"PERSISTENT SYSTEMS LIMITED - EARNINGS CONFERENCE CALL, THIRD QUARTER, FY25, ENDED DECEMBER 31, 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 third quarter of FY25 ended December 31, 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. 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. Before we continue with our prepared remarks for Q3, we would like to show you a short video that our team has put together.

[Video played]

Hope we were able to add a unique and interesting element to your experience of our analyst call today. Now, 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 key operational metrics for this quarter. I will then provide an overview of our key deal wins and awards and recognitions in the 3rd quarter of FY25. Sandeep will come back for a quick summary of the prepared remarks, post which 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 doesn't 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. Let me start with wishing all of you and your loved ones a very happy and prosperous new year.

Coming to our financial performance for Q3 FY25:

We achieved a healthy revenue growth of 19.9% year-on-year and 4.3% quarter-on-quarter to reach US$360.2mn in Q3 of fiscal 2025. This marks our 19th sequential quarter-on-quarter growth. Please note that this growth is net of the furlough impact that we saw during the quarter. In constant currency terms, the growth for the quarter came in at 4.6% quarter-on-quarter. In rupee terms, growth for the quarter came in at 22.6% year-on-year and 5.7% quarter-on-quarter. EBIT margin for the quarter came in at 14.9% translating into an EBIT growth of 25.5% year-on-year. The profit after tax for the quarter came in at 12.2%. Vinit will provide detailed color on the financials and the margin movement later in this call.

Coming to the order book for the quarter.

The Total Contract Value (TCV) for the quarter came in at US$594.1mn with TCV of new bookings coming in at $333.6mn.

The Annual Contract Value component of this TCV is US$428.3mn, out of which the ACV from new bookings contributed to $195.6mn.

As always, these TCV and ACV numbers include all bookings, renewals as well as new, across all existing and new customers. Please note that our revenue conversion on a quarterly basis is a function of our Annual Contract Value bookings done in previous quarters as well as the conversion from multi-year deals booked in previous years which are included in our TCV bookings that we report on a quarterly basis.

Coming to the client engagement size, let me now give you a 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 31.7%, top 10 up by 22%, top 20 up by 18.7% and top 50 up by 21%. The contribution from top 10 customers is 40% in this quarter compared to 39.3% in Q3 FY24. In this quarter, we reported 189 customers with trailing 12 month revenues of over US$1 million compared to 176 in the same quarter last year. All our top client buckets have shown good growth in this quarter. On a year-on-year basis, the number of customers in the $1 to $5 million bucket increased by 4, those in $5 to $10 million bucket increased by 3, those in $10 to $20 million bucket increased by 7, those in the $50-70 million bucket increased by 1 and finally, customers in the $75 million+ category increased by 1. All of these movements are a demonstration of our ability to scale customer relationships significantly over a period of time.

Coming to details on our geographic performance:

In terms of year-on-year growth, in US dollar terms, North America revenue grew by a healthy 21.1%, India revenue grew by 12.1%, Europe grew 10.3% and the rest of the world grew 66.5%, although on a low base.

Now let me give you this quarter's performance from an industry segment perspective.

This quarter's growth was led by Healthcare and Life Sciences followed by Banking and Financial Services Industry verticals which grew by 52.6% and 22.0% respectively on a year-on-year basis. Our Software, Hi-Tech and Emerging verticals saw a growth of 3.2% year on year. I'm pleased to share that our Healthcare and Life Sciences vertical crossed the $100 million dollar quarterly revenue run rate this quarter.

With this, each of our industry verticals have crossed the $100 million quarterly run-rate threshold.

Coming to an update on the interim dividend.

I'm pleased to share with you that the Board of Directors has declared an interim dividend of Rs.20 per share on face value of Rs.5 per share. It is our endeavor to maintain a consistent dividend payout ratio while we augment our growth through capability-led acquisitions.

Moving on to the progress we have made on our AI roadmap.

As we have articulated in our earnings' calls in earlier quarters, our AI strategy is built around 4 foundational pillars.

- Pivoting to an AI-led platform-driven services approach,
- Engaging with customers increasingly on outcome-based business models,
- Leveraging our partner ecosystem,
- Making strategic inorganic bets to bolster our capabilities wherever we have whitespaces.

As we progress on our AI-led platform-driven services roadmap, I'm proud to share that we have filed 20+ patents across various categories including core AI, agentic AI, personalized AI, repository-level AI and productivity measurement.

Let me describe a few of them in more detail.

Our **core AI patents** address fundamental challenges in AI and software development life cycle. By optimizing workflows such as internet traffic management, data compression and intelligent routing, enabling scalable and high-performance AI solutions.

Our **agentic AI patents**, power intelligent collaborative ecosystems by enabling the creation, orchestration and customization of AI agents leveraging in-memory integration and persona-based configurations. These agents dynamically collaborate to automate complex business processes from streamlining supply chains to managing customer onboarding and so on.

Our **personalized AI patents** enable customer-centric personalization of data, providing personalized recommendations while maintaining strict data privacy.

These patents are a demonstration and re-affirmation of our commitment to innovation and transformation of our service offerings through an AI-led platform-driven approach.

Let me now give you more specific details about our AI for tech platform – SASVA™.

Persistent's AI-led technology strategy is delivered through SASVA™, our generative, deterministic and secure AI-powered digital engineering platform. SASVA™ enhances end-to-end software development lifecycle delivering more value and faster time-to-market for our customers while boosting our employee productivity and predictability of outcomes.

I'm pleased to share the recent enhancements to our SASVA™ platform which include the integration of autonomous AI agents and enhancements of its robust quality engineering capabilities.

- SASVA™'s latest quality engineering (QE) capabilities simplify complex processes, reduce testing time, improve defect detection and accelerate software delivery through features such as actionable insights, automated test creation, multi-Cloud testing, Gen AI-driven code validation and legacy framework migrations.
- SASVA™ now incorporates the integration of autonomous AI agents designed to revolutionize workflows by performing complex multi-stage analysis and seamlessly executing end-to-end tasks. These agents can dynamically interact with multiple data sources, tools and platforms ensuring comprehensive and efficient task completion.

To give you an example, in a multi-stage analysis, these agents can automate the entire bug-fixing workflow. They can identify issues from the GitHub repository, generate code patches using AI-assisted workflows, create comprehensive test cases to ensure functionality, validate the fix against pre-defined parameters and prepare a detailed pull request with complete contextual information for seamless team collaboration.

These enhancements enable us to deliver improved solutions in product engineering, application development maintenance and application modernization aligning more closely with the needs of our customers.

Now coming to our AI for business vector.

Our AI for business vector is driven by our investments in our platforms – iAURA and GenAI Hub.

The **iAURA platform** offers a complete set of solutions and accelerators to streamline the data life cycle including modernization, operations, quality, and insight generation. The latest version of iAURA powered by Agentic AI enhances business workflows with improved personalization, contextual intelligence and strong privacy safeguards.

iAURA simplifies operations by integrating disconnected systems, addressing gaps in data management and its human-in-the-loop capabilities, enhance workflows in areas like incident management, platform administration and so on.

The **Gen AI Hub** introduces new features aimed at improving the creation and deployment of Agentic AI workflows. The latest updates built on its enterprise-ready foundation offer smooth integration with tools and frameworks such as AutoGen, CrewAI, and Langflow to simplify complex workflows. With these additions, Gen AI Hub enables advanced workflows in areas such as precision oncology, loan underwriting, credit assessment, customer support, clinical research and incident management - to give you representative examples. These capabilities enhance traditional operations by delivering AI-driven solutions that are focused on achieving better outcomes.

Coming to our strategic acquisitions and partnerships.

In the previous quarter, we had talked about our recent acquisitions of Arrka and Starfish as key initiatives to bolt on to our AI roadmap.

On one hand, we are integrating Arrka's capabilities onto SASVA™, iAURA, Gen AI Hub kind of platforms to ensure that we are incorporating AI governance into the solutions we are building for our customers and on the other hand, we are also integrating data privacy as part of our key offerings across our industry verticals and service lines.

With Starfish, we are building integrations and partnerships with communication platform providers like NICE, Five9, Amazon Connect, Google Contact Centre AI, and others, while building out our integrated AI platform for contact centre modernization.

We are seeing good traction with our customers for contact centre modernization deals and will share with you as our wins in this domain materialize in the coming quarters.

Coming to our hyperscaler partnerships and engagements.

In this quarter, we have continued to build on our strong collaboration with all hyperscalers and joint development solutions with their teams. As you would have seen in the video at the beginning of this call, earlier this month, Microsoft organized the **Microsoft AI Tour** in Bengaluru to demonstrate industry-wide AI adoption use cases by Indian enterprises. Across the country, 6 companies were selected for demos with just 2 from the IT services industry. We presented **ContractAssist**, our GenAI-enabled contract management solution built on Microsoft and open AI stack at this event, and we are very proud to say that this was featured by Satya in his keynote address.

ContractAssist simplifies workflows, enhances collaboration, and reduces operational complexity, enabling enterprises to achieve greater efficiency in managing contracts and deriving meaningful insights from them.

Last quarter, we co-hosted the Google Gemini Summit in Pune featuring top leadership from Google Cloud Platform and Persistent. We have partnered with Google to co-develop healthcare and life sciences innovation in AI, knowledge graphs, bio-medical imaging and computational drug design. One of the outcomes of this partnership is the launch of **Pi-OmniKG** and advanced AI-driven knowledge graph solution developed with Google Cloud technology. This solution empowers healthcare and life sciences organizations to accelerate bio-medical research, streamline data mining processes and deliver insights with greater speed and accuracy. We are proud to say that Google's HealthAI group has officially listed Persistent as a preferred implementation partner for creating applications using Google's Foundation models. Additionally, this quarter we also earned prestigious accolades including the "**Google GenAI Exchange Hackathon Winner 2024"** and the **"2025 Partner All Star Award for Artificial Intelligence"**.

Coming to AWS – we continue to build on our AWS partnership with our selection as one of the 12 partners globally for **AWS's exclusive Gamechangers Program** for showcasing how industries are being transformed with GenAI. As a part of this program, we had the opportunity to feature some of our success stories at **AWS Re:Invent 2024**. One such success story was for a sports technology company which was facing challenges in delivering actionable insights about player performance at scale. By integrating Generative AI with their existing sensor data, we were able to provide personalized insights and recommendation about players' performance.

Coming to our partnership with Salesforce - We continued our commitment to excellence and innovation in the Salesforce ecosystem while crossing the milestone of 1,000 Salesforce AI Associate Certification. We are partnering with **Salesforce AgentForce**, using our SASVA platform and are working on multiple proof of concepts with leading customers in healthcare and life sciences space. One of these proofs of concepts is with a Fortune 100 healthcare company where we have implemented an Agentic Chatbot for their diabetes care product to improve customer experience.

As we look forward into the future of technology services, our endeavor over the next several quarters and years is to transition increasingly towards platform-driven services and shift our business model to outcome-based engagements. This strategic pivot will leverage our proprietary IP as well as IP built in collaboration with hyperscalers and other ecosystem partners.

In summary, we are pleased with our performance in Q3 FY25. I would now like to invite Vinit to give a detailed color on the quarterly financials and related matters. Vinit, over to you.

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. Q3 FY25 revenue stood at US$360.2 million registering a year-on-year growth of 19.9%.

In Rupee terms, it translates to Rs. 30,622.8 million, a growth of 22.6% year-on-year. Impact of furloughs on the revenue was approximately 100 basis points, in line with our expectations.

This quarter, we have integrated the financials of our acquisitions Starfish, Arrka and SoHo. All put together, their contribution to our revenue was about 35 basis points in Q3. Our acquisition of SoHo is a part of vendor consolidation exercise with a large customer. Most of the revenue was already included in our existing run rate prior to the acquisition as part of a sub-contracting arrangement.

EBIT margin came in at 14.9%, 90 basis points improvement sequentially and 35 basis point improvement on a year-on-year basis. In rupee terms, EBIT for the quarter was Rs. 4,557.3 million translating to a growth of 12.2% quarter-on-quarter and 25.5% year-on-year.

Let me now give you a quarter-on-quarter EBIT margin walkthrough.

Let me first start with the headwinds.

There were 2 major headwinds for us in this quarter.

- Furloughs, which impacted our margins by 60 basis points, and
- Lower quantum of earnout credit versus the previous quarter which resulted in a headwind of 100 basis points. The quantum of reversal for this quarter is Rs. 152.24 million.

Coming to the tailwinds for the quarter.

- Our utilization has improved from 84.8% in Q2 of FY25 to 87.4% this quarter.
- Another key improvement that has played out in this quarter is with respect to rationalization of contractor costs with a large healthcare customer. Our plan to offshore the effort of this engagement is proceeding along expected lines as we continue to grow revenue with this customer. Both these factors, i.e. the improvement in utilization and rationalization of contractor cost, coupled with other operational initiatives have led to a 140 bps improvement in our EBIT margin.

- Strong dollar has led to a cross-currency tailwind of 50 basis points this quarter.

- Lower resell revenue and improved pricing has helped our margins by 40 basis points, and finally,

- Lower ESOP costs this quarter have resulted in a tailwind of 20 basis points.

All these headwinds and tailwinds put together resulted in a net increase of 90 basis points in our EBIT margin sequentially as mentioned earlier.

Other income, net of finance cost, was Rs. 118.4 million as against Rs. 176.9 million last quarter.

There was a foreign exchange gain of Rs. 144.7 million as against Rs. 106 million in Q2.

Effective tax rate for the quarter came in at 22.6% compared to 25.2% in Q2. Based on our revised estimates, we expect our overall ETR for the year to remain in the range of 23%-23.5%.

Profit After Tax was Rs. 3,729.9 million, a growth of 30.4% year-on-year. This translates to a PAT margin of 12.2%.

Adjusted for stock split, Earnings Per Share was Rs. 24.30 per share in Q3 of FY25 compared to Rs. 18.90 per share same quarter last fiscal, a growth of 28.4% year-on-year.

Excluding cash from capital employed, return on capital employed for Q3 FY25 came in at 38.1% versus 35.8% same quarter last year.

Total cash and investment stood at Rs. 246.1 million as of 31st December, 2024.

In this quarter, billed DSO came in at 64 days, an improvement of 4 days, and unbilled DSO came in at 22 days, an improvement of 2 days compared to Q2 of FY25.

I would like to make a clarification on OCF to PAT ratio that was reported as 108.3% for Q2 of FY25. We had a reclassification error which has now been corrected. As a result of this correction, our revised OCF to PAT ratio for Q2 of FY25 stands at 80.7%, while for Q3 of FY25, the OCF to PAT ratio was at 84.4%. It is our endeavor to continue to improve our cash flow conversion and we will share our progress in this regard in the coming quarters.

Forward contracts outstanding as of 31st December were USD 300 million at an average rate of Rs. 85.30.

Now, let me give you some key operational updates.

- At the end of Q3, our total headcount stood at 23,941, an increase of 605 from Q3 of previous fiscal year.
- Trailing Twelve Month attrition this quarter came in at 12.6% compared to 11.9% in Q3 last year and it continues to be within our acceptable range.

I'm pleased to share with you that, in line with our endeavor to maintain a consistent dividend payout ratio, the Board of Directors have declared an interim dividend of ₹20 per share on a face value of ₹5 per share for the financial year 2025.

We are pleased to inform that ICRA has rated Persistent as AA+ (Stable). This credit rating will serve as a key enabler in Persistent's bid pursuits with larger clients who often require vendor partners to demonstrate strong financial robustness as part of their selection criteria. The AA+ (Stable) rating provides a credible assurance of Persistent's financial health, further enhancing the company's ability to secure strategic engagements and expand its footprint in the enterprise market.

Coming to ESG updates for the quarter.

Persistent has achieved two prestigious recognitions from the Institute of Company Secretaries of India.

- We have been named **"Winner in the Service Sector**" at the 3rd ICSI National Awards for Business Responsibility and Sustainability, which highlights our dedication to upholding the highest standards in corporate governance, compliance, sustainability and ethical practices ensuring transparency and accountability across all levels of our organization.

- We have also been recognized as the **"Best Governed Company (Listed Segment: Medium Category)"** at the 24th ICSI National Awards for Excellence in Corporate Governance, an accolade that underscores our steadfast commitment to the highest standards of corporate governance, compliance, sustainability and ethical practices.

We are happy to share that Persistent has been included in the Dow Jones Sustainability World Index, with an impressive score of 85 this year, placing us amongst the global leaders in sustainable business practices. This recognition reaffirms our dedication to uphold highest ESG standards, create long-term impact and positively benefit all our stakeholders.

Persistent's near-term and Net-Zero emissions target by 2050 have been approved by Science-Based Targets initiative (SBTi) under their Net-Zero standard criteria.

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

Saurabh Dwivedi: Thank you, Vinit. I will now talk about key deal wins for Q3 by industry segments.

Let me begin with Software, Hi-Tech and Emerging industries, our largest vertical.

- Persistent was selected by a U.K.-based private equity-owned leading software company to transform its R&D operations, which include a portfolio of multiple SaaS products. This is a 5-year, $50 million+ deal with SASVA™ license and customization as the core tenet for transformation of product engineering for the customer. Our SASVA™-led product development approach along with Day 1 readiness were key differentiators in us winning this engagement. The benefit to the customer includes standardization of development processes through product-centric squads, rapid and reliable product modernization leading to annual recurring revenue growth and optimization of R&D costs.

- Persistent was selected as an engineering partner by a leading IT Service Management, observability and database performance solutions provider to help alleviate business risks arising due to geopolitical volatility and undertake talent pool globalization. Persistent's 3+ years of relationship with the customer coupled with strong knowledge of the product helped us win this engagement. Our SASVA™-led, AI-infused engineering practices will benefit the customer by accelerating the roadmap of its IT Service Management product leading to improved product management, fixing of product security issues and revenue and margin enhancements.

- Persistent was selected as a data engineering partner by a food services and facilities management leader to standardize data handling across the organization and initiate data centricity as a strategic initiative. Our differentiation demonstrated by iAURA along with our exceptional stakeholder management with the customer were key factors that helped us win this deal. The benefit to the customer includes modernization of the core platform for their facility management business and reduced efforts in integrating it with their ERP and HR Management Systems.

Coming to Banking, Financial Services and Insurance.

- Persistent was selected by a leading American Financial Services company that provides financial record keeping, tax advantage savings and retirement plans to modernize its legacy systems. This is a 7-year, $150 million plus deal and is the largest transformation deal signed by Persistent till date. Persistent's existing engagements with the customer in the infra space and demonstration of SASVA™ and GenAI hub capabilities were instrumental in winning the engagement. The benefit to the customer includes modernization of its legacy systems, reduction in technology debt and improved developer productivity through SASVA™-driven build and release processes.

- Persistent has been chosen as a technology partner by one of the largest global payment technology companies to revamp their Enterprise Gateway Services, a key entry point for all payment rails. Persistent's deep expertise in payments coupled with our differentiated delivery experience to the customer has helped us win this engagement. The benefit to the customer includes improvement and optimization of gateway performance ensuring scalability, reliability, efficiency with low latency and millisecond response times to support services such as Real-time Authorization and Clearance.

- Persistent was selected by one of the largest US-based insurance companies to provide enhancements to the automation of insurance and claims processes within the company. Strong insurance domain knowledge coupled with mature automation practice helped us win this engagement. The benefit to the customer includes development of innovative solutions, accelerators, frameworks, and GenAI-based approaches for higher ROI on automation initiatives.

And, finally, within our Healthcare and Life Sciences vertical:

- Persistent was selected by one of the largest healthcare companies in the world to modernize their platform focused on patient care and pharmacy. This deal initiated a new relationship for the U.K. geography with the customer. Our track record of delivering outcomes in modernization projects and our engineering heritage were key factors in us winning this engagement. The benefit to the customer includes improved patient experience, reduction in technology debt and improved business agility.

- Persistent was chosen by a global leader in specialty injectables, drug compounding and anesthesia to replace their legacy Contract Management System with a new Revenue Management Solution. Our strong relationship with the customer coupled with their confidence in us as a dependable delivery partner led to this being a sole-sourced deal where the customer did not float an open bid to other vendors. The benefit to the customer includes alignment of the new solution with legacy dashboards while providing cost reduction in license cost and improvement in system performance.

- Persistent was chosen by one of the largest global contract research organizations to migrate their applications from MuleSoft to Azure Data Factory. Our existing relationship with the customer coupled with SASVA™-led approach for migration were key factors in us winning this engagement. The benefit to the customer includes enhanced developer productivity, improved code quality, reduced project timelines and delivery well ahead of the deadline, redefining the approach to large-scale migrations with improved operational efficiency.

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

This quarter saw us get continued recognition. To cite a few,

- Persistent earned top honors in the ‘2024 ISG Star of Excellence™ Award’ for superior customer experience, including the prestigious Overall Award. Persistent was the only company in 2024 to win in four different categories based on the ‘Voice of the Customer’.

- Persistent was named a leader in 2024 ISG Provider Lens Generative AI Services (Global). Persistent was recognized for its ability to empower enterprises with tailored AI strategies, strength in guiding clients from initial exploration to strategic deployment, and deep AI expertise coupled with modern engineering practices.

- Persistent was recognized at the 16th TISS LeapVault CLO Awards in 4 categories including,

    - Gold for Best Corporate University,
    - Silver for LND Team of the Year,
    - Silver for Best Employee Engagement Program and
    - Silver for Best Chief Learning Officer of the Year

- Our Founder and Chairman, Dr. Anand Deshpande, has been inducted as a fellow of the Indian National Academy of Engineering during its Annual Convention, 2024.

- Our CEO, Sandeep Kalra, was featured in Business World's article, ‘Sandeep Kalra’s $2 Billion Powerplay for Persistent Systems’, outlining his bold leadership and disciplined strategy. The feature highlights Persistent's AI-first approach, powering its verticals and sub-verticals and its forward-looking vision.

With that, let me hand over to Sandeep.

Sandeep Kalra: Thank you, Saurabh. Before I request the operator to open the floor for questions, I would like to provide an update on our annual planning exercise known as the Huddle. The Huddle concluded about 2 weeks back. This was a comprehensive exercise that took place in Pune and saw participation of over 350 of our senior global leaders across sales, delivery and our enabling functions. During this exhaustive exercise, we not only planned for FY26 but also reviewed our progress towards our aspiration of achieving $2 billion in annual revenue by the end of FY27. We remain confident in our trajectory towards this near-term aspiration and as a team have set our sights on our next aspiration, achieving $5 billion in revenue by FY31.

To support this audacious, ambitious goal we have developed a strategic roadmap that includes categorizing our three core verticals into sub-verticals with a focused plan to scale each of them meaningfully over time. Additionally, several key initiatives have been outlined such as doubling down on our Top 100 customers, which give us roughly about 80% of our revenues, expanding alternate channels including private equity and sourcing advisors and enhancing our focus on global capability centers as they become even more relevant in our ecosystem.

All of these efforts will be driven by our commitment to infusing AI into every aspect of our vertical and service line offerings as we highlighted earlier in this call and leading with the platformization of services. We'll provide further insights into our roadmap to our aspiration of $5 billion by 2031 over the next several quarters.

With this, we conclude our prepared comments. 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 a few minutes until the queue assembles. We request participants to restrict to 2 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: Hi, thank you. Two questions. Firstly, one of your peers have highlighted that they have faced headwinds because of productivity benefit being asked by one of the hyperscaler clients and obviously Persistent works with all the hyperscalers in the world. So, have you also seen any such asks from the client which could drive some headwinds on revenues and margins over the next two quarters?

And the second question is, if I look at the utilization, it has gone up sharply and even the headcount has gone up, so what level of utilization you're comfortable with operating at and how should we think about the headcount additions going forward? Thank you.

Sandeep Kalra: Thanks, Bhavik. So, I'll go reverse gear on this. Utilization, yeah, it is at 87% plus at this point in time. We are comfortable keeping the utilization in 85% band. As far as the headcount addition is concerned, obviously in the shorter run that means that there are contracts that we are working on to fulfill, and the pipeline also - the confidence reflects on that. So, I'll leave it there.

As far as the headwinds are concerned, look, if we are able to use tools to provide better productivity to our customers and so on and so forth, that should also reflect in more business over a period of time. I am not going to comment on what our competitors said. We are confident if we use our tools - Things like SASVA™, things like iAURA, GenAI Hub, etc. We have seen if we are adding more value to the customer, the customer lets us partake better value out of that. It is not a race to the bottom where we have to necessarily develop all this IP, deliver more value and pass on everything. That is not the way we are looking at it and that's not the way our customers are looking at it.

Mehta Bhavik: Okay, thank you.

Moderator: The next question is from Abhishek Bhandari.

Abhishek Bhandari: Yeah, thank you, management team, and good to see broad-based growth in this quarter. I have two questions. Sandeep, first to start with you. While I understand third quarter is generally heavy on renewals, but if I look at the ACV and the new business ACV, the growth rates on a YoY basis from a deal perspective appear to be a tad weaker one. They're in single digit, 9% and 7% respectively. So, is it because of certain timing issue in terms of closing of projects or is this on your expected line? And if you could also comment on the pipeline while you answered that.

Sandeep Kalra: Sure.

Abhishek Bhandari: And the second question is for Vinit. So, Vinit you know we have probably exhausted all the traditional levers in terms of utilization and optimization. So, going forward, how should we think on the margin improvement? I remember the comment that on a year-on-year basis, we want to be as close as possible to last year number - we'll probably end there, but on a go forward basis say FY26 and 27, aligning to your medium-term aspiration of 200 basis point improvement in margin, how should we think about it?

Sandeep Kalra: Sure. So, I will take the first question, Abhishek. So, if you look at our revenue conversion, I made that comment earlier in the call as well. Our revenue conversion is sum of our ACV conversion and the TCVs that we have announced over a period of time. Even if you look at some of the deal wins now. So, we announced a deal win where we announced a 150 million+ 7-year deal and that could only go up with time. So, if you look at deals like that, there are at least in the last five years, there are at least 45+ deals that are multiyear deals where you may not necessarily see the renewals come in the ACV side of it and if you look at the backlog of Persistent, it has been increasing over a period of time. We don't announce backlog. We don't intend announcing backlog in the shorter run. All I can say is if you look our growth, the layering of the TCV is what is basically giving us the revenue growth consistently over the last 19 quarters. So, we are comfortable with whatever the ACV growth is. We will always aspire to do better and we are confident in our growth journey. We don't comment on the pipeline that much, but the pipeline remains healthy. I'll note quantify the pipeline. Vinit, over to you for the margin commentary.

Vinit Teredesai: So, Abhishek, yes, your point is absolutely valid. The utilization is at a peak level, but I will also say at this point of time, while our comfortable band remains to be in the 83% to 85% range. It's not that in the short run this utilization is going to come down to that level. We are comfortable, at least in the short run, to continue with a little bit of high utilization levels. The second leg on the cost optimization part, there are many other levers that we are still working upon. I'll just give one or two examples. One - in terms of pricing. We are working with multiple customers in terms of implementation of the COLA clauses, in terms of getting some change request, wherever possible, we are also going and basically trying to get nonlinear revenue. As more and more AI levers get utilized, the nonlinear revenue is another factor which can help us in terms of improving our margins and last, not the least, the SG&A, as you see that our SG&A as compared to our peers is on a higher side, so there is a scope of optimization that is still available there. So, these are all the factors that will continue to do that and finally, at the end of the day, as we continue to grow, a lot of these problems will also - the margin problem will also get sorted out.

Sandeep Kalra: So, I'll just add one thing there. So, Abhishek, I'm sure you are one of the best analysts out there. You can see your spreadsheets. If we were to deliver 14.5% for the full year, that means an exit run rate at a different level. That exit run rate for the year becomes an entry run rate for the next year. Then, couple that with whatever Vinit said and as you know, we mentioned the more we bring IP/differentiated capabilities, we are able to get a differentiated pricing and if you were to look at our pricing with respect to the industry, we have been able to, over the last several years, command a premium. So, all of that put together along with our disciplined operational execution as much as we do disciplined execution on the revenue side, we are confident of whatever we have set on margin trajectory and we'll let the time pan out.

Abhishek Bhandari: Thank you and all the best for calendar 25.

Sandeep Kalra: Thank you.

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

Sandeep Shah: Yeah. Thanks for the opportunity and congrats on good execution. Sandeep, just wanted to understand entering FY26 or CY25, are you worried about demand in Healthcare with a change in US administration because some of your peers are highlighting the same in terms of uncertainty.

Sandeep Kalra: Okay. So, if you look at it, I'll give a philosophical answer first and then we'll come to this. So, macroeconomic environment, all of these other environments – look - they are given to everyone. How one reacts and how an organization reacts, is where the maturity comes in. If you look at the last four years, we've gone through COVID, where we grew despite the sector not growing. We came through post-COVID where we grew even at 35% and we had five quarters of 9% sequential. We saw post-COVID, where people talked about macro being bad, even this last quarter gone by, a lot of people said whatever it is. So, all we can say is even when there is a, you know, tough environment for a particular sector, there are going to be opportunities if you are able to analyze the sector. If there is pressure on that sector for IT services companies like ours or technology services companies like ours, there's a cost optimization opportunity. When the market becomes better, there's a revenue enhancement opportunity. So, are we worried? You know worry doesn't get us anything. We are keenly looking to see what happens, where does it throw up opportunities for us, how do we kind of partner with our customers, get even more closer to them specially our top 100 customers who give us 80% of our revenues, and so we are relatively confident we will sail through this as well. We have to just analyze as the Trump administration settles in. What are the actions, how does it impact, and how do we partner with our customers for their success? So, I'll leave it there.

Sandeep Shah: Yeah, and just a last quick follow up on what you said, so in terms of pipeline and the deal wins, the proportion of cost takeout versus discretionary, are you seeing any tilt towards discretionary?

Sandeep Kalra: So, it's too early to say. I can only say that the mood is changing in certain business cycles or certain business you know, places where people are more buoyant about the investments that may happen in the US because of the you know, government policies and so on, so forth. But it is too early for that to convert into pipeline and into closures. So, we will have to give it a little bit of time. The mood is buoyant, but nothing to reflect in discretionary coming up big time. We will wait for another quarter to two quarters before that and so far it is business as usual. We have to find our own opportunities within the things.

Sandeep Shah: And just the last clarification, margin aspiration to improve by 200-300 bps in medium term remains, right because there are no comments in the opening remarks?

Sandeep Kalra: Yeah. Because see if you look at the exit run rate as I said to Abhishek, if you analyze our, you know things right now and I'm sure you can do your mathematics, 14.9% is what we delivered. There were headwinds and tailwinds. There was furlough impact of 0.6%. You can put your mathematics together. Hopefully that bodes into a margin improvement for the next quarter, that becomes an entry run rate for the next year and then we have to execute. So, that should give you confidence on what I'm saying.

Sandeep Shah: Thank you.

Moderator: The next question is from Vimal Gohil.

Ravi Menon: Hello. This is Ravi Memon.

Vimal Gohil: Yeah, hi. Can you hear me?

Moderator: Ravi, we will take Vimal first and then

Vimal Gohil: Yeah. Thanks for the opportunity, Sir, and an excellent quarter. Sandeep, my question is to you. Just wanted your comments on the autonomous AI delivery that you spoke about, which is again SASVA™ led, very encouraging to see deal wins coming through on that. While you've shared that how do the benefits that we get to partake with the clients, you already shared that aspect. I want your comments on what happens to the long-term planning of headcount addition for the company going forward? What kind of headcount, are we looking to add? How will the pyramid change? How will the onsite offshore ratio get impacted? On that, basically the operational aspect, how will that change? Thank you so much.

Sandeep Kalra: Yeah. I'm smiling because this is a longer discussion, but if you look at it in a very short this thing, look, we have been a leading technology services company. We have led by adopting technology ahead of our peers. So, that would mean that we will need to have a 2-tiered economy within the company. There are people who are focused on market share gains here and now, and there are people who are focused on building platforms for the future, which everyone in the company will embrace, our learning and development will gear up. They will basically take the platforms that we are building, whether it is our own IP, whether it's IP built on our partner ecosystem, the hyperscalers, our specialized partners and then train the rest of the manpower. So, the pyramid etc. is going to change over a period of time, not necessarily next quarter, but over the next several quarters and years, you will see the pyramid concept fading away. You will see more outcome-driven kind of business models evolving at least as far as Persistent is concerned. You will see us partaking more value not passing on 100% of the benefits and just getting into a race to the bottom. So, you will see a number of these changes, but we'll let the things pan by. It is going to be a multiyear journey. While we all talk about agentic AI, while we all talk about how we are progressing, for enterprises, beyond a certain set of enterprises who are technologically savvy for others to adopt, it will take months and quarters and years. So, from that perspective, all the comments that you have said are valid, but we see an opportunity because we don't have the innovator’s dilemma, we don’t have to worry about a legacy, we don't have, you know, hundreds of thousands of people. We can happily nibble at other people’s you know, market share by going and disrupting what they do by 100 people over a period of time, maybe we can do it by 50 or less. So, there is enough opportunity for Persistent. We are not worried about any of these things. We have to invest ahead of the curve better than the others. So, that's where we are and that's why we even are looking at a very differentiated journey over the next 6-7 years. So, I'll leave it there.

Vimal Gohil: Thanks. Thanks. Thank you, Sandeep Sir. Just one bookkeeping question for Vinit Sir. Vinit, anything noteworthy on the provision for doubtful debt this quarter?

Vinit Teredesai: Obviously while we don't call out, it remains within the normal range. So, there are no material pluses, minuses that are happening.

Vimal Gohil: Thanks. Thanks, gentlemen. Thank you so much.

Moderator: The next question is from Ravi Menon.

Ravi Menon: Hi, thanks for giving an opportunity. Sandeep, congratulations on really broad-based growth and the deal wins as well. You spoke about it at a micro vertical level. I just want to understand the seasonality of these bookings. I mean last year Q3, I think we had some you know very strong bookings. This year again Q3 is very strong. What drives the seasonality in Q3?

Sandeep Kalra: Sure. So, Ravi, you are aware of Persistent business mix very well. In our fact sheet, if you look at it, 80% of our revenues come from North America, predominently the US. So, if 80% of our revenues come from a geography in which the financial year is driven by calendar year. So, calendar year ending in December means most of our larger renewals etc., which are annual renewals happen in the October, November, December quarter. So, you see a spike in the renewals - that combined with whatever we do on new, whether in existing or you know, net new customers that is basically the sum of the entire bookings that we do and if you look at traditionally last several years, you will see Q3 being seasonality-wise, more stronger for us on the bookings front.

Ravi Menon: Thanks. And you're talking about some sort of pickup that we might see slightly and this year I've heard that decisions, you know about budgets are yet to be made, probably will be made only by February. Is that right and would we then you know likely to see a bump up in bookings in Q4?

Sandeep Kalra: So, look, if the budgets get decided in February that by the time that has an impact on pipeline, that is an impact on bookings etc., it will be a little bit more time. But look, we are building the business on an ongoing basis and if you look at our trend over the last several quarters, our year-on-year, the revenue part is increasing. That's a combination of the bookings that we do now and as I said earlier over the last several years, whatever backlog we have been able create. So, it is trending in the right direction, but from a market perspective, I think it is too early to celebrate green shoots victory and so on. One has to just focus and with our own capabilities, mine our own customers, and cultivate the right new logos.

Ravi Menon: Thanks so much and congrats again and best of luck for your FY31 journey.

Sandeep Kalra: Thank you.

Moderator: Next question is from Manik Taneja.

Manik Taneja: Thank you for the opportunity and congratulations for the broad-based performance in the current quarter. Sandeep, you touched upon the fact that we are looking to pivot to a software or operating or change in the commercial model. Do you think this can help us decouple from the typical headcount led growth in our business? And the second question is that does this also accelerate the margin expansion journey that you are striving for, given some of the productivity or the efficiency gains that you will see from this initiative?

Sandeep Kalra: Yeah. So, good direction. So, if you look at it, yes, that is where the industry, the people who adopt the AI part and are able to leverage it and build differentiated service offerings, IP, etc. will go. So, there definitely will be a decoupling, but again my only caution would be, please don't expect it next quarter, next to next quarter, and so on. This is going to be a multi quarter, multiyear journey, and it'll also need certain amount of investments to be done and while we have said on one side we will do margin optimization, the play for differentiated tech services companies, let's say five years, seven years from now would be the margins would look very different from what they are right now, and that is the opportunity, but in the shorter run, while we optimize for margins, we'll keep investing to build those differentiation so that we can ride that wave, we can decouple the headcount growth from the revenue growth, and hence have more revenue per employee, profit per employee over the next several years and then you know obviously what you're saying is where we would be.

Moderator: The next question is from Abhishek Kumar.

Abhishek Kumar: Yeah. Hi. I hope I'm audible. Sandeep, you mentioned that you know you are very confident of your FY27, $2 billion revenue run rate - revenue aspiration. That is pretty much a giveaway you know of what to expect next two years in terms of growth. My only question is does this include any inorganic contribution from here on, or given the order backlog we have, you are pretty confident of achieving it organically?

Sandeep Kalra: Okay. So, let me paraphrase. So, $2 billion by 2027 financial year end is an aspiration. What we are saying is this. We are on that trajectory. We don't want to be overconfident. Having said that, when you're running a large organization and today we have become a semi-large organization, we have 24,000 of us. A few years back, we started saying our aspiration is $1 billion. We met that in time. Then we started saying $2 billion, we are on that track and so we are also aspirationally, you know, ambitious people. We want to do the right by our customers, but we also want to grow and we see an opportunity that AI is giving us to compete against the biggest, whether it is the largest in the US, Europe, or India and so we want to move the goal post on our aspiration and that's why we have moved the goal post so that we have a bigger picture for all of us, a bigger career path for all our employees and team members globally, and so it is not a giveaway that we are saying that it is guaranteed that will be $2 billion by FY27, we still have a lot of work to do. All we are saying is, we are confident of the trajectory, we will be at it, we will deliver that, but our bigger goal post is now $5 billion by 2031, which will make us one of the fastest growing tech services company, should we be able to achieve that aspiration, which we will give our best.

Now, the other part of inorganic. Inorganic has never been a revenue accretion game for us. It has always been a capability build up kind of thing for us, whether it is, you know, Arrka is just a 20-people acquisition, but in the data privacy domain which is paramount in today's AI kind of a thing. Any services company that does not focus on that cannot go to the customer straight face talk about implementing AI solutions. Similarly, Starfish was a very small acquisition but gives us a totally new addressable market in contact center optimization. So, our foray will be like that. The only place where we might do a slightly scaled acquisition is Europe, where we are at 8% to 9%. Our aspiration is, you know, 12% to 15%. So, outside of that, you will see us stick to our knitting, do focused acquisitions, and investments, giving us technology to become even bigger, better version of ourselves, much more differentiated than our peers. Hopefully, that answers.

Moderator: The next question is from Vibhor Singhal.

Vibhor Singhal: Hello. Am I audible?

Sandeep Kalra: Yes, please.

Vibhor Singhal: Yeah, hi. Thanks Sandeep. Thanks Vinit. Thanks for taking my question and congrats on a very solid performance yet again. Sandeep, just want to pick your brain on the FY31 target that you have set. I know, in the subsequent quarters you mentioned you are going to come up with a proper roadmap to it, but just on the preliminary thoughts, I mean, what will it take for us to do differently from what we are doing at this point of time to reach that goal? I mean, can we continue doing the same that we are doing and reach there or do you see some different kind of opportunities? For example, a lot of your peers have called out this big opportunity in the ERP refresh cycle, is there anything that something of that sort that we're looking to do? Just some color on that would be helpful. I'm sure you would come with a detailed plan later on, but any preliminary thought will be really helpful. Then I have a follow up question for Vinit.

Sandeep Kalra: We have two minutes in the call, so I'll just keep it very, very brief. So, essentially, look, doing more of the same doesn't get us different results. So, obviously, we have to gear up differently. We have scaled verticals to nearly $0.5 billion across verticals, give or take - healthcare, life sciences at $400 million run rate right now - 100 million a quarter; financial services just above that, you know, tech above that. So, first and foremost, each of these verticals is an ocean. Dividing that and creating 12 to 15 subvertical growth engines starting from there, focusing on the top 100 customers, going much deeper in the top 100 customers, mining them effectively, bringing the net new engine at a different scale through sourcing advisors or private equity – private equity is a very scaled play for us, very differentiated play for us. We all understand, in Persistent, there's a set of people who understand private equity like nobody else in our industry does. Very few companies in our industry understand private equity like that. So, there are many such things, many such motions, but we'll leave it for another day because there's hardly one minute left. If you can ask the final question to Vinit, then you know, we'll try and wrap up the call.

Vibhor Singhal: Sure. Thanks, Sandeep. Vinit, just on the earnout reversal provision that we have taken. So, have we seen the end of it or do you believe there could be more of it in the next quarter or something will spill over in FY26 as well?

Vinit Teredesai: At this point of time, and I think, I mentioned this in our last quarter's call also that our anticipation is that this will end by the end of this financial year.

Vibhor Singhal: So, Q4 there might be something more, but in Q1 they won't be any?

Vinit Teredesai: As of now, yes, that's what.

Nupur Singhal: Yes, right. Got it, got it. Thank you, Sandeep. Thanks for taking my question. I wish you all the best.

Sandeep Kalra: Thank you. So, with this, let me close our call with a message that we are positive about our growth prospects as we move into the next quarters. We continue to work with our customers proactively engaging and partnering with them to help develop solutions for their forward-looking strategies.

Thank you all of you for spending time with us on the call today and we look forward to connecting with you again in three months' time to provide an update on our ongoing progress. Thank you.

Operator, we can close the call.

Moderator: 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, everyone.

Please note that this transcript has been edited for readability.