"PERSISTENT SYSTEMS LIMITED - EARNINGS CONFERENCE CALL, SECOND QUARTER, FY25, ENDED SEPTEMBER 30, 2024"

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MANAGEMENT:

Dr. Anand Deshpande
Chairman and Managing Director

Mr. Sandeep Kalra
Executive Director and Chief Executive Officer

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 Second quarter of FY25 ended September 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 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 name. Please note, this conference is being recorded. I now hand over the conference to Mr. Saurabh Dwivedi. Thank you and over to you, Sir.

Saurabh Dwivedi: Thank you, Vandit. Good Evening and Good Morning to everyone on this call. We're grateful for your participation and for spending time with us today. We hope you have had the opportunity to review the results that we published a few hours ago. Let me quickly outline the agenda for today's call. Sandeep will begin with an overview of our results and commentary on business. Vinit will take you through the financial details and some of the key operational metrics for this quarter. I will then provide an overview of our key deal wins and awards and recognitions in the second quarter of FY25. Post that, with Sandeep's closing comments and summary of prepared remarks, we will open the conference for questions.

Let me also remind you 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 investment decisions. With this, let me hand over to Sandeep for his prepared remarks.

Sandeep Kalra: Thank you, Saurabh, and greetings to everyone joining us on the call today.

With this, let me now start with a quick financial summary:

We achieved a healthy revenue growth of 18.4% year-on-year and 5.3% quarter-on-quarter to reach $345.5 million in Q2 of fiscal 2025. This marks our 18th sequential quarter of quarter-on-quarter growth.

In rupee terms, the growth for the quarter came in at 20.1% year-on-year and 5.8% quarter-on-quarter.

The EBIT margin for the quarter came in at 14%. In rupee terms, this translates into an EBIT of INR 4,062.3 million, an increase of 22.8% year-on-year.

The Profit After Tax for the quarter was at 11.2%. Vinit will provide detailed color on the financials and margin movement later in this call.

Now, coming to the Order Book for the quarter:

The Total Contract Value for the quarter came in at $529 million with TCV of new bookings being $389.8 million.

The Annual Contract Value component of this TCV is at $348.3 million of which ACV from new bookings contributed $218.60.

As always, these TCV and ACV numbers include all bookings, renewals as well as new bookings, across existing and new customers.

Please note that our revenue conversion on a quarterly basis is a function of Annual Contract Value 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 reported TCV bookings.

Now, moving to the client engagement size.

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

We witnessed healthy year-on-year growth among our client buckets with our Top 5 customer revenue up by 31.5%, Top 10 up by 24.6%, Top 20 up by 22.1% and Top 50 up by 20.9%. As you would notice, this is a secular growth across all customer segments whether it is Top 1 or Top 50.

The contribution from Top 10 customers is at 41.5% in this quarter - an increase from 39.5% same quarter last year.

In this quarter, we reported 184 customers with TTM revenues over $1 million compared to 178 in the same quarter last year.

All our top client buckets have shown good growth this quarter. On a year-on-year basis, the number of customers in the $1- $5 million bucket increased by 5, while those in the $10-$20 million bucket increased by 4. This is a clear demonstration of our ability to scale customer relationships significantly over a period of time.

Coming to the details on our geographic performance:

In terms of year-on-year growth in USD terms, North America grew by a healthy 21.6%, India grew by 11.7%, while Europe revenue declined by 1.3% year-on-year. However, on a sequential quarter-on-quarter basis, Europe grew by 6.6%. Rest of the world grew 19.2% year-on-year, albeit on a very low base.

Now, let me give you this quarter’s performance from an industry segment perspective:

This quarter's growth was led by HLS and BFSI industry verticals, which grew by 71.2% and 15.3% respectively on a year-on-year basis. Software, Hi-tech and Emerging verticals marginally de-grew 0.5% year-on-year.

Now, moving from operational metrics to certain strategic highlights for the quarter.

Launching our T100 Program:

Recently, we got together 250 of our senior leaders and customer-facing team members for a strategic offsite in New Jersey. During this event, we launched the T100 Program - an initiative focused on our Top 100 clients. This program is designed to drive, enhance customer value, deepen customer intimacy and unlock the next wave of opportunities for both our clients and for us.

The T100 Program is centered on four key pillars:

Talent amplification - herein we are developing a high caliber workforce to deliver premium services and expand mindshare with our clients.

Value maximization - this focuses on leveraging our core strengths and we are committed to enhance client ROI and foster long term strategic partnerships.

Focusing on AI-driven innovation - wherein we deploy advanced AI and platform-based solutions to create a differentiated, high impact services based on the latest innovations in Gen AI and otherwise.

Ecosystem leadership - within this, we are positioning Persistent as a key orchestrator of choice in the partner ecosystem to bring disruptive value to our customers, not just based on our solutions but based on the power of the entire partner ecosystem that we bring today. This program underscores our ongoing commitment to innovation and customer value creation and will lay the foundation for our 2 billion goal and beyond.

Moving on to our strategic investments and updates on AI:

Our comprehensive AI strategy continues to be built on two key vectors - **AI for technology and AI for business.** This dual approach has been driving our innovation and growth and I would like to elaborate on how we have advanced in the past quarter on each of these areas.

First, coming to AI for technology.

As most of you know, SASVA is our flagship AI-driven platform designed to enhance software engineering services across the product development lifecycle. With the launch of SASVA 2.0, we have made substantial progress in our journey of platform-driven software engineering. You may have seen the press release in this regard.

Let me now highlight some key impact areas of SASVA 2.0.

Starting from a **comprehensive assessment** wherein SASVA evaluates a product engineering project or a product holistically providing insights on the product, people, process maturity, security, posture and technology debt.

Coming to the **efficiency and value maximization** - SASVA identifies high impact areas for productivity gains, accelerated time-to-market and cost reduction based on the current status and wherein AI could be applied in this platform.

Intelligent backlog management and roadmap planning - SASVA leverages historical data and market trends to create prioritized, context-driven, near and long-term roadmaps and release plans aligned with team's strengths and capacity. This can be very effective not just for Engineering but for Product Managers who are leading the entire product lifecycles.

Context awareness release planning - herein SASVA prioritizes tasks, estimates effort, recommends optimal frameworks and technology stacks aligning with the team's strengths and capacity while intelligently distributing tasks between human developers and AI agents. It also supports integration of external development tools for seamless experience.

SASVA also plays a critical role in **customer support and professional services activities** complementing the engineering activities and product development or application development, wherein SASVA provides real-time and context-aware insights into projects, issue history, client specific knowledge, best practices continuously synced with project management tools, service tickets and knowledge bases.

Let me share two case studies that demonstrate the real-world impact of these advancements.

Persistent was selected by a leading provider of full-stack observability platform to partner with them on their product engineering as well as data engineering for their core application performance monitoring and observability platforms. Our advanced delivery frameworks leveraging SASVA and other accelerators and the depth of our universities, learning and development platform were key differentiators for us in winning this engagement. The benefit to the customer includes accelerated roadmap and the establishment of a core R&D team in India for them to continue their leadership positioning in the observability domain.

Persistent was selected by a leading financial analytics firm based in North America to accelerate the roadmap of its flagship products in the domain of pricing and profitability management solutions. SASVA platform's identification of the accumulated technical debt with clear actionable roadmap items was instrumental in Persistent winning this engagement. The benefit to the customer here includes acceleration of the go-to-market for faster releases, upgradation of latest technology stack and optimized delivery model powered by SASVA.

These case studies highlight how SASVA 2.0 is driving tangible improvements in efficiency, cost effectiveness, time-to-market across different industries and making us win more in competitive bids.

Now, let me talk about our AI for business vector.

We've seen rapid adoption and expansion of our GenAI Hub and iAURA platforms across various industries. We have expanded our GenAI Hub library of prebuilt AI models and use cases by over 50% since Q1 FY25. Also, our iAURA platform has been upgraded with advanced data quality assessment tools and automated data pipeline in generation tools.

The impact of these developments can be seen in key customer case studies which I will highlight now.

We are helping one of the largest global pharma companies to accelerate their drug discovery process by integrating complex biomedical databases into our Gen AI-enabled knowledge graphs.

Our iAURA solution has reduced query response times, in this case by 60%, for a global clinical research provider, a CRO, which makes tracking patients' health and status of trials extremely efficient.

For one of the leading construction companies out of Europe and Australia, we are building a data lake ETL pipeline and Gen AI model to use historical construction data including design, material, labor, site condition and schedule to enable better decision making for their inflight and upcoming projects.

Moving on to our acquisitions and partnerships:

As you would have noticed, we recently announced our plan to acquire Arrka, a Pune-based company focused on data privacy management. Arrka's solutions will enhance Persistent's offerings by helping customers manage data privacy risks and comply with various legal and regulatory requirements globally. This acquisition will also significantly bolster our AI governance and cybersecurity capabilities. Among other initiatives, we are integrating Arrka's expertise with our SASVA and iAURA platforms to provide enhanced data privacy features in SASVA's security assessments, improved AI governance mechanisms in iAURA's data management processes and comprehensive cybersecurity measures across both platforms, to give you a few examples. Arrka's capabilities will complement our existing AI offerings and platforms and in meeting the growing demand for comprehensive digital solutions that are both trustworthy and ethical. It aligns perfectly with our commitment to be responsible or to develop responsible AI and positions us to better serve clients in an increasingly complex regulatory environment.

Second, following our Q1 announcement, we have fully integrated Starfish. We are enhancing our contact center portfolio with AI-enabled administration and call flow assistance and we expect to report by the end of next quarter some early deal wins from this portfolio. We have had strong collaboration with all hyperscalers and are jointly developing solutions with their teams. This includes development of connectors and integrations for Gen AI offerings of hyperscalers as well as taking their solutions into different horizontal use cases such as contact center AI and document processing and so on.

As a part of these initiatives, we recently co-hosted the Google Gemini Summit in Pune, featuring top leadership from Google platform and Persistent. Throughout Gemini week, our teams engaged in comprehensive training initiatives, emphasizing certifications and handson experiences to harness the full power of Gemini. As a premier Google Cloud partner, we are uniquely positioned to help businesses across industries innovate, scale and achieve their digital transformation goals.

As we move forward, AI remains integral to both Persistent's operations and our clients digital transformation journeys. Our platform led services approach exemplified by SASVA, GenAI Hub and iAURA position us to enhance productivity and fuel our growth capturing a decent market share in these initiatives at our customers' side.

In summary, we are pleased with our performance in Q2 FY25. I would now like to invite Vinit to give a detailed color on the financials and related matters after which Saurabh will provide an overview of our key deal wins and awards and recognitions. I will come back after Saurabh's comments to summarize our prepared remarks before opening the call for Q &A. Over to you Vinit.

Vinit Teredesai: Thank you, Sandeep. Good evening and good day to all. Thank you for taking time out to join us today. Let me now take you through the financial highlights for the quarter gone by. Q2 FY25 revenue stood at 345.5 million US dollars registering a year-on-year growth of 18.4%. In rupee terms, it translates to 28,971.5 million, growth of 20.1% year on year. This quarter, effective July 2024, we awarded regular pay hikes to all eligible employees. I am glad to announce that despite this, we have delivered an EBIT margin of 14%, a 30 basis point improvement year on year. In rupee terms, EBIT for this quarter was 4,062.3 million rupees, translating to a growth of 22.8% year on year.

Now let me provide some commentary on the quarter-on-quarter margin walk. Let me first start with the headwinds.

Wage hikes this quarter have impacted our margins by 210 basis points. As I had called out in the previous quarter, we had taken some policy rationalization initiatives, the benefit of which was visible last quarter. In the current quarter, the absence of that benefit has impacted our margins by 130 basis points. There was a fresh issuance of ESOPs in the latter half of Q1. The impact of which was only partly visible last quarter. In the current quarter, there was an incremental impact of 60 basis points. This quarter, we also had a lower earnout credit as compared to the previous quarter. This has resulted in a headwind of 60 basis points.

Coming to tailwinds for the quarter.

Last quarter, I spoke about our revenue growth and cost optimization programs that are in action for the fiscal year 2025 and beyond. Am happy to share that the benefit of these programs are reflecting in the current quarter and we expect them to continue in the subsequent quarters. While our revenue has grown by 5.3% quarter-on-quarter, it is important to note that this has come on the back of reduced head count of 282. This has led to an improvement in utilization from 82.1% in Q1 to 84.8% in Q2 which has helped our margins by 120 basis points. Additionally, reduction in sub-contract cost resulted in the benefit of 70 basis points, lower re-sale business helped by 50 basis points and balance 130 basis points benefit came on account of combination of factors like pricing and right-shoring. Favorable currency movement has helped our margins by 30 basis points this quarter. An absence of H1B visa cost this quarter has given an additional tailwind of 60 basis points. In a nutshell, all the tailwinds stated above have helped nullify the effect of headwinds enabling us to maintain our EBIT margin at 14%.

With the growth and cost programs that we are running at Persistent, we are well placed to continue our journey of margin improvement in the subsequent quarters. Please note that going forward, in our investor presentation, we will be merging the CSR spends with general and administration expenses and doubtful debt provisions with the sales and marketing expenses. Other income stood at 176.9 million rupees as against 172.5 million last quarter. We had a one-time gain of 80 million rupees on account of pre-closure of some of our leased premises in Pune and Indore which were under-utilized and have additionally invested in newer facilities in Chennai and Hyderabad. Overall treasury income was lower than last quarter, owing to payouts for acquisition and payment of final dividend for FY24 during this quarter. There was a foreign exchange gain of 106 million rupees against a loss of 7.3mn rupees in Q1. Effective tax rate for the quarter came in at 25.2% compared to 23.5% in Q1. This increase is due to higher profits in high-tax geographies. We expect our overall ETR for the year to remain in the range of 23.5% to 24.5%. Profit after tax was 3,250 million rupees, a growth of 23.4% year on year. This translates into a margin of 11.2%

Earnings per share stood at Rs.21.20 per share compared to Rs.17.90 per share, same quarter last fiscal, a growth of 18.3% year on year. Return on capital employed for the quarter came in at 38.1% versus 37% in Q2 of last year. Total cash and investment stood at 17,916.2 million rupees as on 30th September 2024. Forward contracts outstanding as on 30th September were 270 million US Dollars at an average rate of Rs. 84.80 per dollar. Operating cash flow to PAT for Q2 FY25 stood at 108.3% compared to 49.3% in the previous quarter. Our overall DSO has remained flat this quarter with billed DSO at 68 days and unbilled DSO at 24 days.

Now let me give you key operational updates.

At the end of Q2, our total headcounts stood at 23,237, an increase of 395 from Q2 of previous fiscal year and a decline of 282 quarter-over-quarter.

As highlighted earlier, the blended utilization has improved from 80.6% in Q2 of FY24 to 84.8% this quarter. In the foreseeable future, our endeavor is to maintain this in the band of 83%-85%. Trailing 12 months' attrition this quarter came in at 12% compared to 13.5% in Q2 of last fiscal.

Coming to ESG updates for the quarter.

We are delighted to announce that we have achieved carbon neutrality for Scope 1 and Scope 2 emissions ahead of schedule. This significant milestone reflects our unwavering dedication to sustainability. Our renewable energy consumption which includes our extensive rooftop solar installations and windmills now accounts for an impressive 39% of our total energy usage across our global operations. We are also proactively working towards achieving net zero carbon emissions well ahead of the science-based target initiative goal of 2050. In terms of our ESG performance, we are thrilled to report that our S&P Dow Jones sustainability Index ESG rating has risen to 85, up from 61 while our SES ESG rating has improved to 77 from 72. Additionally, we have made commendable progress in our MSCI ESG Rating advancing from double B to triple B. We are also proud to be recognized amongst India's top 50 Most Sustainable Companies for 2024 by BW Business World, a leading business publication in the country.

On the social front, we are excited to highlight the launch of our Women Leadership Program – Aspire 3.0. This initiative underscores our commitment to fostering diversity and empowering women within our organization.

Let me now hand over to Saurabh for commentary on key deal wins and awards and recognitions that we have received during this quarter.

Saurabh Dwivedi: Thank you, Vinit. I will now talk about key deal wins for Q2 by industry segments.

Let me begin with software hi tech in emerging industries, our largest vertical.

Persistent was selected by a leading US-based cyber security company to set up a global technology centre for product engineering, customer support, professional services and FedRamp support services. Persistent was selected on account of its product engineering expertise in the cyber –security domain. The benefit to the customer includes accelerated product roadmap and productivity enhancements across customer support and professional services.

Persistent was selected by a global leader in food services and facilities management based out of Europe to build a data lake on the Azure platform and build an integration layer for exchange of data across different enterprise applications. Persistent's strength in data engineering and automation of key tasks using Persistent's iAURA platform were critical in us winning this engagement. The benefit to the customer includes standardization of data handling across the organization leading to enhanced employee utilization, improved stock prediction and reduction in food wastage.

Coming to banking, financial services and insurance, Persistent was selected by one of the largest US-based fintech companies to modernize the user experience of its Cloud based accounting software platform and its report generation capabilities. The benefit to the customer includes improved user experience and enhanced business efficiency leading to increased revenues.

Persistent was selected by a large financial institution with presence in Japan, APAC, Americas and EMEA for modernization of its front office and regulatory technology to bring them under a common technology framework. The benefit to the customer includes technical debt reduction, efficiency enhancement and end user experience improvement.

And finally, within our healthcare and life sciences vertical, Persistent was selected by a leading life sciences and scientific instrumentation company for establishing an AI enabled software engineering capability hub and a scalable and modern Cloud infrastructure. Persistent's capabilities and experience in the scientific instrumentation and medical devices domain and the compelling value proposition in the private equity carve-out space were instrumental in us wining this engagement. The benefit to the customer includes standardized product management and engineering across all its product lines and setting up of its modern IT infrastructure to exit the current transition services arrangement with its erstwhile parent company.

Persistent was selected by a leading US-based Precision Medicine and Omix Analytics Provider for transition of their core R&D center to India. Persistent's 30+ years of product engineering heritage combined with our strategic focus on clinical diagnostics, bio-informatics and life sciences research along with the centre of excellence, we have built around user experience, Cloud and Gen AI have been instrumental in us winning this engagement. The benefit to the customer includes accelerated, risk-free and cost-effective transition of their R&D center to India with no adverse impact on customer deliverable and revenues.

Persistent was selected by a leading UK-based medical device manufacturer that specializes in organ preservation and transplantation devices. The engagement involves development of core applications for customer on-boarding, device management and monitoring, report management and CRM integration. The benefit to the customer includes systematic on-boarding of customers, centralized monitoring of all devices for regulatory compliance and potential for penetration into new geographical markets.

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

This quarter saw us get continued recognition from industry-leading analyst firms and associations. To cite a few, Sandeep Kalra was named The Best CEO in the IT Services Emerging Companies' Category by Fortune India. Sandeep's leadership in driving industry leading growth and shareholder value creation was critical in winning this award.

Persistent upgraded to version 3 of CMMI Maturity Level 5 Certification that places us among the elite group in the industry. This top tier level of maturity signifies Persistent's commitment to setting new benchmarks in quality and efficiency and being a pioneer in the adoption of advanced technologies.

Persistent was recognized as a challenger for the 2nd year in a row in Gartner Magic Quadrant for Public Cloud IT Transformation Services 2024. This recognition highlights our strategic use of AI and automation stacks in key business and domain expertise, our ability to provide personalized client experiences.

Persistent was named a leader in Everest Group's, BFSI specific software product engineering services, PEAK Matrix Assessment 2024. Persistent's robust BFSI-specific intellectual property suite including underwriting, digital banking, payment automation and claims processing was instrumental in winning this recognition.

Persistent was named a leader for the 2nd consecutive year in ISG Provider Lens for Google Cloud Ecosystem Partner 2024 Report. Persistent was recognized for its robust services portfolio and our expertise in implementing the Google Cloud Ecosystem.

Persistent has been included in Constellation Shortlist 2024 for demonstrating expertise in services relating to public cloud transformation services, AI services, custom software development services, and customer experience operation services.

Persistent was cited as the fastest growing Indian IT services brand by Brand Finance with 327% growth in brand value since 2020. Persistent's people-centric culture, excellent service delivery, and alignment with client needs, and its adaptability to dynamic market needs are key factors that helped win this recognition.

This completes the section on key wins and awards and recognitions.

With this, let me hand it back to Sandeep for his closing remarks.

Sandeep Kalra: Thank you, Saurabh. In summary, we are happy with our performance in this quarter. Before I conclude and open the conference for questions, I would like to share a professional milestone. Tomorrow, October 23rd, marks my fourth anniversary as the CEO of Persistent. It has been an incredibly satisfying journey and I sincerely thank all our employees, customers, partners, investors, and our board for their unwavering support over these years. Leading our esteemed company with its world-class capabilities and a motivated team has been a privilege, and I'm excited about the future as we continue to strive for an industry-leading performance.

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

Moderator: Thank you so much. We will now open the call for the Q&A session. We will wait for a few minutes until the queue assembles. We request participants to restrict themselves 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 the question.

The first question is from Mehta Bhavik.

Mehta Bhavik: Thank you. So, a couple of questions. Firstly, Sandeep, you know, obviously we have seen very strong growth over the last couple of quarters, but going into the second half, which is typically a seasonally weak period as such due to furloughs and lower working days, how should we think about the growth trajectory from a sequential perspective over the next couple of quarters? And also, if you can highlight how the demand environment has changed versus, let's say, three months ago.

The second question is to Vinit. You know, incrementally from here on, we are targeting to expand margins in the 2nd half. Incrementally, what levers do we have which can, you know, help drive margin expansion over the next couple of quarters? Thank you.

Sandeep Kalra: So, Bhavik, as far as the seasonality, etc., is concerned, 2nd half is concerned, so those are events as regular. And if you look at it from our perspective, October, November, December, we see some furloughs in financial services in some other customers, and a couple of customers in the high-tech sector. That has traditionally been the things. And this is something that we always plan for. If you look at our order book, order book has been pretty healthy for the last several quarters. We have a decent pipeline. Obviously, as the quarter goes through, we'll convert those as well. Overall, we are looking at a healthy growth. And quarter-on-quarter, there may be a little bit fluctuation here or there, but we are relatively confident of continuing the healthy growth that we've had.

As far as the demand environment is concerned, I think this is a moot question by now, because there are many things happening in the world which are not in our control. But what we have done is we have mastered the art of figuring out the patterns. Within these markets, which are tough, there are always revenue pools and profit pools available, and we have been pivoting as per the market demands. And that has been reflected in our 18 sequential quarters of growth. So we are relatively confident, whatever the market conditions may be, we'll pivot as a team and we'll deliver a healthy growth.

With that, I'll hand over to Vinit. Vinit, if you can answer the second question.

Vinit Teredesai: Yeah. Bhavik, see, a couple of things that are still working in our favour. As I mentioned in my comments, we will continue to maintain our utilization in the 83% to 85% band. At this point of time, the labour market is soft and we do not see any urgency at this point of time to go and build up a bench or hire ahead of time.

Secondly, if you look at our SG&A as a percentage of our overall spend, we have made significant amount of investments in the last couple of quarters. Now we think, going forward, the pace of investments into SG&A will not be the same, and we'll be able to basically reap the benefits that we have made out of the investments in the last couple of quarters. Again, right-shoring, pricing, and obviously the growth momentum that we are seeing at this point of time and the foreseeability that we have at this point of time of the growth, will continue to help us in terms of maintaining and improving our margins going forward.

Mehta Bhavik: Okay, thank you.

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

Nitin Padmanabhan: A couple of questions. One is a little philosophical one. So I think yesterday, Microsoft spoke about how scaling laws are sort of doubling computing power every six months versus two years under Moore's. So your thoughts on shouldn't this ideally lead to higher business velocity, right? So that's one.

Second is from a utilization perspective, you may mention 80% to 84%. I remember pre-COVID, you had sort of went into massive hiring, had a good view on when the model will pick up and so on and so forth. Looks like at this point in time, you're not seeing that. So just wanted your thoughts. Is this a very near-term sort of view or is it a slightly longer view?

Third thing is you had a view that margins sort of expand by 200 to 300 basis points over the next two years. Do you still stick to that or do you think that sort of takes some more time?

I have a lot more, but I'll just push in one more. Let's say the technology vertical, what's your view there? Do you think that's sort of bottoming out or that sort of continues to be a pain point?

Sandeep Kalra: Perfect. So Nitin, good questions. I'll take those. And from here on, our request to people asking questions is to please limit them to two because we want to take questions from everyone. And then we can always circle back. So quickly, as far as the scaling is concerned, look, if you look at it in the last several quarters, we have been saying that we want to be a platform-driven services company. So we are using AI to develop platforms. And that also links to your second question about utilization, hiring, and so on. So our endeavor is, as we become a platform-driven services company, our revenue per employee goes up because we bring something which is very differentiated. We are using AI platforms to deliver more value to the customers and also partaking part of that. So our revenue per customer, profit per customer over a period of time, as we deliver disproportionate value compared to the industry, that should help us. And that should also mean that we need to hire lesser people to deliver higher revenue. So keep that in mind when you do any hypothesis philosophically.

Now, as far as the tech vertical is concerned, we do think it is bottoming out. Based on the pipeline, based on the deal wins, we do think coming in the next one to two quarters, because some of these programs will take time to ramp up… these are complex programs which we have won based on the platform-driven approach that we have taken, we are relatively confident all of our verticals will kick in. All of the verticals will have secular growth, including the tech vertical. And please keep in mind, there may be cyclical things. There was a time when tech vertical was leading the growth, there's a time when healthcare is leading the growth. But overall, as a company, we are confident all three will kick in. All three will be growth enablers. And we are fairly confident of expanding the margins over the next two to three years based on whatever Vinit said, and our approach of using platform, driving higher revenue, higher profitability per employee.

Nitin Padmanabhan: Thanks a ton. I'll jump back in the queue you. Thank you.

Moderator: The next question is from Ravi Menon. Hi, Ravi. Requesting you to unmute and ask the question.

Ravi Menon: Oh, sorry about that. So now we have 3 75 million+ customers. Is it fair to say there is one from each vertical now?

Sandeep Kalra: Yes, it is absolutely fair to say.

Ravi Menon: And do you still see headroom for growth even from here with at least some of these customers? Or should we think that this is where it kind of tops out, or we are fairly close to topping out with some of these top customers at least?

Sandeep Kalra: There's enough headroom in these customers for us to grow. There are many of our competitors who are there. So, I'm pretty sure there is headroom. It's upon us to deliver more value and grow. And this also demonstrates, philosophically, if we look at our earnings call over the last several years, there has been a debate whether Persistent can have more than $100 million customers, more than $75 million customers. So if you look at our trajectory, we have proven we are worthy of our customers giving us more at scale compared to some of our tier 1 competitors / peers. So there is enough and more headroom.

Ravi Menon: Thanks so much. Best of luck. I'll come back in the queue.

Moderator: Thank you. The next question is from Chirag Kachhadiya.

Chirag Kachhadiya: Congratulations for the solid numbers. I have one question that, in H2, from margin per se, what headwinds are we looking at? And second, the target to reach to the $2 billion kind of top line, do you think that we will achieve that ahead of the time than our stated guidance?

Sandeep Kalra: As far as the $2 billion top line is concerned, Chirag, we do believe we are on a decent trajectory and we'll let the time pan out. Because there are things in our control which we are performing, but let's have the time go about.

As far as the margins is concerned, Vinit, do you want to comment on the H2 margin headwinds?

Vinit Teredesai: Yeah, no, I think so, as you know that typically there are seasonal furloughs that come up in the 2nd half. That only is probably the… at this point of time, we do not anticipate them to be anything different than what we have seen in the last year. So that's the only probable potential headwind that we have at this point of time.

Chirag Kachhadiya: Okay, thank you.

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

Sandeep Shah: Yeah, thanks for the opportunity. Just wanted to understand, Sandeep, in this quarter, if we look at new business to total TCV, it is close to 74%, one of the highest in any quarter. Is it fair to say the client decision-making on our discretionary projects have picked up? That's question number one.

Question number two is if I look at the 1st half reversal of earnout, that has been close to 190 bps. And if I'm not wrong, we called out, it may continue in the 2nd half as well. So Vinit, are you worried in the next year absence of this, with wage inflation, it could be a big headwind to maintain margin in FY26? Thanks.

Sandeep Kalra: I'll take the first question and I'll have Vinit answer the second part. So as far as the new business is concerned, look, we have explained on many earnings calls, when people look at Persistent and say we are discretionary spend-based or dependent on that, I don't think we agree to that. Many of the deal wins that we have had are with various sectors, whether it is the healthcare life sciences or the tech segment and BFSI, where we are working on platforms which are revenue-bearing. Whether it is like setting up large teams for some of these where we are even transitioning works from some of the incumbents, whether they be our bigger peers or it is new work being outsourced to us which is revenue-bearing and so on and so forth. So, the bulk of the work that we do is critical to these companies and it's not necessarily discretionary. I wouldn't basically correlate our order books being healthy to discretionary spending coming back and so on and so forth. I would say it is basically our ability to deliver more value with respect to our competitors, and even mine our customers more effectively. So that's where I would do it and Vinit, earnout out reversals and headwinds.

Vinit Teredesai: Now see, if you look at the cost optimization program that we are running within the organization, we are making structural changes to our cost base. And some of the expenses that we are today incurring in order to support that cost optimization program, will not be there in the next year. So we have a couple of tail winds also that will be coming into our help when we enter FY26. And as a result of that, we are pretty confident that our margin improvement trajectory that we have talked about, will continue to happen.

Sandeep Shah: Thanks and all the best.

Moderator: Thank you. The next question is from Kireet Atluri.

Kireet Atluri: Hi team, thanks for taking my question. I had a couple of questions, please. So the first one is on ACV. Can you maybe help us understand how this will trend going forward and how much of this ACV is AI driven? That was my first question.

And then the second one is you spoke about SASVA and iAURA helping you win deals. Could you maybe talk about what the attach rate of those is in the deal wins and what is the ideal target?

And just as a follow on for that, is the profitability of these deals, i.e. the margin profile of SASVA and iAURA higher her than the base business? Thanks for the question.

Sandeep Kalra: So let me take that question. As far as the ACV is concerned, so ACV… look, we don't give forward-looking guidance in terms of revenue or order books. So I would say, look at our historic journey. ACVs have been pretty healthy. And this quarter for us, the October, November, December quarter for us, given the fact that 80% of our revenues come from the US, is a quarter where we have seasonally, if you look at last several years, a higher order book for renewables. Couple that with the newer wins. Typically, this is a quarter where we'll see a little higher ACV, but we'll let it pan out.

The second part of it, you talked about how much of the ACV is AI driven? How much of the attach rates can we basically attribute to SASVA, iAURA, and so on? Look, we don't want to get into the business of defining how much is our AI revenue. We are trying to infuse AI into everything that we do and we do believe AI will become table sticks in terms of getting infused, how well you use it is where the differentiation will be. So, that is as far as the attach rate question is concerned. In terms of profitability, yes, the profitability of these deals going ahead will be higher and that's where to my earlier comment, the revenue per employee, the profit per employee over the next several years, that is where we are trying to disproportionately move and that will also help us in our goals of overall improvement in the coming months. Hopefully this answers your question.

Kireet Atluri: Yeah, got it. Thank you.

Moderator: Thank you. The next question is from Vibhor Singhal.

Sandeep Karla: Vibhor, we can't hear you.

Vibhor Singhal: Okay, can you hear me now?

Sandeep Karla: Yes please.

Vibhor Singhal: Yeah, sorry for that. Yeah. Hi. Thanks for taking my questions and Congrats on solid execution once again. Sandeep, just I mean most questions I think have already been answered, just quick take on basically post the interest rate cut that we have seen in US, is there any change in conversation specifically in the BFSI segment or let's say in more of leverage segments in which clients might be talking about maybe higher tech spends if not today, tomorrow day after tomorrow, anything on that, that has changed and leading to that any early conversations regarding how the furloughs would be this year as compared to last year, and of course, how the tech budgets for next year could be? I know it's too early for that, but I guess if any color on that would also be helpful, then I just one follow up question for you.

Sandeep Karla: Sure. So as far as the furloughs are concerned, as Vinit articulated, we are expecting them to be in the same range as the last year for us. So, we are not expecting it to be anything different based on what we see today, but you know typically these decisions get crystallized towards November and December, December-mid. That is the time when these things finally come together and there's always a discussion between us and the customer on how to tackle it. So, that is as far as that's concerned. Now, interest rates and you know and things around that I think it's too early to say about interest rates impact right now because there's other dynamics like the elections etc. that are there in the US, so I think it is too early to call one way or the other. So, we'll let it pan out and that will also impact the third part of your question, which is the technology budgets and so on, but look, having said all of this, today as a company we are in a position where we have performed in good times or bad, whether it was COVID, whether it was post-COVID, whether it is, you know, whatever happened over the last several months, so our endeavor would be even in a difficult time, we will try to be in the best performing quartile for that. So, that's where I leave it. Any follow-on questions Vinit will take.

Vibhor Singhal: Got it, Sandeep. Thanks a lot. Vinit, one quick clarification. The earn out reversal has contributed to almost, if I get my math right we were on 230 basis points in the last quarter, around 150 basis points in this quarter, what more of this reversal is left to be captured and will it be captured only in FY25 or will it spill over into FY26 also?

Vinit Teredesai: So, what whatever is pertaining to the acquisitions that we have done in the last couple of years, we can anticipate the balance reversals to happen in this current financial year itself. The recent acquisitions that we have done, obviously they are in the very early stages. So, if there is anything pertaining to that, that will be coming up only in the next year and we'll see at that point of time.

Sandeep Karla: Just to answer your question slightly differently, in addition to what Vinit has said, look and this is to others as well who you know wonder about these, earnout reversals. Why is the earnout not paid? An earn out is not paid because the hypothesis of the revenue growth or the profitability for acquisition did not pan out in line with whatever it was supposed to be. We have done 7 acquisitions or more in the last five years in the time that I have been here and within that, some have panned out very, very well. So, there are smaller acquisitions which have now been fourfold, and we have paid them even an upside. When an acquisition does not deliver to the performance, doesn't mean that Persistent does not deliver to the performance. Persistent, as a team, invests in sales and marketing, invests in additional efforts still delivers the industry leading growth and that comes at a cost and that cost is offset by the reversals that we do. So, please look at both sides of the coin. If we are delivering industry-leading growth, last four years, we've delivered 24% CAGR and this is a 16% relative outperformance to the sector if you compare the Indian IT services sector. If you've delivered that outperformance and we have done these puts and takes knowing fairly well if something is not going to perform, we have stepped up, invested, still delivered the performance. So, to be fair, you should have the puts and takes like a debit and credit and look at the holistic picture. That's my request to you and the other analysts and investors on this call.

Vibhor Singhal: Got it, Sandeep. Thanks a lot for taking my questions and that detailed explanation. Wish you all the best.

Sandeep Karla: Thank you.

Moderator: Thank you. The next question is from Varun Gandhi.

Varun Gandhi: Hi, Sandeep, many congratulations on your professional milestone. Just a disclaimer, I'm not a techie, so please correct me if my understanding is wrong. My view is that right now the value is in building models, analytical models like SASVA, but later on, in near future when the value shifts from building to inferencing what kind of value can we unlock, can Persistent unlock from clients?

Sandeep Karla: Sounds good. First of all, thank you. Now, if you look at it, SASVA is not a model. SASVA is actually a platform that leverages multiple models underneath. So, it leverages the combination of large language models which are open-source customized by us in a secure manner, and combined with some small language models etc. etc. So, SASVA work is not a model-building exercise. We are too small to build newer models which are large language models and invest in all of them. All we're trying to do is leverage the technology that's being available, made available by these larger companies. Some of it is open sourced, some of it is like open AI through Microsoft and so on and so forth, and we are doing engineering, inferencing in your loosely held terms based on that and taking actions. So, we are on the second step of it and that's where the value is.

Varun Gandhi: Right, right. I see. Thank you for explaining it simply.

Sandeep Karla: Thank you.

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

Abhishek Kumar: Yeah. Hi. Good evening. Thanks for taking my question. Two questions. One, I heard in couple of the deals that we have won this quarter, there was an element of us setting up centers for our clients. So, is this phenomenon relatively new where we are helping them set up a GCC or something of that kind and are these kind of slightly longer in tenure, and therefore it impacts ACV versus TCV kind of calculation that is my first question, then I will follow up.

Sandeep Karla: Yeah. So, when we talk of setting up centers, these are offshore development centers people make call it, global technology centers and so on. These are basically things where we are scaling teams in our parlance, even managing the end-deliverables out of that in conjunction it's a co-engineering that we do on behalf of our customers. We are an extended team and that's where it is. The GCC definition can vary. The GCC can be where you are doing it for someone else in their premises, etc. We participate in that as well, but most of our deals that we're talking about are offshore development centers, extended engineering or IT arms to our customers, longer term relationships and that's where the ACV to TCV ratios are different. These are three to five year engagements, which are you can simply put, look at them as capacity, which is a hardcore engineering capacity that delivers value on an ongoing basis in a planned manner for our customers. So, that's where it is.

Abhishek Kumar: My second question is, you know, the onsite effort share has gone up, looks like some of the deals, large deals that we won last year were ramping up. Now, as we talk right-shoring that can have a deflationary impact on the revenues. So, how does that pan out in the second half on top of furloughs and other headwinds that we have?

Sandeep Karla: Yeah. So, to your point, look we have won over the last five years, at least 35 plus large deals and large deals are all relative terms, you know what ACV TCV depending on the size. We are seeing multiple cycles where we are winning newer deals, which have more onsite centric because we may be doing multi transition, initially even taking over the third-party vendors related you know people and then offshore it. So, these are cycles. So, as we are winning newer deals, we are offshoring, so that deflationary impact of that is already being addressed by the newer deals that we win. So, that is not a concern and we have been managing this for the last five years and layering our revenues based on the larger deals, longer term deals that we've been winning over a period of time, I won't be worried about it.

Vinit Teredesai: I'll just add to this. I did mention it is right shoring and not offshoring. The right shoring means not necessarily everything coming to offshore. It also means something from offshore also going and becoming onshore.

Abhishek Kumar: Great, very clear. Thank you so much.

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

Abhishek Bhandari: Yeah. Thank you. Thank you for the chance. Sandeep, you know, if I look at your sales and BD headcount, you know it has dropped by around 18 people or call it 4% quarter-on-quarter and this is the first drop since the last 12 quarters. If you could explain, what is happening on your sales and BD team - is the downsizing more happening on the sales part and is also a reflection that the sales report are normalizing because I remember you saying consistently for last few quarters, the sales efforts are trailing almost 2X of normal times?

Sandeep Karla: Yeah. So, if you look at it Abhishek, FY23, we ended with 414 people in sales and business development. In FY24, we moved from 414 at the end of FY23 to 484 at the end of FY24, and in the last quarter we were at 510 and as we have been saying all through, we have over-invested in sales and business development because we need it. We are comfortable at this point in time with where the numbers are and there's no downsizing that is happening. You do performance management, if something is not yielding results, you take money out of there and deploy wherever you need to, where you have better ROI as a company. So, I won't be worried and as Vinit said, look, this should actually give us a leverage. Even with this investment and a little bit more, the percentage for SG&A should decrease over a period of time as we grow the revenues and win more deals. So, from our perspective, we are very comfortable and confident this is the right trajectory. We'll keep adding as we need.

Abhishek Bhandari: Got it. Thanks, Sandeep. My last question is you know some of your very recent senior hires like your Chief Strategy Officer, you know they have quit very quickly. So, you know is it a broad-based trend amongst your recent hires that their attrition numbers have been higher or is it one off and I don't want to know the reason behind one candidate but is it like a more widespread thing what you see?

Sandeep Karla: Yeah. So, as you rightly said, one candidate does not make it trend. So, that's where I will leave it. Look, people join and they also have aspirations. They also have their own path and we also have expectations and I won't say that it was any case of anything going wrong. People have choices to make as to where they want to take their own career and their own personal conditions in life, which I don't want to elaborate. So, overall I don't think it reflects on the candidate, it reflects on Persistent, both are good and we have a company to run. We'll keep hiring more people with the right aspirations and we'll keep scaling.

Abhishek Bhandari: Thanks, Sandeep and wish you Happy Diwali.

Sandeep Karla: Thank you.

Moderator: Thank you. The next question is from Sumeet Jain.

Sumeet Jain: Yeah. Hi. Am I audible?

Sandeep Karla: Yeah.

Sumeet Jain: Yeah. Thanks for the opportunity. So, just Sandeep, first want to understand, you mentioned that you don't have very high discretionary demand exposure and there's a general consensus that next year with the US Fed rate cuts, the discretionary demand will revive. So, will it actually help your business and if yes, then which key verticals?

Sandeep Karla: So, Sumeet from our perspective, if you look at it this way, when the discretionary demand is not that high or the discretionary spend is not that high, we have delivered good revenue growth. In our segments, healthcare life sciences, I would tend to believe, is much more, you know non-related to the discretionary spend, whatever needs to be done in healthcare. Yeah, there are some pockets which are related, but usually you will see that is a more resilient sector. BFSI in the middle. Tech suffers when discretionary spend does not happen because ultimately, when your projects are not happening and people are conserving their cost, they're spending lesser on their technology procurement in terms of software licenses etc. and that impacts. So, we are hoping that with the things easing out, that will also have an impact on some of these things, but that is not what we are banking on. We're banking on our effort to see the trends, to see where the revenue pools, profit pools are available, go structurally after that, use technology like our AI driven and the platform driven strategies that we have, and our 18 quarters of sequential growth should give you enough confidence. So, not worried. If it opens up, it will be only good for us.

Sumeet Jain: Right. No, that's helpful and secondly, since you're involved with hyperscalers on building their Gen AI platforms and connectors, once the Gen AI opportunities scales up for the industry with you know, wider system integration projects, will it actually help you more than your peers?

Sandeep Karla: It should and you know, we'll let the things pan out. We're not giving any forwarding looking guidance. We are at it. We have delivered industry-leading growth and as I said, we have delivered disproportionately with respect to the industry and we expect that our efforts should continue in that direction.

Sumeet Jain: And lastly, for the $2 billion target, have you given any sort of timelines or is it like a long-term outlook?

Sandeep Karla: Yeah, we have said by FY27 end, which basically is March 2027 end is what we've said is our aspiration, balance we'll let that time pan out. With that, I think we should stop the call. We were sharp at 8 o' clock. Moderator.

Moderator: Thank you. Thank you very much to Persistent's Management team. 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. Thank you.

Sandeep Karla: Thank you.

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Please note that this transcript has been edited for readability.