

# **“PERSISTENT SYSTEMS LIMITED - EARNINGS CONFERENCE CALL, FIRST QUARTER, FY25, ENDED JUNE 30, 2024”**

July 19, 2024, 8:00 AM IST

## ***MANAGEMENT:***

**Mr. Anand Deshpande**

*Chairman and Managing Director*

**Mr. Sandeep Kalra**

*Executive Director and Chief Executive Officer*

**Mr. Sunil Sapre**

*Executive Director*

**Mr. Vinit Teredesai**

*Chief Financial Officer*

**Mr. Saurabh Dwivedi**

*Head, Investor Relations*

**Moderator:** Ladies and gentlemen, good day and welcome to Persistent Systems' Earnings Conference Call for the First quarter of FY25 ended June 30, 2024. 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. Vinit Teredesai, Chief Financial Officer, Mr. Sunil Sapre, Executive Director 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 management's opening remarks. Should you need any assistance during the conference call, please raise your hand from the 'Participant' tab on the screen. While asking questions, request you to please identify yourself and your company. Please note this conference is being recorded. I now hand the conference over to Mr. Saurabh Dwivedi. Thank you and over to you, Sir.

**Saurabh Dwivedi:** Thank you, Moderator. Good Morning and Good Evening to everyone on this call. We're grateful for your participation and for spending time with us today. Before I hand over to Sandeep for his prepared remarks, I would like to update you of key changes to our reported metrics, which we normally do at the start of a new financial year. These changes are based on interactions with and inputs that we receive from analysts and investors throughout the year. Let me now update you of these changes. With respect to client engagement size, the new client buckets will include \$1 to \$5 million, \$5 to \$10 million, \$10 to \$20 million, \$20 to \$50 million, \$50 to \$75 million, and \$75 million plus. As you would have noticed, there are a few additional client buckets that we will be sharing going forward. We will be discontinuing the metric of top one customer contribution as our revenues are increasingly getting broad-based and other larger customers are scaling up and entering the top 5 client bucket.

Hence, going forward, we will be sharing revenue contribution from top 5, top 10, top 20, and top 50 accounts. We will also be sharing unbilled DSO in addition to the billed DSO information that we already provide in our analyst deck. I would like to draw your attention to the fact that, as part of our prepared remarks, we would primarily be comparing metrics to the same quarter of last year instead of focusing on quarter-on-quarter changes. Finally, let me talk about a statutory matter. Please be advised that as part of our prepared remarks and during Q&A, we may make certain statements which are forward-looking and may involve significant uncertainty. Persistent does not take any responsibility to update such forward-looking statements, and your discretion is warranted while making any decision. With this, let me hand over to Sandeep for his prepared remarks.

**Sandeep Karla:**

Thank you, Saurabh. Good Morning, Good Evening to all of you depending on where you're joining from. Let me begin with an important management update. Vinit Teredesai has taken over from Sunil Sapre as our new CFO. I would like to thank Sunil for his exemplary contributions to Persistent over the last 9+ years and for being a trusted partner in our shared journey at Persistent over the last 5+ years. Sunil will continue to be on our Board as an Executive Director till December 2024, when he is scheduled for superannuation. I would like to welcome Vinit as our new CFO. Vinit has had an illustrious career, most notably as CFO of LTIMindtree and KPIT. I look forward to a successful partnership with him over the next several years as we endeavor to take Persistent to newer heights. As we begin our journey into the new fiscal year, I am happy to report that we have achieved a strong growth of 5.6% quarter-on-quarter, translating into a 16% year-on-year growth. This marks our 17<sup>th</sup> sequential quarter of quarter-on-quarter growth.

As always, I would like to thank our customers, partners, employees, analysts and shareholders who have contributed to and stood by us during our growth journey. In rupee terms, this growth comes in at 17.9% year-on-year and 5.7% quarter-on-quarter. EBIT for the quarter came in at 14%, an increase of 10.8% year-on-year. Profit after tax for the quarter was 11.2%. Please note that effective July 2024, we have awarded our regular salary hikes. Vinit will provide detailed color on the financials and margin movement later in this call. Coming to the order book for the quarter. The total contract value for the quarter came in at \$462.8 million with the total contract value of new bookings being \$310.8 million. The ACV or Annual Contract Value component of this TCV is \$337.3 million, of which the ACV from new bookings contributed to \$198.1 million. Please note that our revenue conversion on a quarterly basis is a function of ACV bookings done in previous quarters as well as conversion from multi-year deals that we have booked in previous years, which are included in our total contract value or TCV bookings that we report. 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 size:**

Let me now give you some color on our client movement across various reported categories.

We witnessed healthy year-on-year growth among various client buckets with our top 5 customer revenue up 28%, top 10 up 21.5%, top 20 up 19.3%, and top 50 up by 19%. The contribution from top 10 customers is 41.5% in this quarter, an increase from 39.6% from same quarter last year. This is a demonstration of our ability to scale customer relationships significantly and often in competition with larger IT service providers. In

this quarter, we reported 178 customers with annualized revenues over \$1 million.

**Coming to the geographical performance:**

In terms of year-on-year growth in USD terms, North America revenue grew by a healthy 18.2%, while India grew by 15.7%. Europe revenue declined 7.1% year-on-year, while rest of the world revenue grew by 65.6% year-on-year, albeit on a low base. The decline in Europe revenue is partly due to decline in our salesforce related business from that geography and rationalization of tail customers specific to the salesforce related business.

**Let me now give you a color on this quarter's performance from an industry segment perspective:**

This quarter's growth was led by healthcare life sciences and BFSI industry verticals. The two of them grew by 66.8% and 7.3% respectively, on a year-on-year basis. Software, hi-tech and emerging verticals grew at 2.4% year-on-year. I'm also pleased to share with you that our BFSI segment crossed the \$100 million revenue mark for the first time in our history.

**Moving on from operational metrics to certain strategic highlights for the quarter:**

We recently concluded our 34th Annual General Meeting, this week on 16th July. I'm pleased to share that all the resolutions that were put to vote have been approved by the shareholders with requisite majority. I would like to take a moment to thank all our retail as well as institutional shareholders for their support in this regard.

**Coming to the Board updates:**

The statutory term of 10 years for Ms. Roshini Bakshi as an Independent Director on our board has come to an end at our recently concluded AGM. I would like to thank her for her contributions over the years. During her tenure, Persistent has grown 4X to the current trailing 12-month revenue of \$1.2 billion plus. The company has immensely benefited from her guidance, especially in the matters of strategy and M&A. I'm also pleased to welcome Ms. Anjali Joshi as an Independent Director on our Board. Ms. Joshi has more than 30 years of engineering and product management experience, including 13 years in senior product leadership roles at Google.

She was instrumental in building and scaling several products globally, including Google Search and Google Maps. Prior to Google, she held engineering leadership positions at Covad Communications and AT&T Bell Labs. She's currently a Director at Xero, a leading cloud-based accounting software company based in New Zealand, and LocoNav, a startup in the domain of fleet management technology. She was previously a Director at Alteryx, Lattice Semiconductor, Iteris, MobileIron, and McClatchy. We look forward to leveraging her experience and guidance in the software and hi-tech domain to scale our company to greater heights.

On behalf of the Persistent family, I'm proud to share with you that our founder, Chairman, Dr. Anand Deshpande, received the 2023 Association for Computing Machinery (ACM) Presidential award for his contributions to the global computing community and ACM through his visionary leadership, strategic collaboration and commitment to advancing the field of computing science and engineering. On behalf of the entire Persistent family, I would like to take a moment to congratulate Anand on this prestigious achievement.

**Coming to our strategic investments in AI:**

Our play in the AI domain has two broad vectors, AI for technology and AI for business. The AI for technology vector is all about transforming the way software gets developed. AI for business vector is about transforming enterprises right from business model transformation, operational transformation, data to insights and action, customer experience and leveraging generative AI. This approach is centered around three foundational pillars spanning across a shift to platform-based services from a human-based services approach, making strategic inorganic bets to complement our internal investments, and bringing the best of our partner ecosystem to our clients' leverage.

SASVA is our state of the art generative and deterministic AI powered digital engineering platform that, combined with a modern engineering framework, is at the core of our AI for tech proposition. SASVA brings together our rich digital engineering heritage and human creativity with AI's limitless potential to deliver higher value and faster time-to-market for our customers and higher employee productivity for us. With respect to AI for business, we have developed a set of IPs and accelerators such as iAURA and GenAI Hub, which enable enterprises to speed up the adoption of Gen AI use cases that are enterprise-grade, enterprise-safe, and enterprise-scale. We've also identified several horizontal use cases that are applicable across the industries that we service. One of such horizontal use cases around leveraging AI in the contact center space. We had been scouting for a suitable immediate target in this space as we continue to build internal capabilities. I'm happy to share that earlier in the month, we announced our intent to acquire New Jersey based Starfish Associates. The integration of Starfish's contact center platform with our existing unified communication offerings will enable us to significantly disrupt the domain and increase our traction with our existing customers on the back of AI-led innovations.

We'll also leverage our robust partner ecosystem and their advanced AI solutions such as Google Contact Center AI, AWS Connect, advancements in Microsoft Teams to elevate our contact center modernization play with our customers. We are likely to close the transaction in the next 2 to 3 weeks and expect to start executing in line with our defined integration framework.

In Q1, we also signed a strategic partnership agreement with Google that further strengthens our hyperscaler-led offerings centered around AI-led industry solutions. This agreement will help us in driving joint go-to-market activities and accelerating digital transformation for enterprise customers globally.

Using Google's Cloud Gemini models, along with other innovative Google Technologies, we will develop industry-specific solutions to drive broad-based AI adoption. Additionally, as a specialized Global Systems Integration partner, we will be integrating and implementing Google Cloud Solutions at scale. Finally, we'll leverage the strategic partnership with Google Contact Center AI to accelerate the adoption of our integrated Unified Communications platform from our Starfish acquisition.

Let me give you a few examples of case studies from Q1 gone by.

We were selected as an engineering partner by a hyperscaler to perform audits of a multitude of solutions developed by different technology partners. Post audit by us, the certified solutions will get a badge of accreditation which will positively impact consumption of such certified solutions.

Persistent was selected by a leading American Financial Services Organization, managing over \$800 billion in assets to improve the



productivity of its multiple scrum teams, covering 300+ employees through the adoption of GitHub Copilot.

We are partnering with the customer in an outcome-driven engagement model and will be establishing an engineering productivity center of excellence to help adopt modern delivery practices embracing Gen AI and data-driven improvements.

We were selected by a leading US-based payor that offers the largest not-for-profit Medicare/ Medicaid Public health plan in the country with over 1.5 million members and over 8,000 providers, to modernize its aging provider-facing applications which have been hampered by outdated architecture and poor documentation. This engagement will leverage Gen AI to document existing functionality and our SASVA platform to help replace the legacy front-end with a modern interface for improved usability and maintainability.

Coming to the outlook and strategic direction on our AI initiatives. We remain steadfast in our approach to making AI integral to the entire Persistent operations, both from a service offering perspective and internal operations. With SASVA and other accelerators, we've pivoted to a platform-led services approach. Our goal in the longer term is to drive increased revenue and profit per employee as we progress through the AI adoption journey in the years to come. We will continue to provide updates on our AI initiatives in subsequent quarters.

Coming to an update on the revenue enhancement and cost optimization initiatives. As we embarked on our journey to 2 billion dollars, we've spawned off two company-wide initiatives. One focused on enhancing our service offerings and our approach in mining our strategic accounts and the other one on cost optimization.

On the cost optimization and operational efficiency side, we have been benchmarking our policies with respect to industry best-in-class whether on parameters like employee compensation and benefits, employee long-term incentive plans such as ESOP etc. Some of these will give us a one-time benefit while most of them are aimed at structurally balancing our cost base while enabling the right investments to fuel our growth aspirations.

In summary, we are pleased with our performance in Q1 FY25 in a challenging business environment. I would like to now invite Vinit to provide a detailed color on the quarterly financials and related matters, after which Saurabh will provide an overview of our key deal wins and awards and recognitions. I'll come back after Saurabh's comments to summarize our prepared comments before we open for the Q&A. Over to you, Vinit.

**Vinit Teredesai:**

Thank you, Sandeep and Saurabh. Good morning, Afternoon, Evening everyone depending upon the time zone and thanks for joining this call. First, I would like to thank Sunil for a smooth transition and helping me settle down. I would like to thank him on behalf of entire Persistent family for his significant contribution in this remarkable growth journey. I will now take you through the financial highlights for the quarter. Revenue for Q1 of FY25 was \$328.2 million and ₹27,371.7 billion registering a year-on-year growth of 16% and 17.9% respectively. EBIT for Q1 FY25 was ₹3,840.2 million growth of 10.8% year-on-year and 2.6% compared to Q4 of FY24. EBIT margin for the quarter was 14% compared to 14.9% in Q1 of FY24 and 14.5% in Q4 of FY24.

Let me give you a walkthrough of EBIT margin for Q1 compared to Q4 of FY24.

There was a 60 bps impact on account of one-time visa costs, 210 basis points impact of increase in subcontractor costs to support the onsite ramp up in key accounts, 70 basis points on account of higher SG&A during the quarter.

However, as Sandeep mentioned earlier, as we started growth and our cost optimization programs for the fiscal year 2025 and beyond, the benefits will be visible strongly in the subsequent quarters. However, some partial benefits have also accrued in the current quarter. The tailwinds for the quarter are as follows:

- The increased utilization has benefited margins by 90 basis points
- Operational efficiencies contributed another 90 basis points
- Reversal of earnout credit pertaining to past acquisitions contributed 60 basis points
- Change in the useful life of computer and networking assets contributed 40 basis points
- while employee benefit rationalization net of increased ESOP costs contributed 10 basis points

I would also like to elaborate on our approach to M&A. As a part of M&A business case, we assigned a part of purchase consideration for an acquisition to scalability of revenue and margin profile over a period of time.

This serves as a check and balance in case such revenue and margin uplift does not happen with our earnout liability being marked down in line with acquisition performance. Two of our acquisitions did not entirely pan out in line with our expectations and the lower consideration amount that we are liable to pay has been written back in our P&L.

Moving on, the effective tax rate for the quarter was 23.5% compared to 25.5% in Q1 of FY24.

Profit after tax was ₹3,064.2 million, growth of 33.9% year-on-year on reported terms. As you would recollect last year in Q1 of FY24, profits after taxes reported had one-time exceptional spend impact on account of company reaching billion-dollar revenue milestone. The growth in profits after tax in Q1 FY25 is 15.6% year-on-year after adjusting the impact of this exceptional spend net of taxes in Q1 of FY24. The PAT margin came at 11.2% in Q1FY25. Earnings per share for Q1FY25 is ₹20.10 per share compared to ₹15.30 per share.

Cash generation in this quarter was better compared to Q1 of FY24 despite major outflows on annual benefit payouts and renewals of few enterprise applications. Operating cash flow to PAT for Q1 of FY25 was 49.3% compared to negative 23.5% during same time last year. We continue to maintain our focus on operating efficiency and working capital and expect our cash generation from operations to improve in the next few quarters.

Due to internal re-organization of business operations, our invoicing was delayed in Q1 of FY25 resulting in our billed DSO remaining flat year on year while unbilled DSO increasing by 4 days to 25 days year-on-year respectively. We continue to focus on invoicing in time and improve our collections in the next few quarters. Our cash and investment balance, net of borrowings were ₹18,258.4 million or \$219 million. As we continue to grow, we are committed to maintaining our focus on optimizing our cost and at the same time, make the right investments in business. The net effect of the same will result in improvement of our operating and net margins in the subsequent quarters.

Now let me give you some key operational updates.

At the end of Q1, our total headcount stood at 23,519, an increase of 389 from Q1 of last fiscal year. Compared to the previous quarter i.e. Q4, our headcount has declined by 331. We have optimized unbilled headcount over the course of last 4 quarters by hiring selectively for billable roles.

With this, the blended utilization for Q1 came in at 82.1% compared to 78.3% in Q1 of FY24. Utilization in the previous quarter, that is Q4 was 80%. As mentioned earlier, this contributed to our margin performance in this quarter.

Trailing 12-month attrition for the quarter came in at 11.9% compared to 15.5% in Q1 of last year. Attrition has come down to a comfortable band for the past few quarters in line with the industry trend.

I am happy to share that we have published the 3<sup>rd</sup> edition of our ESG report highlighting the progress we have made against the stated ESG goals. This report is available on our website under Environmental, Social and Governance Section. We encourage our listeners to go through the report.

As we have mentioned in our earlier analyst calls, our aspiration is to achieve carbon neutrality for Scope 1 and Scope 2 emissions and 100% renewable energy sourcing by middle of FY25. We are also working towards net-zero carbon emissions well ahead of 2050 target set by the Science Based Targets initiative (SBTi).

Let me now hand over to Saurabh for deal wins and recognitions during the quarter.

**Saurabh Dwivedi:** Thank you, Vinit. I will now talk about key deal wins in Q1 by industry segments.

Let me begin with Software, Hi-tech and Emerging Industries, our largest vertical.

Persistent was selected by one of the largest US-based technology companies to provide engineering, deployment and support services for its cloud offering on a tier 1 virtual server platform. This is a 5-year \$50mn+ deal in which the benefit to the customer includes accelerated roadmap for its Cloud offering with predictable transition of engineering and support effort to offshore.

Persistent was selected by leading Network Lifecycle Automation company based in Europe to consolidate R&D operations spread across multiple geographies and drive productivity enhancements. Persistent's expertise in Service Assurance, Observability and AI Ops were the key differentiators in winning this engagement. The benefit to the customer includes acceleration of AI, data and SaaS-focused roadmap through consolidation of distributed effort.

Persistent was selected by a leading application security testing business which has been carved out by leading private equity firms from one of the largest semi-conductor design software companies to undertake greenfield setup of IT infrastructure and security operations. This 5-year modernization and managed services deal is a recognition of Persistent as a trusted partner for leading private equity companies. The benefit to the customer includes on-time transition to an IT infrastructure independent of its parent.

Coming to banking, financial services and insurance.

Persistent was selected by one of the largest US-based financial services and wealth management firms to modernize customer data applications, business KPIs across Risk & Sales functions and implementation of the Gen AI roadmap. This engagement will leverage Persistent's Data and Gen AI access including iAURA and GenAI hub. The benefit to the customer

includes engaging with a nimble strategic partner in the domain of data engineering to modernize its customer-facing operations.

Persistent was selected by one of the largest US-based Fintech companies to build a cloud-native payment rail solution to enable real-time payments for its customers. Persistent's expertise in the payment's domain and in building microservices-based architecture was a key differentiator in winning this engagement. The benefit to the customer includes building Payments as a Service platform in line with its strategy of becoming a third-party service provider for other financial institutions.

Persistent was selected by one of the largest banks in the APAC region to modernize its banking platforms to be used by 5,000+ business banking staff and end-to-end digitization of decisioning and processes for lending to business banking customers. The benefit to the customer includes modernization of legacy technology and non-digitized processes leading to improvement in business banking customers' NPS.

And finally, within our healthcare & life sciences vertical:

Persistent was selected by one of the leading precision oncology companies for the enhancement of its Assay Control Software to keep track of samples processed as well as usage of reagents and instruments. Persistent was selected for its expertise in the bioinformatics and laboratory information systems domain. The benefit to the customer includes better turnaround time and reduction of errors due to manual entry processes.

Persistent was selected by one of the largest US-based multinational health insurance company to migrate its current on-prem Clinical and Claim Datawarehouse to a cloud-based platform using Microsoft Azure, Databricks and Data Build Tool (DBT) framework. The benefit to the

customer includes efficient storage and transportation of data to run faster analytics for actionable business insights.

And finally, Persistent was selected by one of the leading US-based diagnostic companies to undertake product lifecycle management of its critical applications related to genetic condition diagnostics. Persistent was selected for its product engineering capabilities in the genomics domain. The benefit to the customer includes partnering with a trusted offshore engineering partner for accelerated roadmap of its critical applications.

Moving on to the awards and recognitions for the quarter from leading analyst firms.

Q1 saw us get continued recognition from industry-leading analyst firms and associations. To mention a few:

Persistent was recognized by ISG in the following categories:

- Persistent was ranked as a leader for Digital Engineering Services by ISG in the US and Europe 2024, and
- Persistent has been recognized as a leader and rising star in ISG's Provider Lens™ Salesforce Ecosystem Partners 2024 report.

Persistent was ranked as a leader in HFS Hi-Tech Services 2024 for Platform Engineering Expertise.

Persistent has achieved Premier Services Partner status with Snowflake which is a testament to Persistent's expertise in building and modernizing clients' data platforms, developing innovative solutions and migrating data on the Snowflake Data Cloud.

Persistent won the Masters of Risk Award in the Risk Governance category at the CNBC TV18 India Risk Management Awards, and Persistent was



recognized for Excellence in Governance and Executive Leadership at Institutional Investors 2024, Asia Executive Team Awards.

This completes the section on key wins and Awards and Recognitions and let me hand it back to Sandeep.

**Sandeep Kalra:** Thank you, Saurabh. In summary, we have started FY25 on a positive note delivering a strong revenue growth in Q1. We are confident that the various revenue enhancement as well as cost optimization initiatives that we are working on, will provide us a significant boost in margins as we exit FY25. With these, our endeavor is to deliver a healthy revenue growth for the full year FY25 and a similar margin profile as we delivered in FY24. We remain committed to our margin improvement guidance of 200-300 basis points over the next couple of years as we scale our business. With this, I would like to conclude the prepared comments and would like to request Sunil to make a few comments before we request the operator to open the floor for questions. Sunil, over to you.

**Sunil Sapre:** Thank you, Sandeep and would just like to take a moment to thank Anand, Sandeep and the entire Board for the trust and confidence reposed in me in my role as the CFO and also to all our senior leaders and fellow employees in our growth journey. When I joined the company, it was about \$350 million company. Today it is almost \$1.2bn+ run rate, so it has been a very satisfying kind of a period. Lot of intense activity. And I must thank you all, for all the valuable insights, insightful questions and many times keeping us on our toes and am sure you will continue to do that which is a very balancing role that you guys play. I am very happy and would like to welcome Vinit. He has been a good friend and settling down very well and am sure the company is in safe hands. So wish you all the best, Vinit and I hand it back to you, Sandeep.

**Sandeep Kalra:** Thank you. Operator, please open the floor for questions.

**Moderator:** Thank you, Sir. We will now open the call for Q&A session. We will wait for few minutes until the queue assembles. We request participants to restrict to 2 questions and return to the queue for more questions. Please raise your hand from the participant tab on the screen to ask any question. The first question is from Abhishek Bhandari.

**Abhishek Bhandari:** Thank you for the opportunity. First of all, Sunil Sir, all the best for your future. It was really nice interacting with you and Vinit, welcome to the new role. Sandeep, my first question is on slide 13 of your investor presentation. You know, for the last 3 quarters, bulk of our growth is led by this healthcare account. 2 questions there. 1 - how much more growth potential do you see in this vertical and the large account, what has been driving bulk of the growth here or is it broad-based, if you can clarify that? And 2, how should we think about your Hi-tech vertical which has been kind of stagnant for the last 3-4 quarters? When do you see the growth will return in that, and what would drive a growth improvement?

**Sandeep Kalra:** Sure! As far as the healthcare segment is concerned, it is not just one account. It is a multitude of accounts that are responsible for the growth. So, rest assured, it is a broadbased growth. While yes, bigger deals do drive significant part but at times, if you look at our journey, we have said it repeatedly, we have rebooted our healthcare vertical for the last 2 years. We have brought in new set of leaders in that and we are continuing to invest on an ongoing basis. So we are confident that the growth journey will continue in healthcare and we have said this for the last several quarters as well. As far as the Hi-Tech segment is concerned, if you compare the Hi-Tech segment from an engineering perspective, we have done fairly well. The hi-tech segment comprises of various different things in that. If we look at our order book for this quarter itself, we are fairly confident that hi-tech segment will also grow. So, from our perspective, compared to the industry that we live in and we are a part of a much bigger

pond. If you look at our competition, the hi-tech segment, the trend is pretty visible in other results as well over the quarters. We have done relatively better, we will try to do even better and I am pretty confident that will also return to a very healthy growth. So, from our perspective, it will be a secular growth, led by healthcare lifesciences followed by BFSI and hi-tech and look, for several years, hi-tech took the lead. So, it's going to be one or the other segment as a company, as a team. It's basically going to be like a portfolio where we will continue to grow and sometimes one vertical will grow more than the other and sometimes the other. So we are fairly confident across verticals.

**Abhishek Bhandari:** Thanks Sandeep. Sandeep, my 2<sup>nd</sup> and last question is on growth. You know, in the last quarter call you had said that you were aspiring for a growth similar to FY24 level with similar margins. Q1 has been on a very strong footing at 5.6% growth and incrementally, some of the peers which have reported so far are not talking about bad news worsening from here. So, should we think, given this strong start what you had at the start of Q1, there could be a growth outlook for FY25 which is better than FY24?

**Sandeep Kalra:** Abhishek, you know very clearly that we don't give forward-looking guidance. All I can say is this, whether it was the covid times or thereafter, whether it was a bad macro or good, this is our 17<sup>th</sup> sequential quarter of growth. As a team, we are committed to delivering our best. We have delivered a fairly strong starting run rate and the journey well-started is half the journey done. So let the quarter pan out. We are confident of delivering good growth and as I have said before in the prepared comments as well, while our margins came in at 14% from an EBIT perspective, we have very clearly set our aspiration and that is to deliver the 14.5% or so that we delivered the last full year and we are at it. We'll let the rest pan out.

**Abhishek Bhandari:** Thanks Sandeep and all the best for fiscal 25.

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

**Mohit Jain:** Sir, just one question on margins. There were lot of one-offs in this quarter. So in Q2, how do you see some of these one-offs reversing potentially and the impact of wage hikes that we should build in for 2<sup>nd</sup> quarter?

**Sandeep Kalra:** Sure, I will make a high-level comment and I will have Vinit answer the rest. If you look at it, in any business, there are always going to be puts and takes. So, if you look at what we said in the prepared comments, so we said, for the last several quarters, we have been looking at benchmarking our policies whether they are employee compensation and benefits, whether they are things like how do we depreciate our assets etc., we involved a 3<sup>rd</sup> party consultant to benchmark us against the best in class. If you look at our long-term incentives, things like ESOPs etc., we are the best in class. So we need to make sure that as we have grown from being a half a billion dollar company 5 years back to a run rate of \$1.2 billion and we are competing increasingly with the best in class, tier 1s from India, tier 1s from global, we need to benchmark ourselves. So we have re-adjusted as we started this financial year, some of our policies which will give us a one-time gain in some cases and a one-time hit in some cases, so there are going to be some one-offs on that. And structurally, there is going to be a re-adjustment of the margins going ahead on some of the things that we change. Similarly, on the M&A side, when we do an M&A, as Vinit explained, we build a business case. The business case is built on upfront money that we give, a certain amount of earnouts, which are linked to the revenue increase and the margins being delivered, and all of this is factored into the P&L. Now either these companies perform jointly with us in terms of synergy revenues and hence we see the profit and revenue go up or if that doesn't happen, then obviously we have to claw back

whatever was supposed to be the earnouts so that we are being good to the companies that we acquired but we are also managing our P&L. So there are always going to be puts and takes, sometimes one-offs will also come but we are pretty confident, even including salary, wage increases etc., we will deliver a healthy margin for Q2 and by the time we exit the full year, our margins should be at a level where we should have come to the full year, aspirationally, at the same level as the last year and set the run rate for margin improvement for the years to come. Vinit, please give more color.

**Vinit Teredesai:**

Ya, so Mohit, couple of things in addition to what Sandeep said. One, you know, the growth will itself take care of a lot of the margin issues. The 2<sup>nd</sup> part, while this looks to be a one-off, you will also have to look at the fact that there are 2 aspects to it. One, some of these costs don't get recurred and hit our P&L on an ongoing basis. Two, the rationalization of some of the compensation and benefit doesn't happen in one go. It happens over a period of time, depending upon the geography and depending upon the regulatory framework from which we are doing that alignment. So we have couple of other things that will also pan out during the year and have a benefit coming into it. The 3<sup>rd</sup>, as I mentioned in my opening comments, there is a cost optimization program that has been launched, whereby we are focusing on improving our operational efficiency. That program kickstarted in Q1. Some of the benefits, we already achieved in Q1 but the larger benefits will be coming up in the subsequent quarters. When we decided to make a change and give increments to our people, we had all factored in some of these headwinds that were going to come but at the same time, we were also going to get a lot of these tailwinds through some of these initiatives that are already ongoing. We are pretty confident, at the end of the year to not only at least meet our FY24 margins but probably even exceed it.

- Mohit Jain:** Depreciation is the new run-rate, is it?
- Vinit Teredesai:** It is going to be new run-rate. So there is one adjustment that has happened for the quarter but this is going to be a recurring reduction in our depreciation and amortization.
- Mohit Jain:** Okay. And last on subcon, this number was very high for this quarter. Now should we expect, and this is also a one time, or do you think this will sustain the few quarters and then come off as part of natural growth?
- Vinit Teredesai:** So, see subcons are basically taken into consideration to do a quick ramp up. Eventually, over a period of time, there is a plan being put in place whereby these subcons will get replaced with our own employees. But that's a structured plan. At this point of time, more important factor is that growth is on our table. We want to capture that growth and eventually the impact of that higher cost rounding into our own FTEs and reducing our cost and improving our margins will come into play over a period of time.
- Mohit Jain:** Thank you.
- Moderator:** Thank you. The next question is from Suraj Malu.
- Suraj Malu:** Thank you, sir, for this opportunity. I had one question, can you just help me understand with an example, what does Starfish do, like, just a use case to understand in greater detail?
- Sandeep Kalra:** Perfect. So, Suraj, Starfish basically has a platform which can help manage multiple different contact center technologies in larger, let's say fortune 500, kind of an organization. You know, there's a percolation of, let's say Teams on this side and Avaya, Genesys and others. So, on one side, you have to manage multiple different technologies that can come into play through various acquisitions or organic system builds in different parts of the organization. On the other side, they also have the ability to migrate to the latest technologies like an AWS Connect and so on and so forth. So,

the play for them so far has been managing multiple different contact center technologies, modernization of contact centers, etc. to provide better customer experience and enable business models. Where we are going to focus with them is on integrating things like Google Contact Center AI and even accelerating the path to things like AWS Connect and so on and so forth. So, for us, it's a much bigger play taking the technology that they are bringing in, building it along with our partner IP, whether it's Google, AWS or Microsoft, and helping our enterprise customers leverage the power of Gen AI as it unfolds.

**Suraj Malu:** Got it. Thank you.

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

**Dipesh Mehta:** Thanks for the opportunity. A couple of questions. First, about the employee policy change, which you referred to. Now attrition seems to be a slight inch-up. So, if you can give some sense about attrition and some of these policy changes, how employees are taking it in terms of their overall compensation and related implications?

The second question is about Hi-Tech. You partly alluded to it in terms of engineering segment did well, but overall performance was still weak. So, if you can help us understand which area is seeing a headwind leading to muted revenue growth for the last few quarters? And Salesforce also, you partly touched upon how in terms of where headwind were there particularly in Europe? So, if you can give some comments about how Salesforce Ecosystem is playing out for us? Thank you.

**Sandeep Kalra:** Sure. So, I'll start the reverse way and then I'll also have Vinit help me with this. So, on the Salesforce part, look, the issues that we have in Salesforce in Europe are our own. I don't think it is linked to Salesforce as a company or Salesforce as a segment. So, when we acquired the companies, if you

remember there were two companies that we had acquired, one at \$13 million in revenue, one at \$6.5 million in revenue. All these acquisitions are in the last 5 to 7 years. Now, obviously, with them, we acquired a certain customer base because at that certain revenue base, their customer base comprised of companies large and small. All we are trying to do is to slowly, as the contracts come up, we are trying to basically rationalize the long tail. We are not trying to renew the contracts where, you know, the contracts are much smaller, companies don't have the propensity to grow with us and so on. So, there's a certain amount of rationalization that we have been incrementally doing over the last four years. So, that's as far as Salesforce Europe is concerned. And our endeavor is to grow accounts at a profitable clip, accounts that have a propensity to become bigger accounts for us across multiple different service lines and so on. So, that is the part in Salesforce in Europe. Our Salesforce business across the US or in India or APAC broadly, which includes Australia, is growing fairly healthily. So, if I look at the net Salesforce business for Persistent, going very well, these are adjustments that we need to do to take care of our own profitability and growth ambitions in the right way.

The second part, you talked about the Hi-Tech side. So, look, Hi-Tech is an interesting market when the macro goes up or down, now the enterprises don't invest that much in a bad macro in buying newer software licenses or, you know, implementing more modules, etc. that basically impacts our customers and their ability to invest. And of late, we have seen some amount of green shoot in that. Plus, we have also doubled down with our platform play. Our platform play with SASVA is being taken in a very positive manner, especially in the private equity enterprise software intersection. So, we have seen some green shoots, we have booked some good orders, and we are fairly reasonably confident that Hi-Tech, which



had been traditionally a very good growth engine for us, will also become a good growth engine for us going ahead over the next several quarters.

Now, in terms of the employee attrition, etc., the employee attrition went up a little bit for us. It's a combination of two things. One, you know, the market environment, which I would say is relatively stable, just a little bit green shoots emerging there for some of the providers, not all, as you may also have seen.

Second part is where we are optimizing, where if we are looking at our own talent pool, and if we look at our talent pool and see the people who are not being able to be deployed over a number of quarters, then it is upon us to make sure that we are optimizing. If we cannot give someone a career path, they are better off going somewhere else and having a career path somewhere else. And so, we are on that journey where we have made sure that we have optimized for cost, put money where our growth is, that's where our utilization has also moved up. And partly that has also led to a little lower margin, if I may say so, in the last quarter, because whatever rationalization we have done, whatever severances we have to pay, we have baked that in. And that's also a margin lever for us going ahead in Q2 and beyond. And the policy changes that we are doing are nothing that hit the basics of the employee compensation. These are, you know, to balance, where on one side, we are giving employees the employee stock options, which have a fairly good upside for them and wherever the policies are archaic, we are taking that out. So, that's there. Vinit, if you want to add anything to it, please.

**Vinit Teredesai:** Well, just two things. When we look at compensation and benefit, we look at it in a holistic manner, not in a each component manner. When we look at our overall compensation and benefits compared to the industry, I think so our average compensation is far better than the industry.

Second, as Sandeep rightly said, it includes employee stock options, which has been given to a pretty large population in Persistent. We are one of the best in class whereby we have given the stock options.

The third aspect is also to look at the fact that we are one of the few companies who has rolled out increments well in time. So, you know, people also welcome that perspective when some of these initiatives are being taken into consideration.

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

**Rishi Jhunjunwala:** Yeah. Hi thanks for the opportunity. A couple of questions, firstly on margins. So, what are the wage hikes that we have decided and when is it going to roll out?

And just in terms of the initiatives that we are taking to optimize cost, is there kind of trajectory that we can build in, in terms of which areas are going to see benefit from that over what period of time?

**Vinit Teredesai:** So, wage hikes while I don't want to call out the specific number, it is pretty much in the range of what the typical industry hikes have been given at this point of time, whichever companies have rolled out, our wage hikes are pretty much in line with that. And typically, you would anticipate the impact on profitability anywhere between 150 basis points to around 200 basis points. Now, that will get offset by a couple of these cost optimization measures that we have talked about.

One, utilization obviously there is, while we have improved it in this quarter, there is some further scope to do utilization improvement.

Second, we are doing a lot of right-shoring. So, all these ramp ups that have happened on onsite in the beginning of the current year, those will get sort of right-shored over a period of time. So, as a part of that, that will come up as well.

The third portion, we are also looking at our SG&A spend. We have invested sufficiently in the last couple of quarters. I think now we have reached a stage whereby our growth momentum can continue without making any incremental massive investments into SG&A.

**Rishi Jhunjunwala:** Thanks. And just a second question on revenues. Right. So, clearly you know, such strong revenue growth is also a function of the large deal ramp up that is happening, which is reflected in increased subcon costs as well, which is probably mostly onsite. So, there will be a shift that will start happening from onsite to offshore once the deal ramp up is kind of stabilized. So just wanted to understand, how many quarters do you think, after which it will start happening and whether should we expect any kind of deflationary pressures from that which will be difficult to offset, say, in the second half of the year?

**Sandeep Kalra:** So, Rishi, look at it this way, the deflationary pressure will come if we don't have a strong order book quarter-on- quarter. So, the way we are looking at it is, the deals that we have booked, they will have an impact in terms of offshoring over the next several quarters. It's not a bulk of it happening in one particular quarter very soon. So, these are things that take place over a period of time. And the fact that we have been booking very good, order wins on an ACV basis, it basically will supplement the growth that we need to have. So, net-net we are confident of growing healthily between optimizing and the New Order book. So, I don't think we should be worried about it.

**Rishi Jhunjunwala:** And Sandeep, this ramp up is still ongoing or we have kind of matured in that, just trying to understand, whether it still has 1 or 2 quarter runway?

**Sandeep Kalra:** So, look, the fact is that this is not one customer, one large deal. This is multiple customers, multiple deals within that. Within which there may be customers, where there are multiple large deals. So, I would say a

significant part of the initial set of large deal wins have been ramped up. There is still more headroom for us to ramp up and then our endeavor is to continue winning deals, whether in the same vertical or the other verticals. And as I said, sometimes one vertical will take leadership, sometimes the other. So, overall, I do think the growth journey will continue.

**Rishi Jhunjhunwala:** Okay. Thank you. All the best guys.

**Moderator:** Thank you. The next question is from Kawaljeet Saluja.

**Kawaljeet Saluja:** Hi, Sandeep. Fabulous revenue growth performance. Congratulations! You know let's talk about something which is a little bit what I would say tad disappointing, which is on profitability. Now, if you look at the underlying EBIT in the quarter, Sandeep, it stands at 9.5% if you remove those you know, earnout provision reversals, etc., and this is even before wage revision. Now I'm just trying to understand what are the nature of contracts actually, which has brought down the underlying EBIT margin to 9.5%. Typically, strong revenue growth is associated with margin improvement but of course, I understand that there are idiosyncratic contracts. I'm just trying to understand the true profitability of the new incremental business that you are winning.

**Sandeep Kalra:** Yeah. So, Kawaljeet look, again, as I said, there are always going to be puts and takes and there are puts and takes that you take knowing fairly well how the entire P&L is going to pan out. And so, from our perspective, there are order wins that we have done where there may be transition costs involved. And there are always ways and means of booking the transition costs upfront if you want to. And some people do defray the costs of transition over a period of time and so on. So, without going into too many details, there are seven minutes in this call. I would say the way you are looking at it, may be one way of looking at it, but if you look at the overall

profitability of the business, the levers that we have talked about, whether it is offshoring of certain of these large deals and not just one account, these are multiple deals, multiple accounts. The deal wins that have panned out with offshoring, that will happen. And then there are the cost initiatives that we have taken on ourselves and we have also booked some cost in terms of severances, etc., in Q1. And so, if you put all of these together as operators of this business, I can say with confidence, we know that we are headed into a year where we will optimize margins despite wage hikes, and by the time we exit our run rate exit should be pretty healthy and our full year should be more or less in line with what we delivered last year. Rest, I will let the time pan out.

**Kawaljeet Saluja:** No, I take your point, Sandeep at the end of the day, you have to take a portfolio call, but just persisting on this you know, see, essentially some of the things on which you're getting benefit, like, let's say, reversal of earnout provision. It would not be there next year. Right? So, I'm just trying to understand what's the true underlying nature of profitability? I mean, you know, you've basically stopped, let's say tenure-based incentive plan on stock options for employees. So, again, there's a lumpy tailwind, right, which will not recur. I'm just trying to understand what are the true underlying profitability in FY25, as such? I understand the call on the business and portfolio.

**Sandeep Kalra:** Right. So, let's just take your example in point. So, when we swap one compensation benefit for the other, so, while there is a lumpy gain on one, there's a lumpy cost on the other. The cost on the employee stock option plans, if you understand how the employee stock option plans are run, there is higher upfront cost, and we have been one of the best companies in terms of, best coverage of our employees, which we rightfully have a need to do because we are one of the best performing companies. So, when you give a broader based employee stock option plan, the hit in the

first few quarters or the first year is the highest. Now, if you are swapping in the benefit for ESOPs with an archaic benefit which you have to accrue and has no meaning, it is a prudent call. It is not to be just looked at one on one side and the other on an absolute other side. So, it's basically netting off, if you net that off, we are good. So, I think devil is always in the details and I wouldn't want to bore 300 people on an earnings call with the details. So, we can have an offline discussion. But I'm pretty reasonably confident the underlying business profitability is fairly good and as I said before, we have taken certain calls which are important to optimize our costs. And when we are optimizing for costs on the employee front, we have severances, which we have paid in the first quarter. So, puts and takes 14% we have delivered. 14.5% is what we delivered last year. Our endeavor is to get full year to that, and you are also here, we are also here, we'll let it pan out.

**Vinit Teredesai:**

Now let me add two things Kawal, to this. One, yes, if the earnout credits are not there on quarter on quarter, but you look at the fact that if the acquisitions that we have done, pan out to the way we are anticipating, they will get reflected in both our growth as well as on margins.

Second, you have to also look at that some of the, when we do the rationalization of employee compensation and benefit, some benefits come up in a quarter, but you have to also look at the fact that there is a recurring cost that is avoided from a future perspective. So, to that extent, my forward-looking cost has also come down.

Third, these programs that we have launched, we started, as you know, any growth or cost optimization program that gets started, in the initial phase, you only get partial benefits, while the cost associated with launching that program and executing that program is much higher. The subsequent quarters, the cost sort of gets rationalized, but the benefits are

much multifold. So, you keep that in mind, we have done our own analysis. If we go on the growth path that is being achieved, we are pretty much confident that we will be able to achieve the margin trajectory that we are anticipating.

**Kawaljeet Saluja:** Okay. Fantastic. Thank you so much. Vinit, you know there are some rough edges, which I'll just clarify with you maybe post the earnings call. But thanks a lot for the detailed explanation both Sandeep and you.

**Moderator:** Thank you. The next question is from Sandeep Shah.

**Sandeep Shah:** Yeah, thanks for the opportunity, Sandeep wanted to understand if the 5.6% growth was in line with your expectation at the start of the quarter, or because there are higher on-site efforts also which might have led to this? And is it also the pass-through sales being higher because the software license cost has gone up to 7% from 5.8%? And if it is higher than your expectation, is it led by a pickup in the discretionary IT spend? That's question number 1.

Question number 2 is an extension to a previous question. The margin heavy lifting might have to be done in the second half versus first half. And we are expecting a healthy run rate on EBIT margin in the 4<sup>th</sup> quarter. So, is it fair to assume the 4<sup>th</sup> quarter EBIT margin would be a long-term sustainable margin, or will have also some one-off, which may lead to a tight margin walk again in FY 26?

**Sandeep Kalra:** So, there is a bulk of questions in that, and we have two minutes in the call. So, I'll go rapid fire and we can follow up. So, in terms of the margin, look, by the time we hit the Q4, the margins that we will have are sustainable long-term margins. So, that is the endeavor, that is the entire effort. And we are fairly confident we have a full plan in place, and we'll execute it.

Second part of it is the ramp up, or the 5.6% growth in the first quarter was in line with our expectations or higher than our expectations. Look, our business, it's very hard unless you have, you know, pass-through revenue scaling up to change things at the last minute. And the pass-through revenue is not what is the reason for this. So, if it is a traditional business scaling up on the back of multiple large deals in multiple large customers, scaling up, that's what it is. And so, it is fairly predictable. And so, we pretty much know by the middle of the quarter where we are going to end in the end of the quarter because we are building on or executing to the order book we have had, our in-quarter book, and bill is relatively smaller as compared to what we deliver from the bookings from last few quarters, So rest assured, it's not by accident, it's by plan, and it's not based on passthroughs and so on.

Now the discretionary spend coming back, look, I have always maintained, despite many of the analysts believing or self-believing that Persistent is discretionary spend-based. We have come a long way in the last 15 years or so. Today, we are winning against some of the bigger providers. We are doing vendor consolidation, including consolidating some of the bigger providers. And it is both a build and a maintain kind of a work, cost optimization kind of an initiative where we are more and more invited to not just new bids. So, so rest assured, discretionary, no discretionary, it is more execution discipline that is getting us this and the muscle that is being built in that. So, with that, I will stop. I think we are out of time. So, moderator if you can please close the call. From our perspective the only other thing I would say is we have started FY25 on a positive note. We are confident of our growth trajectory. We are confident of delivering the margin trajectory and we are confident of our customers scaling with us.



With that, I will once again thank all of you and our 23,500 plus team members. We look forward to providing you an update in the next three months' time and connecting back with you. Thank you.

**Sandeep Shah:** 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 line and exit the webinar. Thank you.

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Please note that this transcript has been edited for readability.