Persistent

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"Persistent Systems Limited Q4 FY21 Earnings Conference Call"

April 30, 2021

MANAGEMENT:

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Chairman & Managing Director

Mr. Sandeep Kalra
Executive Director and Chief Executive Officer

Mr. Sunil Sapre
Executive Director & Chief Financial Officer

Mr. Saurabh Dwivedi
Head, Investor Relations

Mr. Amit Atre
Company Secretary

Moderator: Ladies and gentlemen, good day, and welcome to Persistent Systems' Earnings Conference Call for the Fourth Quarter and Financial Year FY 2021 ended March 31, 2021. As a remainder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and 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. Sandeep Kalra – Executive Director and Chief Executive Officer, Mr. Sunil Sapre – Executive Director and Chief Financial Officer, Mr. Saurabh Dwivedi – Head of Investor Relations and Mr. Amit Atre – Company Secretary.

I would now like to hand the conference over to Mr. Sandeep Kalra. Thank you and over to you, Mr. Kalra.

Sandeep Kalra: Thank you. Good morning, good evening, everyone. It is good to be here with you once again. I sincerely hope all of you are safe and healthy. And as you would have noticed, we delivered yet another strong growth quarter, bringing FY 2021 to a strong close. Before I go into the financial and business updates, I would like to start this call by thanking our team members and customers for their resilience and their trust in us during these unforeseen times. Our team and our customers are the bedrock of the continued industry leading performance delivered by us over the past nine quarters.

As of this point in time, some of our employees and their families are affected by the second wave of COVID happening in India, and we sincerely pray for their speedy recovery. In view of the ongoing pandemic, we have announced several initiatives to support our team members, including local support groups, and undertaking the cost of vaccination for all our India-based employees and their families. We have already embarked on this vaccination drive and expect to start an even more vigorous vaccination campaign starting May 1st, when vaccinations become available for all adults in India.

Also, as you know, the medical infrastructure across India is under significant pressure. In this context, Persistent Foundation is helping us

do our part and is assisting hospitals in our local communities in India by donating ventilators and oxygen equipment. As you may remember, we did a similar drive globally earlier in the first wave of pandemic. We sincerely pray for everyone's well-being and hope that we can bend the curve in the right direction soon globally.

Now, let me turn to the business and financial updates for Q4 and FY 2021. We are happy to share that we delivered yet another strong quarter, delivering continued progress on all major business metrics. The revenue for Q4 came in at $152.8 million, growth of 4.6% quarter-on-quarter and 20.3% on year-on-year basis. In rupee terms, this translates into a growth of 3.5% Q-o-Q and 20.2% on year-on-year basis, respectively. It is worth noting that this is the first time after a gap of four years that we have grown on sequential basis in Q4 over Q3, overcoming the seasonality of the IP business with strong services growth.

For the full year in FY 2021, the revenue came in at $566.1 million, showing a growth of 12.9% over FY 2020. In rupee terms, this translates into 17.4% year-on-year growth for a full year basis. On the EBIT side, the Q4 came in at Rs. 1,464 million and EBIT margin of 13.2%. This translates into EBIT growth of 7.4% Q-o-Q and 70.9% on Y-o-Y basis. For the full fiscal FY 2021, our EBIT came in at Rs. 5,075 million, and EBIT margin of 12.1%, translating into EBIT growth of 55.2% over the fiscal FY 2020.

We had yet another strong quarter from an order booking perspective. The order booking, total contract value for the quarter came in at $246.5 million, compared to $302 million in Q3. The ACV value, which is the annual contract value of this booking is to the tune of $200.7 million. To put in context, Q3 is usually seasonally the strongest quarter for us, given 80% of our revenues come from the U.S., and that is the fiscal year close for the U.S.

Since this is the second quarter of sharing this data, I would like to clarify that this data includes all bookings, small and large, renewals as well as new bookings, existing and new customers. Our collections for the quarter were very good sequentially. The DSO for the quarter moved to 55 days compared to 57 days in Q3. Cash on books at the end of Q4 stood at $268 million.

In terms of employee numbers, we had yet another strong quarter in terms of employee addition. We added 1,242 net hires, the lateral hires out of this were 1,037 and fresher intake for the quarter stood at 205. The attrition for the quarter for trailing 12-month basis is 11.7% compared to 10.3% in Q3. From a salary increase perspective, we had done the last salary increase in November 2020. The regular salary increase cycle for us is July, and we will revert to do the salary increments in July 2021.

Coming to the dividend part, our board has recommended a final dividend of Rs. 6 per share, which takes the total dividend this year to Rs. 20 per share. Sunil will talk more about it in his part later in the call.

I am also happy to share with you that we have given a strong performance this year, announced more than 100% corporate bonus, this is based on the company performance for each of our employees. Further, given the ongoing pandemic and the resilience shown by our employees, we spent a one-time amount of $600,000 in giving a resilience gift to our entire team globally. This was in appreciation of the extraordinary efforts put in by our employees and the resilience exhibited by them, making sure all our deliverables were on time, all the time through this pandemic.

Coming to the M&A front, the integration of Capiot is progressing very well. We have seen some meaningful wins in our data integration business working with Capiot in our existing accounts and in new accounts. We continue to scout for potential targets in our focus areas and hope to give you a meaningful update in this coming quarter.

Now, let me give you the quarter's performance from an industry segment and service line perspective. From an industry segment perspective, the growth for the quarter was led by BFSI and Healthcare Life Sciences, which grew by 6.9% and 6.1% respectively. On a year-on-year basis, the growth for BFSI and Healthcare Life Sciences were 15.9% and 20.9% respectively. The growth in technology companies, which includes our largest customer, was 2.7% for the quarter and 22.8% for the year-on-year basis. So, overall, across the board we saw a fairly healthy growth on a year-on-year basis and even on a quarterly sequential basis. From a service line perspective, all the service lines did well for us. The growth was led by digital engineering, cloud, security, data, all growing meaningfully in Q4.

Changing track to our two organizational units, Technology Services came in at a revenue of $120.7 million, with a sequential growth of 8.2% and a year-on-year growth of 22.1%. For the full fiscal year FY 2021, the Technology Services business registered an industry-leading growth of 18.4%.

The Alliance business is subject to the traditional Q4 seasonality, as you would all know. It had a de-growth of 7.1% quarter-on-quarter coming in at $32.2 million. However, on a year-on-year basis, compared to Q4 of last year, the Alliance business showed a growth of 14%. For the full fiscal FY 2021, the Alliance business generated a marginal de-growth of 2.7%. Despite this marginal de-growth, we are excited about the progress that we have made in this business in the recent times.

We have also bagged a couple of large deals over the Q3, Q4 period. And that gives us confidence in the ability to bring a predictable profitable growth in this business going ahead. The year FY 2021 has also seen us optimize the cost in this business. And we will continue to figure out avenues of doing cost optimizations in this business wherever possible. In summary, on the Alliance business, we are prudent in adding profitable growth and we are optimistic of continuing that on an ongoing basis.

Changing track to the update on ESG initiatives. As you know, Persistent has a long-standing history of embracing strong corporate governance, CSR, and employee best practices. We are in the process of appointing an ESG consultant to define the ESG roadmap for the company and start measuring against the standard ESG frameworks. And we will give you more details in this regard in our annual report for FY 2021.

Now I will turn the call to our CFO, Sunil Sapre, to give a detailed colour on the quarterly and yearly financials. I will come back after Sunil's comments to give you more details on key client wins, other awards, recognitions and a few more data points. Over to you, Sunil.

Sunil Sapre: **Thank you. Thank you, Sandeep. And good evening, good morning to all of you. And I hope you all are keeping well and staying safe in this challenging time.**

Sandeep has already given you a fair amount of details on the financial stuff, I will give you some more details on that. So, the revenue number at $152.82 million was a Q-o-Q growth of 4.6% in dollar terms, and 20.3% in Y-o-Y terms. On the rupee revenue, the rupee revenue was Rs. 11,134 million, a growth of 3.5% Q-o-Q and 20.2% Y-o-Y.

So, while there was a dip in IP-led revenue due to the seasonality, as Sandeep alluded to, the strong growth in services revenue absorbed this dip and we were able to post a net growth of 4.6%. For the full year, the total revenue was $566.08 million, with the growth of 12.9%. And in rupee terms, it was Rs. 41,879 million, with growth of 17.4%.

If you take the segments that we have in terms of the IP-led and services business, the services revenue grew by 8.6% and the IP-led revenue had a decline of 13.8%. In terms of industry verticals, BFSI and healthcare saw a good growth of 6.9% and 6.1%, respectively, while the technology company where we have the maximum of the ISV business grew at 2.7%, essentially because of the seasonality in the IP-led business which gets accounted over here. In terms of linear revenue, the offshore linear revenue grew by 11.2%, all accounted due to volume growth. And the onsite linear revenue grew by 4.2% comprising of volume growth of 5.4% and declining billing rate by 1.1%.

As you would be aware, we had a pay hike announced in November 2020 for all the employees. So, last quarter had two months effect of the pay hike, so full effect of the pay hike has come in this quarter. We added 1,242 net employees in this quarter to build additional capacity for our growth.

The royalty revenue being lower also affected the gross margin to some extent. And then there was currency movement which also impacted margins to the extent of 40 basis points. So, cumulative impact of the headwinds were partly compensated by the organic growth, as we saw significant growth in the services business of 8.6%. The fact that the resale revenue was lower, and we also optimized on the IP person month. And from an overall deployment point of view there has been increase in the offshoring effort, which you can see in the person month data.

So, all these margin drivers taken together had an impact of 40 basis points on the gross margin, which came in at 33.9%, 40 basis points lower

than the earlier quarter of 34.3%. The SG&A expenses were 17% as against 17.3% in the previous quarter. As you will recall, we had announced COVID relief donations of Rs. 250 million at the start of the year. And we have by now contributed Rs. 170 million during FY 2021 towards that. The EBITDA for the quarter was 16.9% as against 17% in the previous quarter, and for the year it was 16.3% as against 13.8% in the last year.

Coming to depreciation and amortization, it accounted for 3.8% as against 4.3% in the previous quarter. The EBIT came in at 13.2% versus 12.7% in the previous quarter, and for the full year it was 12.1% as against 9.2% in the same quarter last year.

Treasury income for the quarter was Rs. 211 million as against Rs. 288 million in the last quarter, primarily on account of M2M adjustments on mutual fund investments arising from increase in yields that happened in the month of March, post the Union Budget announcement of significantly higher government borrowing program. The FOREX gain was Rs. 174 million due to the M2M gain on hedges, as against a loss of Rs. 2 million in the previous quarter.

With that, the profit before tax was Rs. 1,849 million at 16.6% as against 15.3% in the previous quarter. The ETR for the quarter was 25.5% and PAT was Rs. 1,378 million, at 12.4% of revenue as against 11.2% in the previous quarter. PAT for the full year was Rs. 4,507 million at 10.8%, as against 9.5% in the last year. EPS for the year was Rs. 58.97 per share, with a growth of 32.9% Y-o-Y.

The operational CAPEX for the quarter was Rs. 281 million, we have cash and current investments on books amounting to Rs. 19,831 million as compared to Rs. 19,037 million as of 31st December. As you know, we had interim dividend payout that happened in the month of February at Rs. 14 per share. Forward contracts outstanding as of 31st March was $135 million at an average rate of $77.11 per dollar.

The board has recommended a final dividend of Rs. 6 per share. And this along with the interim dividend of Rs. 14 per share, would make the total dividend of Rs. 20 for the year, with a payout ratio of 33.8%.

So, with that, I would like to thank you all once again and I hand it back to Sandeep.

Sandeep Kalra: **Thanks, Sunil. So, now to give you a colour on key client wins for the quarter. Our press release for the quarterly results carries the details far more than what I would give here.**

For the Banking, Financial Services, and Insurance segment, we were chosen by a leading Fortune 25 financial services ISV as a key partner for core IT modernization. This is a three-year deal to support and maintain propriety, identity, and authentication products for enterprise applications, involving both off-shore, near-shore teams across time zones. We were also chosen by a large insurance company for their credit union customer segment to deliver retail experiences and build a cloud-based data analytics platform. We will build a customer data warehouse which will help with better decision making and insights on which financial products and services to sell to which retail customer segments.

In the Healthcare & Life Sciences segment we were chosen by a leading U.S. health system to help them build a digital front door and patient experience solution, with integration into EMR systems and patient portals. This will enable the health system to build a unified one patient portal, simplifying business processes, enabling a single view of patient across departments, and ultimately delivering consistent patient experiences. We were also chosen by a leading global clinical research organization, CROs as we call them in the healthcare space, to help them execute on an enterprise-wide legacy modernization program, leveraging MuleSoft and intelligent business automation.

On the Software, Hi-Tech & Emerging Technologies, we were chosen by a global technology leader to partner with them on an engineering and go-to-market partnership on a portfolio of security product. This is a five year multi-million dollar deals to develop identity and access management product portfolio with delivery teams spread globally across U.S., U.K., and Asia. We were chosen by a leading low code technology provider, a unicorn in this space, to establish an engineering and professional services Center of Excellence, helping them build industry solutions and deliver transformation programs for their

customers in Healthcare Life Sciences and Banking Financial Services domains.

Moving on to the awards and recognitions for the quarter. Q4 saw us get recognized from industry leading analyst firms and associations on multiple fronts. To mention a few, we were awarded the coveted 2020 Golden Peacock Award for excellence in corporate governance, an award that we are extremely proud of. We were named in the ISG "Booming 15" in sub $1 billion category fourth quarter in a row. We were named as a rising star in ISG Provider Lens for healthcare digital transformation services. The Everest Group named us as a rising star and a major contender in peak matrix for software product, engineering services, as well as major contender in intelligent process automation provider landscape. Constellation Research named us in their shortlist for innovation services and engineering in Q1 2021. All of these are testament to the capabilities that we bring to bear with our customers on a daily basis.

In terms of the partner ecosystem highlights. We were chosen by NAFCU, which is National Association of Federally Insured Credit Unions as a preferred partner for digital transformation. Through this partnership, credit unions will have greater access to our strategy technology services, and solutions to accelerate digital transformation, including expanding the use of cloud-based products and solutions.

We announced the partnership with FinMkt point of sale lending for banks and credit unions. This partnership is aimed at enabling small to midsize financial institutions across the globe to accelerate their digital lending strategies. The joint solution offering between Persistent and FinMkt will empower community banks and credit unions, enabling them to seamlessly enter their point-of-sale lending market by directly originating loans or providing new POS capabilities for their merchant customers.

We have partnered with AWS ROSA on the Red Hat OpenShift platform to bring services on AWS services to clients seeking a fully managed OpenShift platform.

Coming to the leadership team updates. We continued to add to our leadership muscle during the quarter. We announced Steffen Drillich as

our head for Salesforce business globally. Steffen had joined Persistent as a part of the Youperience acquisition, and he will now lead our Salesforce business globally based out of Europe.

We also added Bheem now, as the head of Europe based out of London. Bheem will be responsible for all our business across Europe. With this edition of leadership and promotion of Steffen, we will have leadership from Europe for our global Salesforce business, and we will have leadership being brought in for Europe in Europe.

We also added Jaideep Dhok as head of delivery for BFSI globally, and Navneet Narula for BFSI sales in the US. So, we have been consistently adding the muscle to take on more and continue the growth journey that we have established for ourselves.

In summary, we had a strong Q4 and a good growth in FY 2021. We are optimistic about our growth potential in the FY 2022. With this, I would like to conclude the prepared comments and like to request the operator to open the floor for questions. Thank you. Operator?

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Congratulations on the strong quarter. Sandeep, a couple of questions actually. Is there a renewal component within the TCV part, is that in line with the prior period renewal rate, so say, first half and prior to that? And related to that is, if I go by the recent deal wins that has been announced, you think those are good to keep growth rate and the top end of that 3% to 4.5% Q-o-Q range?

Sandeep Kalra: Coming to your first question. See, typically the renewals for some of our large customers are in the October, November, December quarter, that is where they do the annual renewals. And so, the renewals that happen in this quarter are in line with the forecasted or budgeted renewals. So, no worries on that, and no worries on the new business. Now, in terms of the growth trajectory, if we look at it, look at it this way. We are doing $152.8 million in revenue for the quarter. The ACV value that we have said is $200.7 million for the quarter. Anything which is above or in the vicinity of 1.2x to 1.3x the ACV is a fairly good number to have. And keep in mind,

over the last five to six quarters we have done many deals which are multi-year deals. The renewals for those will not be due for the next few years. So, we are very comfortable with the booking profile. And as long as it is in the vicinity of $200 million, even TCV, plus minus a little bit, we are comfortable with a 3% to 4.5% quarter-on-quarter on an average. Obviously, some quarters could be higher, some quarters could be a little lower. But we are comfortable with our order bookings, we are comfortable with order bookings translating into the trajectory that we have established for ourselves.

Apurva Prasad: **Thanks for the clarity on that. So, on the Alliance business, I mean, with respect to Red Hat and cloud-paks opportunity, just wanted to pick your brains here. So, I mean, IBM has talked about mid to high single-digit growth in Red Had, with hybrid cloud adoption, especially as you know, IBM is undertaking an overhaul in their own go-to-market strategy, especially in mid-market. You think that translates into sort of incremental drivers from a Persistent perspective and maybe across different components within the Alliance space? Just your thoughts here will be useful.**

Sandeep Kalra: **Right. So, on the first part, does the Red Hat opportunity, the Red Hat growth, whatever IBM is projecting, give us a growth opportunity potential? Absolutely. So, for every dollar of Red Hat that IBM generates, the potential for us to generate revenues is multi-fold. It could be anywhere between 2x to 3x, 3.5x at times. So, from that perspective, the market opportunity is right. And one of the partnerships that we also announced was between AWS and IBM, Red Hat OpenShift, that is where we are playing. So, we are also looking at the various avenues where Red Hat is expanding and how do we sharpen our pencils on our service lines on that. So, that definitely is an opportunity. Overall, also if you look at it, not just the cloud-pak, which includes the Red Hat and so on, but otherwise the cloud-pak for security, the cloud-pak for data, Nine Yards is where we are looking at different opportunities, and we have a healthy traction on that. So, from an Alliance business perspective, we have made sure that it comes back to the same humming nature in terms of pipeline and so on, and we are reasonably confident it will deliver growth.**

Apurva Prasad: **Great. And just finally, bookkeeping one. What is the drop in the segmental margin in the BFSI and Healthcare Life Sciences attributable to?**

Sandeep Kalra: So, for some of these, quarter-on-quarter variations maybe there. There are some client specific nuances as well, there are some volume discounts, etc., that have to be given at some point in time. So, I would not worry too much about that on a quarter-on-quarter basis. Overall, both these segments as well as across the company, we are seeing a good discipline on margins, and we are trying to even take the margins up a notch as we go along.

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

Dipesh Mehta: A couple of questions, first about the S&M investment. If one looks, S&M is largely flattish, even from employee for last two years or so. So, now do you think productivity related improvement, what you might have driven over last few quarters is largely over or you think still there is enough scope to drive better productivity from the team? Or you think now we have to invest in people and your S&M investment may start growing?

Second question is about the deal sizes and if you can help us understand how it is changing, let us say, over the last few quarters. Thank you.

Sandeep Kalra: Sure. So, on the sales and marketing side, we have driven good productivity from the investments that we have been making on an ongoing basis. And some of the things that also are helping us is, as the revenue pans out, obviously, that S&M investment is being defrayed over a larger revenue base. Will we make additional sales and marketing investments? We will continue to make prudent investments to scale as we kind of go through our journey for the next few quarters, years, and so on. So, there will be S&M investments, but we are not expecting it to be anything disproportionate in percentage terms. I think we have a good productivity metrics established. And we will continue with this kind of a thing. So, you should expect this to be in line in percentage terms. Obviously, as the revenue increases, that percentage translates into a little higher spend in dollar terms.

Now on the other side, about deal sizes. So, look, the space where we play in, and we are very strong in digital product engineering, in practices like salesforce, low code, no code, cloud, data, and so on. Usually, these are places where deal sizes, if I look at the TCV, are anywhere between $10 million to $50 million is a sweet spot for us from a bigger deal perspective. And even for larger peers, I would tend to believe, unless they are putting a lot of support revenue along with these kinds of deals, these deals will tend to be in this kind of sizes, and they will keep having phases. So, we are seeing the pipeline, large and small, both. The larger deals are anywhere between $10 million to $50 million on a TCV basis. So, that is where it is. And the term can be anywhere between one to three to five, the bigger deal the chances are it will be a three-to-five-year kind of a deal.

Dipesh Mehta: Sure. Just one clarification I want about the weakness in realization that we are seeing on-site and offshore both. Is there any element of reimbursement portion? Because I think the definitions suggests it includes contractual reimbursement portion. So, is there any element of travel related softness impacting your realization or it is your realization drop?

Sunil Sapre: So, this is actually realization, there are two numbers, on-site where we have had certain expansion in revenue from North America in other geographies like Canada and Mexico. So, you see partly one reason because of that. There is no impact due to the reimbursement part that you talked about. And then it is more about the mix of the business. So, as far as offshore concentration is concerned, in this quarter it is slightly higher because of revenue growth in the India business.

Dipesh Mehta: Understand. So, no travel related impact, it is largely business mix related implication playing out?

Sunil Sapre: That is correct.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor: Sandeep, congratulations on the consistent execution. I had two questions. First, if you can elaborate what kind of margin levers do you see when you are talking about keeping the margins stable in 16% to 17% EBITDA band? And just added to that, if you can talk about, maybe Sunil can help in understanding the amortization trajectory. That is the first question.

Second question is on your contract, I believe, the $50 million contract that we announced last year. I believe there is some restructuring there. And I think the client has sold the business as per your release. So, if you can just throw some more light over there in terms of what are the changes that it means for your business and in terms of financial thing? Thank you.

Sunil Sapre: **Sure. So, Pankaj, on the first part, on the margin levers. So, right now we have come to the 17% range for the EBITDA part, and we are relatively confident of being there. That is point one. The underlined levers that we have there are three. Number one, in our IP business there is certain amount of cost optimization we have done, there is certainly more cost optimization that is possible in that business. Number two, the utilization, if you look at it, for us the utilization has dipped a bit for the last quarter. And even from an overall perspective, we believe there is significant things that can be driven out of the utilization, and the utilization has gone a little lower because of the capacity build also that we did. If you look at the hiring that we did, 1,600-plus in Q3, 1,200-plus in Q4, all of that obviously takes a little time to kind of get deployed. So, there are levers on the utilization side as well. And then there is the SG&A investments being spread over a larger revenue base that we already talked about. And then there are some minor operational efficiencies that we can bring in other functions and so on. So, overall, we are confident, we have enough levers to be able to take on any cost increases that may happen in other places, and still be in a comfortable 17% plus/minus a few bps here and there. So, that is the thing on that.**

Now on the second part, the $50 million contract restructuring that you are talking about. So, this customer of ours was bought over by a large hyper scalar. And in fact, that bodes well for us. So, for the shorter term, yes, there is a contract restructuring that has happened, but that does not impact any of our next 12 months to 18 months kind of revenue outlook. And even within that there are discussions happening of what more can be done in different forms and shapes, which we are very hopeful will continue the revenue at the same level, if not better. Second, it also gives us a bigger relationship with a hyper scalar where we did not have that kind of relationship in the core engineering part that can be expanded to various other parts as well. So, overall comfortable with that, not a matter of concern at this point in time for us. So, that is where we are on that contract. Hopefully the two questions are answered.

Pankaj Kapoor: Yes, thank you.

Sunil Sapre: HI Pankaj, let me cover the amortization piece. So, on the amortization we have already got some benefit in this quarter, and from next quarter there will be a release of another 50 basis points worth of amortization expense. So, that will be the benefit from next quarter onwards.

Pankaj Kapoor: And that is something which we can assume to be the stable number going forward, right?

Sunil Sapre: That is right.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Congrats Sandeep and the team for solid execution, both on operations and consistent deal wins as a whole. So, first question in terms of the order book. Sandeep, it is heartening to see that $250 million to $300 million worth of TCV has been continuing in Q3, Q4. So, you believe looking at the pipeline there are prospects that this number can be sustained on an ongoing basis or you believe these are aberrations and these are much higher and may not sustain going forward?

Sandeep Kalra: So, Sandeep, the TCV part, I would say it will fluctuate quarter-on-quarter, some quarters are seasonally stronger like October, November, December. Overall, if we are in the range of $200 million to $250 million, in that range for TCV, that is pretty healthy. The ACV part would be obviously a component of it. Look at it this way, if we are doing $152.8 million for the quarter, and if we are booking 20% or more in ACV terms, that itself is a fairly heavy thing, and you can translate that into TCVs and all. So, we are very comfortable if the TCV is in the range of $200 million, $250 million on an ongoing basis. Some quarters will be higher, like OND was in $300 million range, some quarters may even be lower. But if you look at a broader picture from a yearly basis, this is fairly healthy. And keep in mind, this does not include many of the deals that have been booked over the last five, six quarters, which have three-to-five-year tenures which do not come up for renewals, which have no bookings in these quarters. So, overall, fairly happy with the profile. And things may go up and down, but fairly happy with the pipeline and the prospects thereof.

Sandeep Shah: Perfect. Fair enough. Just on the technology vertical as a whole, can you refresh in terms of the split of the business on the product engineering for technology client, which could be legacy products as well as on new-gen products. Because on the new-gen product, product engineering business is likely to see a robust growth as per what we read on an ongoing basis.

Sandeep Kalra: We do not call out that split, Sandeep, but we can get back to you on this number. A significant part of our business is on new product development. If I was to hazard a guess, it may be 65:35 in terms of newer products versus older products being modernized or maintained. But we will come back to you and we will be in touch with you on this.

Sandeep Shah: Okay. And this 65% new product which you mean would be largely digital products or cloud-based products?

Sandeep Kalra: Absolutely. And even the other part, a chunk of that would be modernizing those products, and enabling them in terms of specifications, or doing a hybrid kind of a thing where some part of that can be taken to the cloud and so on so forth. So, a significant part of even that would be digital in nature.

Sandeep Shah: Okay, perfect. And just on the Alliance part, this year we have seen a marginal de-growth, and you have been restructuring as you were also winning the deals and you were earlier saying that from 1Q onwards growth may turn around. So, is it fair to say the growth rates may start inching up in the Alliance business to company average, specifically on the services side of the business?

Sandeep Kalra: Yes, that is a fair statement to make. See, if you look at some of the utilization related things as well, the utilization partly dipped because we had certain programs being ramped up on the Alliance side and otherwise. So, both Technology Services and Alliance had some newer programs where we were doing the knowledge transfer and doing the transition part or building newer teams and so on so forth. So, that will definitely bode well for the Alliance business as well. And starting Q1, Alliance business is also poised for a good growth.

Moderator: Thank you. We take the next question from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: **Congrats on a great execution. The question is related to mining, now despite the strong growth that we are reporting, it seems that mining is still an area which can add to growth on top of the net new business that we are bringing. So, any color on how do we plan to improve that? And would that also mean that there are some tailwinds into the margins as we rationalize the client portfolio?**

The second question is just a bookkeeping to Sunil, sir. The improvement in the DSO, is it something that we are consciously following up with clients or it is just that because of the shorter nature of the projects we are getting early payments or timely payments? Any colour on that would be helpful. Thank you for taking my questions.

Sandeep Kalra: **So, Abhishek, I will take the first part and then I will hand over to Sunil for the second part. So, a fair statement that mining is definitely a tool in our toolbox. And we have been at it, we have formed teams which are transformation teams that help our regular account teams in thinking through what the clients' key initiatives are and help them with thinking through the depositions proactively, including proof of concepts and so on so forth. So, for FY 2022, this is definitely one of the key initiatives where we are expecting us to go deeper into existing accounts. And that should start reflecting over the next two to three quarters in the client breakup into $1 million, $3 million, $5 million, $10 million, $20 million kind of revenue bracket. So, fair point and we are at it, and we have seen early successes. Part of the consistent growth that we have had over the last five quarters or so, four to five quarters has been on the basis of both the new wins in existing customers, which are nothing but mining, and getting some large deals in net new customers. So, we have seen early successes, but this is a place where we will double down and deliver even better going ahead. Sunil sir, if you want to answer the second question.**

Sunil Sapre: **Yes, Abhishek. So, on the DSO, it is more a function of actually the process efficiency improvement. If you look at it, whether it is a short project or a long project, ultimately the client is paying based on the underlying payment terms. So, one is the process efficiency of entire order to cash cycle. And the second is the sheer rigor in the system. We had also been conscious of the fact that in this pandemic situation it is more important that we have eye on the ball and ensure that there is no buildup of receivables at any place. So, all the factors put together has led to consistent reduction in the DSO. While if you recall, in the first**

quarter when the pandemic had started, we had actually DSOs going up because of the situation that we all faced as lockdowns and so on. But then from there consistently we have delivered. So, the first move was to get back to where we were and then continuously, we have been working on improving this discipline internally.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Sandeep, one question on the renewal, right, so basically your revenue portfolio, how much of your revenue needs to get renewed every year, in the sense, how much of it expires every year and needs to be refilled? And how have you seen that trend changing over the past few years? And probably I am assuming that that component is reducing, given that you are winning a lot more multi-year, multi-million deals.

Sandeep Kalra: So, Rishi, good question. From that perspective, look at it this way. Some of the largest corporations in the world, when you look at, let us say, one of the largest networking company, one of the largest banks, the people who are of significance to us, even the largest technology company, a bunch of their businesses, they do not give more than six months to one year kind of deals, even though they have been working with us on the same thing for many, many years. So, unfortunately, that is the nature of their working and so that we cannot wish away. But to your point, we have been doing a number of large deals. So, the proportion of business renews on a yearly basis etc., is going to come down. And we are hoping to announce the order backlog in the next quarter. So, I would want to wait so that I can in one go give you the order backlog and all these things. Otherwise, the more incremental data points we give, we get more queries and clarifications. So, if you can wait for one quarter, we will give you the order backlog that will show you quarter-on-quarter movement as well, and that will give you a fairly good grasp on all the analytics you want to do.

Rishi Jhunjhunwala: Sure. Great. The second question is, if you look at your headcount, this year it has grown at 29%, whereas your revenue growth was only 13%. So, just to better understand, is this significantly higher hiring, a function of you doing preemptive hiring because supply could be an issue? And as a result, next year the hiring number will be much lower? Or is it a clear reflection of how much revenue growth you are going to do?

Sandeep Kalra: So, it reflects two, three things. It reflects the revenues to come, combined with more offshoring effect, combined with some amount of capability built ahead of the curve, combined with some amount of attrition that we want to mitigate, should it happen. So, it is a culmination of a lot of these things. But you pretty much got the factors right.

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

Madhu Babu: Congrats on a great quarter. Sir, just recently one mid-cap has done a sizable acquisition in the BPM space. And now that the cost of debt is very low, and we already have a very good cash balance, so is it the right time to go for a sizable acquisition, maybe in the business service line or even on the consulting part?

Sandeep Kalra: So, from an acquisition perspective, Madhu Babu, we are always on the lookout for good acquisitions. And for us, the acquisition will not be to accrue revenue, it will be to accrue capabilities so that we become sharper in the service lines that we have, or the industry segments that we serve. And at any point in time, we are evaluating multiple of these, small to big. Hopefully, we can give you a meaningful kind of update in the next three to six months' time, because these things do take time and we do have a few things that we are evaluating. But timing will obviously be over the next three to six months.

Madhu Babu: And sir, the strong hiring we have done, so I mean, was it the recent markup we have given to them? Because in this pandemic I think people are thinking twice before switching jobs. So, we had a very good hiring, so just what is attracting them to Persistent? And second, how is the outlook on the fresher hiring for next year. Thanks.

Sandeep Kalra: Sure. So, from a hiring perspective, look at it this way. We have been able to attract this amount of talent 1,200 to 1,600 people on a quarterly basis for the last two quarters, this is on the basis of two things. Number one, obviously, we have revved up our hiring engine. Number two, more importantly, when we approach kind of the hiring talent that we want to hire, the fact that we work on cutting edge technologies, the fact that Persistent has always been known to be a good technology company, good company where you get exposure to the latest edge work and combined with the growth that we have shown consistently over the last few quarters, bodes very well for us to be able to attract the best talent. So, from that perspective, it also helps us not be attracting talent just because of the money we put out in the market, but because of the credibility of the work that we do, the growth that we have, the career path that we can provide, and the employee experience that we provide. So, that ways it has been very helpful from that hiring ability, and we have not seen that as being the money led part only. And you talked about the fresher hiring, so we hire usually between 800 to 1,000 freshers on a yearly basis. That would be the baseline for us. We may go a little bit higher if we need to. Hopefully, I answered your questions.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Just want to get your sense about whether we are seeing demand environment accelerating, decelerating, stable? And I am asking this question in the context of if I look overall revenue growth, 20% Y-o-Y, considering strong deal intake, pipeline as well as Alliance business likely to recover entering into FY 22. What challenges do you think, do you see to sustain 20%? Or you think it is sustainable and likely to play out over medium term? Thanks.

Sandeep Kalra: Dipesh, I am not going to answer the question on 20%. Because if I say 20% is sustainable or we will do more, I am giving forward-looking guidance, which is what we do not do. I will basically say that look, we have established a good trajectory for ourselves, we have executed with discipline over the last four or five quarters, we have been in the range of anywhere between 3% to 4.5% or more, we would be in that range, some quarters will be higher, some quarters will be lower. That is as far as that is concerned. As far as the demand environment is concerned, see, the demand environment for our services has been fairly good for the last few quarters. And that is what has boded well for us and our competitors, peers, whatever you want to call, for the last many quarters. We see that as a stable environment. And when I say stable, it means a good secular environment of growth for us, potential for the next two to three years. So, that is where we are and unless something goes here or there, the environment from a demand perspective is fairly healthy. It is up to us to go and execute. And some quarters will be higher for us in terms of order bookings, because it takes a lot of effort when you are fighting a good set of deals. And then you win some, you lose some, you

create a pipeline again and you do that. So, overall, stable, confident of our growth. And that is where we are. So, hopefully that answers your question.

Dipesh Mehta: **That answers. Only Alliance I am not very clear. You indicated Alliance will return to growth like services in next year? You made one comment about Alliance business where you suggested a revenue growth trajectory likely to converge with services business. So, do you expect Alliance business to reflect similar kind of growth trajectory entering into next year?**

Sandeep Kalra: **So, it will start picking up towards that direction. And, obviously, we have seen fairly high growth in the services business. So, that average of two will be in that trajectory that we are talking about, and incrementally we will see more and more, hopefully in the Alliance business. But we have good order bookings to be able to say with confidence the Alliance business is going to be back on growth trajectory. And we have to build it up from there.**

Moderator: **Thank you. Next question is from the line of Manik Taneja from JM Financial. Please go ahead.**

Manik Taneja: **Sandeep, I just wanted to pick your brains about the willingness from customer standpoint to pay more based on skills rather than location. And given the fact that even in our case we have seen a significant increase in offshore mix of revenues over the last 12 months. And the reason why I asked this is because, in our case, we work with a lot of new age ISV customers, so from that standpoint are they much more open to doing development work offshore? That is question number one.**

Second thing what I wanted to understand is that, given the current outbreak of COVID, how is it impacting delivery for you guys over the last few weeks? Thank you.

Sandeep Kalra: **So, on the first part, is the customer willing to pay more based on skills rather than location? So, yes and no. Ours is a fairly competitive market. If you look at it, we compete with peers globally, whether they are India headquartered, Eastern European headquartered, U.S. headquartered or broadly global business, right. So, while yes, the kind of work that we do enables us to get a little premium over others, but we have to be cautious**

about saying that. Just because of COVID and location independence people have seen in this year, should we be able to get the same kind of premium that we can get in the U.S. and so on, or rates closer to the U.S. or Europe and so on; I don't think so. So, there is definitely a premium you can get for these things, but it will not necessarily be a huge thing, because it is always a competitive market.

Second part, from the current outbreak or COVID perspective. So, thankfully, we have not seen any degradation so far in service delivery. All our teams have stepped up, all our team members have made sure if at all there is anyone suffering in their teams, and there are some teams where people are suffering, they have stepped up to take on each other's work. And usually, we have a concept of shadow resources as well, we have brought that to bear, we also have used our bench in some cases. So, overall, we have been able to make sure that even in the past five to six weeks, where we have seen the COVID second wave become pretty big in India, we have not seen material service delivery impact. That is where we are. Hopefully that answers.

Manik Taneja: Sure, thank you. If I can ask one more. Just wanted to pick your brain regarding the onshore utilization, and given the fact that has generally been cited as or suggested to be a source of margin improvement from a medium-term standpoint, how should we be looking at the decline in onshore utilization in the recent past? Is it just a function of supply side creation or there is something else to it?

Sandeep Kalra: So, there are multiple parts to it. If you look at the onsite part of it, we use the onshore team members in multiple different ways. One, they are active project delivery where they are 100% committed to a customer program. Second, a significant part of that is also our consulting capability, where we leverage them for the front-end piece of work or for doing proof of concepts or for onshore related discussions and so on so forth. So, there will be some slack in the on-site utilization compared to many of the other peers of ours who are basically into operations and so on. The other part of it, is there some juice to be driven in terms of getting more utilization there, yes, there could be a few percentage points there. But we would focus more on the offshore utilization as well, where we have built significant capability, capacity, and there are definitely levers to do your utilization improvement there. So, there will be improvement both sides, but offshore will give us more, onshore will definitely give us a few percentage points.

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

Rahul Jain: Just wanted, if you could share a little bit more colour in terms of the areas wherein you expect this growth in Alliance to come back to a much higher level from the recent past trend, so any areas you would like to specify?

Sandeep Kalra: Sure. So, if we look at the Alliance business, the largest customer of ours has reorganized their business in multiple different areas, whether it is their hybrid cloud business, whether it is their cloud-paks for data, security, automation and so on. So, if we look at it, we are well aligned to some of those businesses. We are seeing definitely an uptake, for example, in the security side, on the data side as well. And so, it is more broad based, but there are some pockets where we are more well entrenched, whether it is cloud and security and data, from that perspective. So, those are the areas at a broader level that we will see the business come up. And the second aspect of that would be, as we do more business on those cloud packs with our biggest customer, we would also be taking that to the market in our customer base, as well as newer customer base, to be able to do the sell-with part as much as we do the sell-to part. So, from that perspective, there are multiple levers of expansion that are available to us.

Rahul Jain: Right. And given this situation, you think this is a multi-year opportunity or this is what we are seeing for the near future, but we have to see as things progress, beyond FY 2022?

Sandeep Kalra: So, this is definitely short to mid-term opportunity. Obviously, this is an evolving market, and we also have to see how all this evolves for our customers as well. But for the short to mid-term, we are relatively confident of this approach. We have seen early successes, and that is where the confidence that we have, from Q1 onwards that we are saying that it will come to growth is reflected. So, short to medium-term, this is a strategy. Obviously, in technology world, if you are looking for two to three years out, that is the best you can do. And then you keep looking two to three years out at every point in time.

Rahul Jain: **Right. I mean, the reason for asking that is, of course, how this segment has performed over the last couple of years. So, the point is that is it a difficult business to scale, is that what I am trying to understand?**

Sandeep Kalra: **So, every customer has a different profile. So, from our perspective, if you look at the revenue concentration, we have brought down the revenue concentration because our other parts of business have been growing significantly higher percentage points. And the mix of this particular business in the overall business has been coming down. Given that it is like a portfolio management, overall, we believe our business will healthily grow, we will be in the top end of the growth in terms of the top quartile for the industry. Now, within that some years Alliance will grow a little higher, some years it will grow a little lower. But on an overall portfolio basis, we are very confident in terms of the other customers that we have, and the portfolio spread of growth and so on so forth. So, not a worry at the company level. Obviously, puts and takes will always be there at individual customer levels.**

Moderator: **Thank you very much.**

Sandeep Kalra: **Operator, I think we are at the end of time. So, we should try and close if there are no other questions.**

Moderator: **Yes, sir, we will take that as the last question. I would now like to hand the conference back to Mr. Kalra for any closing comments.**

Sandeep Kalra: **So, from our perspective, as I said, it was a fairly strong quarter and a fairly strong ending to the financial year 2021. We are confident of our prospects in the coming year. And we remain committed to delivering industry leading growth being in the top quartile. We would once again like to thank our 13,500-plus team members who made all this possible, our customers and partners who are with us on this journey, and even in these hard times. We appreciate all of you spending time with us on this call today, and we look forward to connecting back with you with the progress three months from now. Please stay safe and healthy. Thank you.**

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 line**.