped down one program with our customer which was on the IT side, which was not profitable for us, but that was done nearly a year back. Two quarters back, we had got ramped down from them and it had significantly decreased the revenue and we worked with them to understand their priorities because everyone today is trying to optimize for their business conditions. They have a business to run. They had to optimize vendor spend, whether it was with us or others and we could, you know, happily work with them based on our 18 years of working with them to craft out a win-win with them and that's how we saw the revenue come back. So, now there are a number of programs, some of these may be time bound, some of them maybe longer term. So overall, from a top one customer perspective, I am not expecting from what we know today, it to be a seesaw. It is going to be steady. There may be a certain addition, there may be certain deletion depending on the programs being added or finishing and so on, but it will be a stable customer for us from what we know today and what we see. Now, as far as other margin profile etc is concerned, for a customer at that size it's a reasonably decent margin that we do with them and we are happy where that margin is.

**Vibhor Singhal:** Got it and do you, I mean just to finish up on that part, do you expect this top client, I mean and them being the large client and of course being one of the large vendors in the tech domain, could we actually at some point of time start to become a good large partner to them in their endeavor of the overall tech modernization part? I mean, increasing our share or do you think of the scope of work for them is going to be limited in the size and nature?

**Sandeep Kalra:** So, look, there are multiple things that you do with any customer, any of these and the top one is one of the technology giants, with them we work on developing products for them, sustaining products for them, taking those products to market in terms of doing professional services on them, and they are also dabbling into Gen AI in a different way. So, there is definitely scope for us to do more. Obviously, they have to, from a go-to-market perspective, they work with multiple different service providers because each one of us has our own niche. So, there is definitely scope to do more and today also if you look at it, we are one of their most strategic partners from what we deliver even today.

**Vibhor Singhal:** Okay, great. Thank you so much. Thanks for clarifying in a good manner, Sandeep. Thanks a lot and wish you all the best.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. The next question is from Vimal.

**Vimal Goel:** Yeah, thank you for the opportunity, Sir. First question, I'm not sure if you highlighted this, so my apologies in advance if I'm making you repeat it. The wage hikes are fully implemented this quarter or is there any spill over in Q2 that we might see, that is question #1 and question #2, Sandeep Sir, you mentioned the CQGR growth that we're targeting of 2% to 3% in case the macro remains or 2% to 4% in case the macro remains uncertain, that is in context after factoring in the possible slowdown in BFS and a flattish sort of TCV ACV that you've seen or other decline of TCV ACV that we've seen in this quarter. We are factoring in both these facts, right?

**Sandeep Kalra:** So, let me answer both. So, wage hike is fully implemented. Wage hike is July 1st, we have stuck to it. So, we have given 7½% wage hike on average in India, 3.5% to 4% outside India and obviously this will vary on the individual, their experience, you're able to get more, you can get less, whatever it is. Now, that is implemented, we have not deferred any wage hike, we have not deferred any joining, and we are very proud to say we gave 109% corporate performance bonus at the minimum for the whole company and more. So, from that perspective, we have not optimized our margins by cutting into people's bonuses or their salary increases or deferring those. So, let's be clear about that. We are not managing margins by that, and we are very proud of it. Second part of it, in terms of CQGR, yes that is our endeavor. We don't give a forward-looking guidance. If you have put on the mat and you want to extract what we want to do that is the aspiration that we have, come in a bad economy, come in good economy, we should be in a good healthy, you know close zone and that's where our endeavor is. Yes, we will try and deliver 2% to 4% in a bad economy, and 3% to 5% in a good economy, balance will let the time come.

**Vimal Goel:** Just one question here. Our strengths have always been in the product engineering. Our capabilities have always been very, very superior as far as product engineering is concerned. Do you think that in such an environment, probably product engineering gets more discretionary and we might have to win more wallet share to continue growing at the pace at which we are versus for pure IT services player, which is probably focusing on cost cutting projects etc?

**Sandeep Kalra:** So, look we, so when we talk product engineering, we do product engineering for product companies, the same tenets we take it to the enterprise in terms of doing digital transformation, which may be building a platform for internal or external customers and so on. Now, cost reduction can be done in many different ways. Cost reduction is just not about internal IT, cost reduction can be if you're developing products as a product company, can you do it by leveraging more nearshore, offshore, do the same and more at a reduced cost, that's cost reduction for them and similarly in the enterprise. So, keeping long story short, I do think we'll have to have a different pitch for economy like this and that's what we have been doing. That's where we have been developing our demand and we have been delivering significantly. Now, we'll have to continue on the execution front. In all this, it's about execution.

**Vimal Goel:** Thank you, Sandeep. That's very, very helpful. Thank you.

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

**Abhishek Shindadkar:** Hi, thank you for the opportunity and congrats on a good quarter. Just one question on your top customer reported earnings, they talked about a lot of, you know, AI in their call as well. What are we participating along with them? Any color could be really helpful. The second thing is if I look at the Hi-tech growth and you mentioned that the Hi-tech growth would be one of the pillars, so ex-top customer it appears to be a little soft. Now, I know you would not dissect it this way, but just trying to understand that what are we trying to build for the non-top Hi-tech customers? So, those are the two questions. Thank you.

**Sandeep Kalra:** So, look I have to be cautious of our NDAs and I have to be cautious of time. So, all I can say is with the top customer, we are working with them to understand how they're differentiating their Gen AI strategy with respect to others. Now, they were earlier on in this whole Gen AI game and the next is a different flavor that they want to bring to the enterprise, and we are collaborating with them to do proof of concepts for some other enterprises and we will continue to go deeper with it. Now, as far as the ex-top customer and top customer is concerned, look, we look at our entire portfolio of customers as a portfolio. Now, there will be situations in a macroeconomic environment where some customers may perform better in a particular quarter versus others and as long as we are focused, as long as we are seeding each part of the customer category for growth, we are good and I'm not too worried about slight slowdown in bookings, that's a timing issue more than issue of not happening. So, I'm relatively confident each of the customer categories with time will show a healthy growth and the sum of parts is any which ways at 3%, I'm very proud to say we have delivered among the best in the industry. I don't think anyone has delivered 3% sequential Q-on-Q and 17%-plus Y-o-Y in dollar terms and 23.6% in rupee terms. So, we are on it, we'll be on it in terms of execution and we'll try to even do better as we go along.

**Abhishek Shindadkar:** Thanks. Really helpful and congrats on a great quarter.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. The next question is from Rishit.

**Rishit:** Hi, thanks for taking my question. So, I just had a question around your ACV and TCV, while the trailing 12-month indicates continued robust growth, even if I assume leakages, what is your view on the deal pipeline and how should we look at the next few quarters, because for the growth for the next year after that, you might need to increase your ACV TCV signings?

**Sandeep Kalra:** Right. So, look, this is an ongoing business. As we go along, as the revenue increases, you are absolutely right, the ACV TCV will have to increase and we have talked about how we have increased our investment in SG&A. We have talked about how we are not looking to maximize profits in the shorter run. We are, you know, even now growth and sustained growth is the first priority, not maximization of profits at the cost of growth. So, we are investing in our sales and marketing. We are investing in our go-to-market partnerships, whether it is on Gen AI or other technologies, we are hunkering down with our partners to take them and become our ecosystem orchestrator of choice for our customers. So, that is where we are focused on and I'm pretty sure the ACV TCV should reflect it as we go along in terms of the increase in those metrics in line with the revenue growth that we want to see.

**Rishit:** Got it. Thanks, and how's your pipeline looking versus the previous quarters, do you have a healthy pipeline or?

**Sandeep Kalra:** Yeah. So, we don't give forward-looking guidance. I can't give you a number on the pipeline because it's as good as giving you forward-looking guidance on revenues, but from an overall perspective, the pipeline is good, but keep in mind that decision-making is slow, next one, two quarters are going to be tough, but the pipeline is fairly good and it is across the various segments that we deal.

**Rishit:** Got it. Thanks a lot.

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

**Rishi Jhunjhunwala:** Yeah. Can you hear me?

**Sandeep Kalra:** Yes.

**Rishi Jhunjhunwala:** Great. Thanks for the opportunity. Sandeep, just one thing you mentioned about, you know the condition of the macro today or basically in a bad macro we'll grow 2% to 4% CQGR and I guess you know, 1Q also would be a part of that and we have done 3%. Now, some of your peer set large and small have also talked about potentially better second-half in the anticipation that some of the deals that were there potentially would have gotten delayed in terms of ramp up. For you, fiscal 24, do you see it to be, normal year where you end up growing largely at the same rate through the course of the year or do you also think there could potentially be some bit of acceleration in the second-half?

**Sandeep Kalra:** As I said before, our customers when we have discussions with them, they also believe the next one to two quarters are going to be tepid, everyone will have to optimize for their own business and then on they are also expecting the economy to recover, the interest rates etc, all these hikes to be behind us, maybe even a different interest rate regime etc. coming in and so on. So, nobody has a crystal ball, but what we can see is the next few quarters are tough, but everyone is expecting the economy to come back and that's what our peers, I'm sure they have also been pointing out.

**Rishi Jhunjhunwala:** Right and just secondly on the margin side you had seen a lot of growth in the last two years and a lot of incremental revenues you would have invested back into the business. If we look at FY24, how much of margin sustenance or expansion if at all is predicated on an X amount of revenue growth that we end up getting versus some of the investments that you have done, which would anyways sweat out some of the margin levers that we would have basically materialized through the course of the year?

**Sandeep Kalra:** Sure. We are nearly at the end of the call. I'll just keep it very brief. From our perspective, our first task of business is sustainable growth. As far as the margins are concerned on the full year basis, don't worry about quarter-to-quarter, full year basis adjusted for the spend that we did in giving gifts to our employees and doing customer events in the first quarter. If you adjust for that, the first thing is grow well and be at the EBIT levels that were there for the last year. Now, as we go ahead and accelerate our business as the economy comes back, we have enough levers to execute to get to the 200 to 300 basis points aspiration that we have in terms of EBIT expansion and that's what we will execute.

**Rishi Jhunjhunwala:** Thank you so much. All the best.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. The last question is from Anmol.

**Anmol Garg:** Yeah, hi. I hope that I'm audible?

**Sandeep Kalra:** Yes, please.

**Anmol Garg:** Yeah. So, just wanted to ask that what do you think about the pricing environment at this point in time, given that there is a lot of hyper competition and the enterprises are also having their own cost pressures, so are clients asking for the pricing discount and are we planning to give the same to win deals or to renew the existing one?

**Sandeep Kalra:** So, look there are some segments that we deal with, some of the largest customers that we deal with, there are multiple strategic partners. It becomes hyper-competitive out there and in the last few years, we have been able to do price increases. I don't think in this environment, that will be the one where in the bigger customers, we can go in and have price increases. As far as the newer bids are concerned, a number of our newer bids are proactive bids where we are coming up with ideas, where we can add value to the customer, whether it is cost optimization or otherwise, and that's where we have better pricing power based on the differentiation that we bring to the market based on our capability to lead the customer in achieving their cost optimization initiatives. So, it's about what business you go after, how you go after, how you execute your sales pursuits. At Uber level, I'm not too worried about the pricing pressure as of this point in time, except for a few large customers.

**Anmol Garg:** Thanks, and just one last bit from my end is that what is our hiring outlook for the next couple of quarters?

**Sandeep Kalra:** So, look the hiring will be in line with the demand scenario, plus we have offered about 800 freshers who will join between August to December. We have no intent of delaying their joining. We will honor the offers the way we have given them and keep the timing. Having said that, if we need to optimize our own talent for nonperformers and others, that is part of the game, but otherwise our hiring is going to be in line with our revenue projections and please keep in mind, we have a significant amount of freshers who have been in our system for 12 to 15 months, who are fully trained, who have been shadowing projects. So, we have a lot of dry powder from that perspective to be able to grow without necessarily going out and hiring and all.

**Anmol Garg:** Sure, Sandeep. Thanks.

**Moderator:** Thank you. I now hand the conference over to Sandeep for closing remarks.

**Sandeep Kalra:** Thank you. So, we'll once again like to thank our 23,000-plus team members, our customers, our partners, and our investors for their support in our growth journey. We are cautiously optimistic on our prospects for FY24 and beyond even as we manage the macroeconomic developments and stay 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 look forward to connecting with you again in three months' time to provide an update on our ongoing progress. Please stay safe and stay healthy. Thank you.

**Sunil Sapre:** Thank you.

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

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