



“Persistent Systems Limited
Q3 FY-20 Earnings Conference Call”

January 30, 2020

MANAGEMENT:

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Mr. Christopher O’Connor

Executive Director & Chief Executive Officer

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Moderator: Ladies and gentlemen, good day and welcome to the Persistent Systems Earnings Conference Call for the Third Quarter of FY20 ended December 31st, 2019. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. We have with us today on the call, Dr. Anand Deshpande -- Chairman and Managing Director; Mr. Christopher O'Connor -- Executive Director and Chief Executive Officer; Mr. Sandeep Kalra -- Executive Director & President, Technology Services; Mr. Sunil Sapre -- Executive Director and Chief Financial Officer; Mr. Mukesh Agarwal -- Chief Planning Officer; and Mr. Amit Atre -- Company Secretary. I would now like to hand the conference over to Mr. Christopher O'Connor. Thank you, and over to you sir.

Christopher O'Connor: Thank you and good evening. Welcome. I will open up with the brief description. We will enjoy talking about our "Business Units"; Sunil, our CFO will "Follow Up" and then we will proceed on with "General Questions."

Just to open up, Q3 revenue was US\$129.43 million, that is a 3.1% growth QoQ, 7.1% growth YoY. Margins: EBITDA stands at 13.3% while EBIT stands at 8.7%, PAT is at 9.5%.

We enjoyed a pure organic growth across the board. This quarter we added 53 new accounts to Persistent's customer list and it was highlighted by multiple marquee wins. A leading private bank in Asia Pacific employed us and enjoyed us to help build a digital bank with them. Another leading bank in the United States brought us in for our expertise around AI and Machine Learning to create a chat bot experience of personalization. The largest aircraft manufacturer in the world enjoyed our business around industrial sector and added Persistent to assist the certified vendors. A global pharma company created a roadmap for how they are going to enjoy rationalizing all their applications and moving to digital persona and how they see the world and their future structures as an IT organization. The drop in our largest customers' revenue impacted our EBIT. We are cognizant of it, and we have a focused plan to get it back to where it was. We likewise had expense due to important events such as attending conferences like Dreamforce, which is the largest Salesforce Conference in the world and AWS re:Invent, which is a similar extremely large conference for the Amazon ecosystem. We invested more heavily in those conferences than we have in the past, and that is a single large quarterly expense as well which is yielding results in terms of opportunity,

pipeline growth and conversion as we continue to expand organically the Persistent logo out into new accounts.

From a Unit Overview, in the Technology Services unit, it grew 6.4% QoQ. Sandeep Kalra is with us and he will provide details on the growth of that. The Alliance business had a degrowth of 2%.

I will now cover the Alliance business and talk in detail about that before turning it over to Sandeep. We had a leadership change in our Alliance unit. We had to part ways with Mark Simpson, who was the President of the Alliance unit. Jiani Zhang assumes the role of Acting President of the Alliance business. Jiani joined Persistent in 2019 as our General Manager of Industrial Sector. Prior to joining Persistent, Jiani worked in the roles of engineering, software product management and marketing at both AMD and later IBM. Jiani's formal education includes an MBA from UCLA and a Bachelor of Science from the University of California in Electrical Engineering, Computer Science. Jiani could not join this call today because of time span differences. We will also hear her in future calls.

Our strategy to balance the variation in the largest client revenue is yielding results. We continue as we have talked about in previous quarters to grow our industrial sector business overall, growing that business 19% QoQ. However, industrial sector revenue is approximately a quarter of size of our total Alliance unit revenue and so making a meaningful impact against shifts in net Alliance revenue is still in front of us while we continue to enjoy growth in industrial sector.

We continue to see good flow in industrial sector and in our resell business associated with this, adding 23 logos to the Persistent books in new clients and new registration of Persistent as a certified vendor to be able to have full access with those clients in terms of our business and our capabilities.

We expanded in other areas at our largest client. And we continue to find that our largest clients shift and they are enjoying new software technologies around Red Hat, opportunities for us to grow.

We have some significant areas of advancement in Persistent overall. We launched our Digital Bank Solution offering in conjunction with our major partners. This is a great assistant to banks and credit unions to fast track the customer onboarding journey. It is a pure Cloud-based offering, leveraging our

partners such as Mambu, AWS and others to help build a digital solution that truly is a bank in a box or credit union in a box depending on the customers' needs. We have built a healthy pipeline there, led by events with some of our clients in the United Kingdom and the United States. We continue to enjoy growth there.

Our Digital Banking offering is now approved by Amazon and listed in the AWS Financial Services Solutions site. We are one of only five vendors that has an approved AWS Financial Services Solution for sale and approved by Amazon in a very rare occurrence of being a small set of vendors with the leading solution in a financial sector that can have many people in it.

We continue to build new offerings. We have built new offerings in industrial sector, healthcare and data. We signed up new partnerships across the category, and those are now yielding lift in the marketplace both from a solution point of view as well as a reference point of view.

We expanded our presence at partner events. We were a groundbreaker sponsor at Dreamforce, our largest Salesforce event or the largest Salesforce event in the world. We showcased Persistent's leading edge industry solutions and capabilities. We strengthened our relationships with both Salesforce and MuleSoft across various industry verticals and we offer thought leadership in speaking sessions and customer appreciation events. We brought both our North American teams and our European team, our newly announced European Salesforce practice to those events to help enjoy the customer excitement and the growth that Salesforce is likewise enjoying.

With our new Chief Marketing Officer, we are for the first time putting programmatic behind lead qualification and opportunity conversion with rigorous pipeline progression procedures behind these conferences. Likewise, in our attendance at the Amazon re:Invent Conference, we showcased some of same capabilities in Amazon clothing and again enjoyed some of our largest pipeline growth that we have seen as a company, generating significant number of leads from the event throughout all of Q3.

Overall, we are upbeat on market opportunity. We continue to have relentless execution. We have focused on our bottom and our top line and it is very enjoyable to take you through these results.

With that, I am going to hand over to Sandeep, our President of the Technology Service Unit, to provide an update on that line of business. Sandeep?

Sandeep Kalra:

Thanks, Chris. Good evening, good morning to you all. Technology Services Unit had a strong Q3 with the 66.4% sequential growth which translates into 16.4% YoY growth. This was on the back of 3.5% growth on Q2. In Q3, we saw a strong growth across all verticals. The Banking, Financial Services coming in at 6.7%. ISV emerging verticals at 6.4%, Healthcare & Life Sciences at 5.9%. Similarly, we saw a strong growth in our service line with Data and Salesforce coming in at 9.3% and 7.9% QoQ respectively. Our continuing progress in Q3 shows the validation of our new sales strategy with effective mining happening across our top-20 customers. If you look at our top-10 accounts, they grew by 5.3% QoQ in TSU, the top-20 came in at 6.9% QoQ growth.

To give you some color on the deal wins, in BFSI for the leading private bank in Asia Pacific, we were chosen as a primary systems integrator, helping them launch micro loans, savings and insurance products via mobile apps. For a leading bank in the US, which is a top five bank in the US, we were awarded a deal to work on chat bots, providing enhanced web experience in retail banking and home lending applications. For a top general insurance provider in India, we were chosen to provide nice key business applications based on a low-code, no-code platform.

In Healthcare & Life Sciences, we worked with a large pharma company, one of the top-five globally on application portfolio, optimization and a digital roadmap, helping them go over the next year on too much more digital Cloud-based native applications. We were chosen by a leading HMO health plan for end-to-end ownership of engineering, testing, system administration and so on for their HMO clients.

On the ISV and emerging vertical side, we were chosen by an AI-led education tech start-up to build an AI-powered learning and score improvement plan. Overall, our pipeline looks healthy in the coming quarter and so is the demand environment for our services.

With this, I hand over to Sunil Sapre, our CFO.

Sunil Sapre:

Hi! Good evening and good morning to everyone and wish you a very happy new year as we talk first time in 2020. Thank you, Chris and Sandeep and they

have talked about the business updates, and I will take you through the financial information for the quarter.

So at the outset, I would just like to explain to you that with respect to the financials, where we normally have a full audit done for the quarter, this time, the quarter's accounts have been subjected to limited review by the statutory auditor and we had intimated the stock exchanges about the reason for the same being that we were transitioning to a new ERP and some of the normal audit processes would have required little longer time. We will be back to the normal cycle of full audit henceforth.

On the revenue side, you have heard about \$129.43 million revenues which is a growth of 3.1% QoQ and 7.1% YoY. In INR terms, revenue was Rs. 9,227 million, growth of 4.3% QoQ and 6.8% YoY. On the composition of revenue, linear revenue grew at 4.9% QoQ while IP-led revenue declined by 3%. In terms of linear revenue, the increase in volume was 5.7% while the billing rate declined by 0.8%. The offshore linear revenue grew by 5.1% comprised of growth in volume by 5.5% and decrease in billing rate by 0.4%. Onsite linear revenue grew by 4.5% constituted by increase in volume by 7% and decline in billing rate by 2.3%.

As Chris mentioned, IP-led revenue came in lower with a dip of 3% QoQ and largely attributed to lower-than-expected royalty revenue which resulted in drop of gross margin by 140 basis points to 33.3% from 34.7% last quarter.

As Sandeep talked about, TSU business had a very healthy growth across all the business lines. What we had in terms of S&M and G&A expenses; you will notice that both these items in absolute terms are more or less flat. S&M expenses actually came down a little bit because you will recall last quarter we had talked about certain one-time expenses in terms of carrying some overlap of sales people, plus some of the expenses we incurred on the branding last quarter. So, as a percentage of revenue, S&M expenses were 10.4% of revenue as against 11% of revenue last quarter. G&A expenses in absolute terms were flat and as a percentage of revenue came in at 9.1% as against 9.6% last quarter. We had provided Rs.50 million towards IL&FS exposure and cumulative provision stands at Rs.382.5 million against total exposure of Rs.430 million. The total SG&A expenses came in at 19.9% of revenue as compared to 21% last quarter. With the above, the EBITDA margin came in at 13.4% as against 13.8% in the last quarter. Essentially, you will notice that the

effect of lower royalty revenue at gross margin level got partially absorbed by lower SG&A expenses and the reduction in EBITDA margin was to that extent mitigated. Depreciation and amortization were nearly at the same level in absolute terms and came at 4.7% of revenue as against 4.8% in the previous quarter. The EBIT was Rs.806 million at 8.7% of revenue as against 8.9% in the preceding quarter. On the treasury income, it was Rs.232 million Vs Rs.226 million in the previous quarter and foreign exchange gain was Rs.102 million as compared to Rs.138 million in the previous quarter. So, with this, the profit before tax was Rs.1,140 million at a margin of 12.4% as against 13.1% in the previous quarter. Effective tax rate for the quarter was 22.9% as compared to 25.5% in the previous quarter; the ETR was lower on account of R&D tax credits in certain overseas locations; the ETR on an annual basis is expected to be in the range of 24% to 25%. As mentioned during the last call, we have decided to opt for the new corporate tax regime which allows us to take the benefit of the reduction in corporate taxes. PAT for the quarter was Rs. 879 million at 9.5% as against 9.7% in the previous quarter. On the CAPEX side, the operational CAPEX for the quarter was Rs.62 million. The cash and cash equivalents amounted to Rs.13,778 million at the end of December as compared to Rs.12,661 million at the end of September. The operational cash flow for the quarter was Rs.1,019 million. The forward contracts outstanding as on 31st December was \$115 million at an average rate of Rs.73.24/dollar.

As you would have seen from the press release, the board approved interim dividend of Rs. 9 per share. The last year we had an interim dividend of Rs.8 per share.

With this, I thank everyone, and I hand it back to Chris.

Christopher O'Connor: Thank you. At this point in time, we will move to questions-and-answers both the online as well as taking questions. So, let me ask the operator for assistance as well as we are starting to look inside of our queue.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Abhishek Pathak: This is Abhishek Pathak here from Edelweiss. So just one question from my side. Could the management just walk us through their strategy in terms of which segments are you targeting specifically because IP-led businesses have been a little weak with exception of last quarter. So, is the new sales strategy

specifically focused on enterprise and ISV and how should we look at the IP-led business going forward -- should we model in flattish trajectories from here on or do you see some recovery coming there as well?

Christopher O'Connor: Thank you. I will handle that question. The business with our largest client is multi-faceted. We have several components inside of it, and when we bring that number together, it is a combination of work that we do for them which is enjoying new contracts and new work as they create their own shift with their technology to the cloud provider or the cloud capabilities of Red Hat. So, we see opportunity, we see the opportunity for growth and we have a healthy pipeline with our largest client in terms of those types of opportunity. And this is the work we do for them, and we do that across dozens of products. And as they shift to this cloud technology, we are one of the primary providers. Second, we also have a royalty business with our largest client. And the royalty business is where we are reliant on their cyclical cycles or their cycles and that royalty business can go up and down in any given quarter based on really the dynamics of the IBM global sales team and the IBM global partners that moves the product. And in that is the difference or the surprise that we had this quarter. The third component that we do with our largest client is we actually go to market. We take that product, their products to market. We sell them as well as we sell products of other vendors such as Dassault Systems in the same sales team. So, we are category leaders in industrial sector there. And we sell the IBM product as well as we sell others. That area enjoyed nearly 20% growth. And it is something that we have been growing QoQ as a deliberate offset strategy to the royalty business. And so, while we continue to do work for IBM, we recognize that the royalty business has, I will call it, cycles and ups and downs. And to offset that, we have embarked for about 18-months, on a strategy to build out the industrial sector space and we are enjoying healthy double-digit growth there, it will take seven more quarters for that to make a significant dent around the size of our royalty business, but there is a strategy we are executing. We have brought onboard more sales personnel in North America as to complement the sales team we have in Europe. And we suspect by the pipeline, we will continue to enjoy healthy growth out of that capability. So, multi-faceted business and then balancing it out will require growing all the solutions.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: So just on the BFSI which has seen a strong growth, could you talk about more on the deal pipeline? Is it that the clients which we already have there we are able to go and mine them with more cross-sell, just on the pipeline and your views on that?

Sandeep Kalra: The BFSI pipeline is healthy across both existing customers and new customers. We are able to sell more service lines to the existing customers, grow the wallet share in those. And in addition to that, as Chris talked about, we have our offerings in Digital Banking that are picking up steam. We have our AIML platform development, which is picking up steam and the low-code, no-code platforms-based application development where we are also seeing the newer customer pipeline. So, it is a combination of both.

Madhu Babu: And we talked of trying to build annuity streams through managed services and also once we get into the customer. So, what are the changes in the delivery engine we would need to make on that initiative?

Sandeep Kalra: Good question. And if you look at our growth, some of the deals we talked about in the earlier quarters, the multi-million dollar deals, etc., that we announced and we continue to have those. Those are annuity-based deals. And if you look at it, some of our existing deals were like that. But more and more we are investing in our managed services part as well. So, while we will do cutting edge platform development, so we will not just do development, we will also endeavor to put in managed services around that as we kind of work with our customers and that is where we are reinforcing that capabilities wherever required, but we are adequately having that capability in-house as of this point in time as well.

Moderator: Thank you. The next question is from the line of the Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: A couple of questions. First about the cash generation. If one look at nine months cash generation, it seems to be weak. If you can provide some perspective on how one should look at cash generation improvement going forward? Second question about the vertical wise, BFS, you touch upon, but if you can provide some outlook about how one should look at vertical growth rate, and if you can provide some perspective on deal intake, if you can share us a number, how it has changed let us say in last couple of quarters and deal pipeline, how it is breaking for us? And on the IBM top client side, how one

should look at trajectory of business stability returning there, and what is the traction we are seeing on reselling part?

Sunil Sapre:

So, let me take the question on cash generation. So, if you look at the cash generation in the first half of the year, that was particularly very weak on the back of lower operational profit and a couple of other items that we explained in the last quarter which was one, relating to the fact that we had advance payments to suppliers, and the other which was with respect to certain payments that had to be made which affected the cash flow at an operational level. These are in the nature of certain incentives that the government has contested, and which are disclosed as 'contingent liability' at the moment. The other item that affected the cash flow to the extent that we had certain reversal of employee benefits. Now these employee benefit reversals would have helped the PAT or the margins, but it will take a while for us to get back the excess contribution deposited with LIC where we manage the retiral liability.

Now coming to the cash flow for this quarter, the cash flow is better than the profit generation for the quarter, partly for the reason that the supplier payment would get adjusted when you move to the normal operational quarter, and that is no longer the reason. However, having said that, there is an increase in the DSO from 64-days to 68-days. And the reason for that are partly the fact that being holiday season, we had increase in DSO by a couple of days because collections spilling over to Jan and partly because of the fact that a couple of customers have increased the payment terms from 60-days to 90-days, impacting DSO by about three days. So that is what I would say. So, what we have done is while our accounts have been subjected to limited review, we will be putting all the financials on the website and we can talk on that later.

Sandeep Kalra

So on the vertical side, if you look at it, we talked about the Banking and Financial Services already. On Healthcare, Life Sciences if you look at the split of the vertical, there is a pharma side of it, the payer and the provider side of it. Those are the three broad categorizations. In the pharma/instrumentation space, we continue to be a very strong player where we are pretty much the leading instrumentation company in the pharma space of our customers for many-many years, and we continue to add logos there and we continue to mine those. If you look at the payer side of it, we have a pretty strong story on the Salesforce platform where we enable the multiple parts of the patient engagement journey for a provider. In the payer side of the house, we have been working predominantly on doing platforms. This can be AI, Machine Learning-based Cloud Native platforms for doing their in-house analytics or

providing customer services and so on and so forth. We also see a lot of traction on the low-code, no-code platform on both the provider and the payer side. On the ISV and emerging verticals, we are seeing traditionally our strength of PES play out well and we are working with them as they become more and more Cloud-oriented. The last question that you had was on the deal pipeline. The deal pipeline continues to be healthy. And part of it is what is reflecting in the strong growth that we had in the Services segment. We do not disclose the deal win values. With time we will look at that. But overall our deal pipeline looks healthy. The market demand continues to be healthy and that is where I hope I have answered your question. And with that, I will hand over to Chris for the IBM piece.

Christopher O'Connor: So, IBM, you asked about trajectory and forward vision there. It would be inappropriate to kind of give something that sounds like an exact forward trajectory. I think the right thing to say at this point in time, we do not see anything substantially different in the way that the work with our largest client takes place. And adding to that top line, there are opportunities as they convert their investment in Red Hat pays out and plays out which seems to have very reasonable traction in the market by all indications, not just IBMs, but our indications as well. We will enjoy our position as being a significant provider in dozens of products that they have, and we saw evidence of that this past quarter. Likewise, in the work that we are doing to grow industrial sectors to be significant in size equal to BFSI and Healthcare, we enjoyed healthy double-digit growth. It is just pushing a smaller number to be a bigger number. And then the last part is the royalty cycle which has to do with the complexity of IBM sales. And that is where we see some variance. We will be with Jiani introducing a set of capabilities or a set of interactions with IBM to get more accurate on that, but that does not change our belief in the business or trajectory statements and our confidence in the investment that we are making around this. We will need to match cost to go along with that and we are active in making sure that happens.

Dipesh Mehta: And lastly, about the reseller, the business which we added in the last few quarters. If you can provide how that business is tracking for us?

Christopher O'Connor: Reseller is the industrial sector business. They are one and the same. And that is a business that I mentioned grew nearly 20%.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: On the exit momentum, I mean, assuming that 4Q would be steady. So, we would exit at a good rate for next year. So, would that put us back to the 10% kind of organic growth, I mean, on the overall revenue perspective? Second, on the margins, almost all like 550 basis points YoY drop in margins, obviously, the IP revenues have been weak this quarter, but trajectory on margins has been weak. So, would we see the margins also swing back maybe from 1Q FY '21 as the growth leverage and all kicks in?

Sunil Sapre: On the margin trajectory, Madhu, basically, the issue has been with respect to this quarter, the lower royalty revenue that came in. On the gross margin side, our idea is to get back to the trajectory of 35%+ which we are maintaining. Part of that is also attributed to the business portfolio that we run with the largest client and some of the work that we will do in that area to improve that profile. On the SG&A side, most of the investments that have taken the frontloaded kind of a nature which you saw last quarter, the sales and marketing being at 11% has now come down to 10.4%, and we will optimize there by virtue of the revenues going up. So, we are done with most of the additions to the sales team, the churn that made some of the overlap of cost remaining. So, with that, on the gross margin side, improvement of 1% to 1.5%, and on the SG&A side, optimization of about 1% to 1.5% is what is our target to get back the EBITDA margin to 15+ level.

Madhu Babu: The exit revenue run rate for FY20 is likely to be 6%. So next year how the momentum is going to play out with the kind of pipeline we are seeing?

Sunil Sapre: I think it is little early at this juncture. We are just in the first month after the end of quarter, getting back with the updates from clients on their annual plans, and we will come back to you as we get better clarity on that. The idea is of course we have seen significant momentum on the services portfolio. We have to fix some things on the Alliance with the largest client portfolio, and we will share more details. The idea is definitely to grow at 3%, 3.5% kind of run rate on a sustained basis.

Madhu Babu: On the enterprise side, obviously, BFSI and Healthcare has been a forte for us. So, with the success we have seen, any subsequent-verticals in the new areas are we trying to focus on investment, any views on that?

Sandeep Kalra: Essentially, if you look at it, so far, our growth has come from these verticals. Underneath, we are seeing some good traction in travel, transportation and so on. But are we there yet in terms of announcing that? Not yet. That is why we

classified that as well as industrial as emerging verticals. So industrial and travel, transportation, etc., would be things. We will look to see how the trends emerge. Industrial definitely we are seeing light. So hopefully with time we will call out more verticals as they emerge.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: This is particular to Alliance segment. In terms of the impact which has happened, it gives a picture that this is just not one quarter issue or it is not going to come back in the next quarter or in a shorter period of time. So, are we looking at a situation where the kind of work which we plan to do not only on the top line and hence improvement on the bottom line, this is a little bit medium term in nature in terms of three, four, five quarters or is it just the fact that we will be able to get back some of the revenues and the margins in the next two quarters? I know it is not a quarterly understanding, but directionally, is it a little bit larger timeframe we are looking at to get back to that or is it a more near-term?

Christopher O'Connor: Great question. In the Alliance segment, we exercise three different primary business models; one is we sell to our largest clients, and that model is where we do work for them; second is we have a royalty-oriented business that is composed of several products that add up to that royalty business; and then third, we have the reseller business or the work that has been described as industrial sector. So, in terms of alignment, in the sell to IBM, we see lots of opportunity QoQ. We remain very bullish and the fact that IBM has made this investment and commitment to Red Hat, and we will play a part in that, and we saw evidence of that last quarter, and the evidence looks strong as we look forward as well. In the reseller or industrial sector business as I mentioned, that enjoyed 20% growth on the back of 20% before that. So, we continue to show healthy growth there, adding both volume of new clients, key clients, such as the world's largest aircraft manufacturer which now has approved Persistent as a vendor as a part of this process and plot out growth. And this is a healthy business that then we must expand, conscious of the bottom line to bring more or all of Persistent into these clients and expand out our base, not just live off the reseller alone and we are executing that strategy. So that remains very bullish in our thoughts as well. So that is two of the three numbers that we add up to the Alliance number that you see. The Alliance that then has a royalty component. The royalty component is a very profitable component. It is a large component, it also has cyclical variance or unit wise variant. So, we have

mapped out historically all the data we have on each of the royalty components. We are not out of cycle with any of the components as we have seen in any previous year. However, it was not a growth that we were expecting. So, in that we do not have a forward view that says there is going to be a significant long-term gap. It is consistent with the previous quarters that we have had. The predictability is something we have to work on. Commensurate with that is obviously the expense quotient which goes with that and we have Jiani now keenly focused on and getting that to a more managed average as we look forward. So, our view remains consistent that this is a healthy place to be. It is opening up new opportunity as well as our largest client has us in a primary position for much of the work that they do.

Mayur Parkeria: On a trailing basis, out of \$150 million of Alliance revenue, how much would be this royalty part?

Sunil Sapre: We disclose revenues as a portfolio, we do not disclose it at a unit level.

Mayur Parkeria: So directionally, will it be substantial 50% kind of situation or will it be lesser than that?

Sunil Sapre: No, unfortunately, we are not allowed to share because of the confidentiality arrangement with our customer. If you look at the IP-led portfolio, we have IP across units, whether it is TSU or Accelerite and IBM. So, it is all bundled into the IP-led. So, we disclose IP-led and Services. You know what is the linear revenue and what is the non-linear revenue.

Mayur Parkeria: Chris, just small further understanding on this if I may just. So, does this royalty business impact is more to do with the fact that they are end of cycle products and unable to sell a new license, new customers and hence it is impacted or is it more to do with the environment, so just some color if you can add on that side?

Christopher O'Connor: So, the largest component of how that is put together is a leading edge product in the industry enjoyed by multiple industrial sector accounts that use us and their business relies on it and their business would stop if this product was not maintained or did not continue forward. And it continues to provide growth to us as well as to our largest client in terms of number of clients. So, there is not in this component an aged product syndrome. I believe your words of environmental is more of the right way to go with this whole discussion.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Sorry to bit being on the same issue. I wanted to ask the change in the leadership in Alliance business, was it involuntary?

Christopher O'Connor: I think the best way to characterize this is, Mark and I enjoyed a significant difference in business beliefs, and as a result, we parted ways.

Rahul Jain: Is it tough that profitability within the large client would go down given that our traction is more on the reseller business rather than the other two pieces?

Christopher O'Connor: The answer is it could, but we have to remain focused on not just the reseller component of this, but also of the services component, we have the ability to sell as well. And so, we have to focus on making this a complete discussion in terms of how we do this to just do resell 100% by itself could have an impact. We are focused and we do have both the selling team and a delivery team focused on delivery of services, and in linear business, we have the model that goes along with that. And it needs continual focus as well as the capabilities that are in technology services unit are set to be exploited for the first time in these customers, and we have put together a scheme to start to cross-sell TSU services into these clients as we grow the client list. So, we are not projecting that. Theoretically, by math it could. Our work has to do to make sure its complete Persistent discussion when we work with these clients in addition to just a reseller discussion.

Rahul Jain: When we say that our pipeline is pretty strong in that segment, can you say that the past growth would have been more impacted because of the Red Hat acquisition and the way things would have changed at their end in terms of what they want to work upon and not more to do with the demand side of things or is it more of a competitive factor which is impacting our performance?

Christopher O'Connor: So, the component that is royalty based is in large part led by the IBM or our largest clients' sale of the product. While we play a role in selling that and we are the largest reseller we are a fraction of the total sales effort that goes in and around us. And so, it is that focus that has different cycles and as our largest client shifts quarterly their own focus which our data would say is a normal occurrence to them, it provides us the opportunity like catch up in some of the quarters where their focus was elsewhere.

Moderator: Thank you. The next question is from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: I wanted to understand in terms of the deal sizes that you are looking at the moment and how this has changed, for example, the APAC deal that you won or the general insurance deal or the healthcare deal, what are the deal sizes and duration of these deals, and how has this changed over the last year to this year?

Sandeep Kalra: If we look at the technology services part of it which in particular services business that we have, the deal sizes I would say the size has increased over the last eight, nine months that we have been focusing on effective mining of the customer base. And more and more, we are orienting our sales teams to go after multi-year kind of deal scenarios. Even if they are doing let us say for the sake of argument, Salesforce implementation, we are trying to bundle our support services along with it because even if you do an application development, product engineering or Salesforce-related work or any of these, there is always a way to keep your leg in by bundling support or so on and so forth. So those are the things that have effectively helped us along with the fact that we are focused on investments in our service lines as well as the verticals. If you look at it in terms of quantifying, look at our deal wins, most of the deal wins at the higher level that we are talking about are multi-year million kind of a deal. Yet, I will not be able to disclose exact deal sizes, but that is where I would say, we have seen a healthy uptick in the deal size per se, and that is reflected in our growth if you look at the growth, our Q1 was 81.8%, our Q3 is 90.3%.

Neerav Dalal: And in terms of the reseller, how should one look at a similar thing?

Christopher O'Connor: So, the business that we do in and around that sales sector, deal sizes continue to increase. We landed in this quarter seven figure deals as well as many deals that were just shy of that or in the middle of that. So, we do see deal size as something that can vary, but it is from the evidence we saw this quarter on the increase in terms of the size with larger deals occurring.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Chris, in the Analyst Meet, many months back, you used the term revenue stacking as one of your key strategies going forward. Have you been able to implement this and can you just illustrate using an example?

Christopher O'Connor: So, if I pull out one of the pieces of work that we did in our reseller business in this piece of work, we enjoyed the reseller capability as well as we landed on a services contract to do the implementation. The dual stack and in that resell of the same product, we collect a royalty because we advance the overall number that adds into the royalty share at the same time. So that is the services component. It is a resell component that we enjoy and we advance our own royalty payment because we sold the product where we enjoy the royalty at the same time. So that was one of our larger deals in the reseller or industrial sector group. Likewise, if you look at some of the work that we are doing around digital banking, we have partnered up and digital banking is a persistent solution composed of partner software and our own accelerators at the same time. Those solutions include time and material, they include our partner software in cases where we are the reseller, and it includes in some cases Persistent IP adapters and connectors as well. We had multiple advances in digital banking and we have got two stack and three stacks certainly evidence there as well. We continue to believe in the digital advancement that has taken the entire industry. We see this as a leadership opportunity for Persistent which is to compose solutions based on partner software and our own capabilities come in the form of accelerators, linear work as well as engendering our partners to be our advocates for the movement of their software at the same time and collect the reseller margin, and we will push on that strategy throughout the entire business.

Girish Pai: Second question is regarding the CE/CLM products on which you are supposed to get royalty where IBM is supposed to sell. I suppose that did not work out in Q3. I am belaboring on this. Would this now appear in Q4 or will this be delayed into FY '21?... So, CE/CLM products was supposed to come through in a big way in the December quarter which is not from what I can see. So, is this now going to come through in the March quarter or will its kind of going to get pushed back into FY '21?

Christopher O'Connor: So, I think the best way to characterize that is we recognize that product is having thousands of clients around the world. It is recognized by industry annuals publicly as the leading product in its space. It is complementary to our partnership with Dassault Systems that we struck up this past year, and we have no indication to believe it is on any negative trajectory at all, and I believe

as we look forward we will see it continue to sell healthily and continue on this trajectory as we have mapped the last four years of historical data, and the historical data we look at would indicate that we are within the parameters of what is normal for that product offering.

Girish Pai: Lastly, Persistent in the past has had issues with talent. I think a year or so back, you had to drop some projects because you could not fill up the talent part on certain projects. So how is that kind of panning out now, I mean, are you finding difficult to get talent in the US?

Sandeep Kalra: As far as talent in the US is concerned, our business mostly is in the forward-looking technologies. It is always going to be a tough task getting talent in those technologies, but we are not seeing any incremental tightness and so on and so forth. We have a healthy way of tracking our pipeline and correlating that to our resource management, hiring proactively and so on and so forth. So, we are relatively okay as of this point in time.

Christopher O'Connor: I would characterize it as a continual focus across the entire company. We have put some dedicated leadership that we are quite happy with in terms of having that focus. And so, I think in our tenure we maintain the focus to manage problem right now that the industry has. We do not see it in our top tier of problems that are bothering us, but we must maintain a focus and we must maintain the durability of how we manage the talent, and that is keenly in our brains and something we watch on a weekly basis.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sandeep, earlier you had highlighted that we have opportunities of working with the PE players and their investee companies given some of your background there. So, if you can add some, how is that panning out and what kind of wins if we are seeing any something on that side?

Sandeep Kalra: Very good question. We are seeing a good traction with the new companies. As of this point in time, we are involved with at least five different opportunities, which are with different portfolio companies from different fields. So, these are in advanced stages. And obviously as they become wins we will announce those. But we are seeing a pretty healthy traction in that market.

Mayur Parkeria: Chris, something on the client side, like the commentary and the qualitative comments are good, but if we look at the number of clients in the bucket of 3

million and 1 million to 3 million which we disclosed, they have remained around 75 put together over the last seven, eight quarters. So, are you tracking that number because that remains a pretty constant number. Irrespective of that the fact that QoQ we may have seen an addition on the 3 million but when we look at that deal pipeline or the client moving up the deal curves, that is not visible at least when we look at both together and over a longer period?

Christopher O'Connor: I think your comment is accurate. We are sitting around the same number in total. It is consistent. It did not express any alarm to us other than our mission is start to move that number up, and so we agree with you. That we are tracking it. We have aligned on how that looks as we look forward, that is work that we are in progress on. Likewise, our top-10 clients remain very consistent and healthy to us as well as providing overall growth with significant deals in some of them as we mentioned earlier. So, this is absolutely a focus and it is absolutely focus given the past quarters we have taken you through as an organic in nature that we do deal expansion as well as duration expansion at the same time. So, I anticipate you will see movement here. Nothing to project at this point in time.

Moderator: That was the last question in queue. I would now like to hand the conference back to Mr. O'Connor for closing comments.

Christopher O'Connor: We have enjoyed your questions and we are here obviously, to take on more questions as you have them. You have got the numbers at your disposal. Should you have them, we remain available for you all. We have enjoyed this call and thank you very much.

Moderator: Thank you very much. On behalf of Persistent Systems Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.