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NSE & BSE / 2023-24 / 024

April 28, 2023

The Manager  
Corporate Services  
National Stock Exchange of India Limited  
Exchange Plaza, Bandra Kurla Complex,  
Bandra (E), Mumbai 400 051

The Manager  
Corporate Services  
BSE Limited  
14<sup>th</sup> Floor, P J Towers, Dalal Street,  
Mumbai 400 001

**Ref: Symbol: PERSISTENT**

**Ref: Scrip Code: 533179**

Dear Sir/Madam,

**Sub: Transcript of investor/analyst call held on Tuesday, April 25, 2023**  
**Ref: Our earlier intimations under reference no. NSE & BSE / 2023-24 / 003 dated April 12, 2023, and NSE & BSE / 2023-24 / 011 dated April 25, 2023**

In continuation to the above-referred intimation and Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of the investor/analyst call held on Tuesday, April 25, 2023, for your information and records.

The transcript of the Analyst Call is also made available on the Company's website

The link to access the same is as follows: [Analyst-Call-Transcript-Q4-FY23.pdf \(persistent.com\)](#)

This is for your information and records.

Please acknowledge the receipt.

Thanking you,

Yours Sincerely,  
For **Persistent Systems Limited**

Amit Atre  
Company Secretary  
ICSI Membership No.: A20507  
Encl: A/a

# **“PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, FOURTH QUARTER, FY23 ENDED MARCH 31, 2023”**

April 25, 2023

## ***MANAGEMENT:***

**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, Investor Relations*

**Moderator:** Ladies and gentlemen, good day and welcome to the Persistent Systems Earnings Conference Call for fourth quarter of FY2023 ended March 31, 2023. 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 and Mr. Saurabh Dwivedi - Head of Investor Relations. Please note, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after management's opening remarks. Should you need any assistance during the conference call, please raise hand from the participants' tab on the screen. While asking questions, request you to please identify yourself and your company. Please note, this conference is being recorded. I now hand the conference over to Mr. Sandeep Kalra. Thank you and over to you, Sir.

**Sandeep Kalra:** Thank you, Moderator. Good evening, good morning and good afternoon to all of you, depending on where you're joining from. As always, we would like to start this call by thanking each one of our 22,750-plus Persistent team members and our customers for their support and continued interest. We are very happy to report yet another solid growth quarter across all major business and financial metrics despite the dynamic and rapidly evolving macro environment. This is the first financial year when we have crossed a billion dollars in our revenue, in our history. Before I and Sunil get into the further details of our quarterly and annual performance, I would like to invite our Founder and Chairman Anand Deshpande to say a few words on us achieving this important milestone. Over to you, Anand.

**Anand Deshpande:** Thank you, Sandeep, for inviting me here. It's a real pleasure and honor to be here at this great momentous occasion for the company as we complete a billion-dollar year. I consider myself very fortunate to have had this opportunity to be part of this 33-year journey of the company and this kind of an achievement is only possible because of the hard work and

dedication of the people involved and the support we got from the clients and other stakeholders. So, I'd like to thank all the 22,700 current employees and another 20,000 prior employees who have all contributed to this. I'd like to thank all the clients who have steadfastly supported us all through the early days, including now and I would also like to thank all the investors for their support they have given to the company. I must thank all of you for your support as we do this journey. Really, a milestone like this is important, it needs to be celebrated, but having completed a billion, I'm sure you are looking to the next billion. I will hand it back to Sandeep to take it from here and explain to you what we have done so far this quarter and how we look at the next few years. Thank you.

**Sandeep Kalra:** Thank you, Anand. Now, let me get into the details of the quarterly and yearly performance. We are happy to report that the revenue for Q4 came in at USD 274.55 million, giving us a growth of 3.9% quarter-on-quarter and 26.3% on year-on-year basis. On a constant currency basis, this translates into a sequential revenue growth of 3.5%. In rupee terms, the growth came in at 3.9% quarter-on-quarter and 37.6% on a year-on-year basis. For the full year FY23, we achieved a revenue of USD 1,035.98 million, giving us a robust growth of 35.3% year-on-year.

Coming to EBIT, our EBIT for Q4 came in at 15.4%. This translates into an EBIT growth of 4% on a Q-on-Q basis and 50.7% on a Y-on-Y basis. EBIT margin was consistent with Q3 on a sequential basis, as the tailwind of higher fresher billing was largely neutralized by higher costs associated with business travel events related to annual strategy planning, our annual employee event amongst others. The impact of the currency largely remained flat during the quarter. Coming to the EBIT for the full financial year 2023 - for the full FY23, we achieved EBIT margin of 14.9%, implying 100 basis points improvement year-on-year. This was an account of a combination of higher cost on travel, amortization, fresher intake as well

as lower royalty revenue in FY23 being offset by SG&A leverage, better pricing, lower attrition and favorable currency movement, leading to this improvement. In absolute terms, EBIT rose by 57.4% year-on-year. Sunil will provide more color on the EBIT margin movement, later in this call.

Coming to the order book for the quarter, Q4 was a healthy set of order wins for us. The Total Contract Value for the quarter came in at USD 421.6 million with new booking TCV coming in at USD 250.3 million. This implies a healthy growth in TCV of 16.8% on year on year basis. The annual contract value of this TCV is of the order of USD 310.4 million of which the new bookings TCV contributed to USD 168.3 million.

On a full year basis, our total TCV crossed USD 1.6 billion. The ACV component of this is USD 1.17 billion. This translates into TCV growth of 32.8% and ACV growth of 24.1% for the full year FY23. Please note that, as always, these TCV and ACV numbers include all bookings, small and large, renewals as well as new bookings across existing and new customers.

Coming to the customer engagement size, let me give you some color on the various engagement sizes. To start with, we are pleased to announce that our top customer revenue saw a healthy growth of 30.6% Q-on-Q in USD terms. This is in line with expectations that we have shared with you in the last quarter and this month. This impressive sequential growth has to be seen in the context of the decline in top client revenue by 23.2% during FY23, which was primarily on account of ramp downs we had witnessed over the previous two quarters. The ramp downs in earlier quarters were on account of structured cost savings program undertaken by our top customer. Since then, we have partnered closely with them to help them achieve their objectives while also exploring meaningful win-win opportunities for long term collaboration.

Moderator, can you hear us?

**Moderator:** Yes, Sir, now it's clear.

**Sandeep Kalra:** Okay. Let me start from the engagement size once again. Apparently, the audio was disconnected for a bit. So, let me give you a color on our client engagement size. We are pleased to announce that our top customer revenue saw a healthy growth of 30.6% Q-on-Q in USD terms. This is in line with expectations that we have shared with you in the last quarter and this month. This impressive sequential growth has to be seen in the context of the decline in top client revenue by 23.2% during FY23, which was primarily on account of ramp downs we had witnessed over the previous two quarters. The ramp downs in earlier quarters were on account of structured cost savings program undertaken by our top customer. Since then, we have partnered closely with them to help them achieve their objectives, while also exploring meaningful win-win opportunities for long term collaboration. This has led to the signing of a couple of large strategic deals cumulatively totaling to USD 100 million TCV, a first for Persistent. We are hopeful of continuing with a stable and a gradually improving growth profile for our top clients during FY24. We also saw revenues from our second-largest customer recovering from the furlough impact during the Q4 quarter, registering a sequential growth of 7.6%.

While the overall portfolio of our top-50 customers grew by 4.7% during Q4, the growth was partially impacted by a ramp down in a key Hyperscaler relationship, which had a ramp down of approximately USD 3 million for the quarter and approximately about USD 10 million on annualized basis. This was in line with the Hyperscaler's overall cost management programs across the vendor partners. We are expecting the Hyperscaler account to resume growth for us over the next several quarters.

The progression of our clients across multiple revenue threshold continues with two additional customers moving into the greater than USD 30 million

band from the greater than USD 20 million band during the quarter and also scaling the number of greater than USD 5 million customers to 34 compared to a count of 25 four quarters back.

Coming to the geographical breakup - from a geographic perspective, we saw a healthy growth across most regions led by the ramp up of recent deals. North America grew 4.8% quarter-on-quarter in USD terms, aided by growth in our top one customer. Europe revenue increased 19.7% quarter-on-quarter on account of ramp up of multiple large deals signed in earlier quarters. India revenue declined 15.6% Q-on-Q due to the decline in IP revenue compared to Q3. The whole growth has to be seen in the context of a much lower revenue base in Europe and India as compared to the US.

Coming to the people and utilization - in Q4, we added 291 people on a net basis, taking our total employee headcount to 22,889. Utilization for the quarter came in at 77.3% as against 77.6%. The growth in our billed person-months in Q4 came through a combination of existing experienced employees deployed on various services engagements, new lateral hires, and incremental addition of our freshers to billable projects. You may be aware that we had hired 3,000-plus freshers at the start of this financial year. They had started entering the billable pool from Q3 onwards. All the remaining freshers became a part of this billable pool in Q4, which is reflected in the increase in billable person-months and IP person-months in our fact sheet. A continued deployment of freshers on customer projects will be a good tailwind to our margins over the next several quarters.

On the attrition front, we saw a moderation in attrition with a trailing 12-month attrition for the quarter coming in at 19.8% compared to 21.6% in Q3. We believe that the trailing 12-month attrition will continue to moderate going forward, aided by a general moderation of hiring across

the sector and better outcomes on our employee value-related interventions.

Moving on from operational metrics to other highlights of the quarter - we are pleased to share with you that the Board of Directors declared a final dividend of INR 12 per share for FY23. Together with the interim dividend of INR 28 per share, the total dividend for FY23 stands at INR 40 per share, which compares to the total dividend of INR 31 per share for FY22. Additionally, the Board has decided to declare a special dividend of INR 10 per share to thank our shareholders for their support on our journey to a billion dollars milestone. This takes the total dividend for the year INR 50 including the special dividend. It continues to be our endeavor to maintain a consistent dividend payout ratio while we augment our growth through capability led acquisitions.

Coming to the update on acquisitions and strategic investments - as reported earlier, all our recently acquired businesses have been fully integrated and are coming together as 'One Persistent' to win large deals across our focus verticals. We have again become active on the M&A front. Consumer Technology, Cybersecurity, Generative AI, European expansion and some key domains in Financial Services and Healthcare are the ones that we are looking for in acquisition terms and a number of these, specifically Consumer Technology, Cybersecurity and Generative AI are the ones that we have been incubating for last several months.

In particular, on the Generative AI front, we are looking to invest in Software Labs and training our employees on things including large language models, AI-paired programming such as GitHub Co-pilot and so on. We recently also announced an expansion of our existing Azure Center of Excellence with AI-based modern workplace solutions. We will report progress on this front over the next several quarters.



Coming on to the general administrative updates - on the administrative side, in Q4 we did a groundbreaking ceremony of our new MIHAN plot in Nagpur. This will be a new campus for us in Nagpur. We also finalized the site for a 250-seater office in Kolkata as well as a new office in Jaipur. In the coming quarters, our expansion plans include locations such as Kochi and Chennai in India, Dallas, Texas, and Poland in Europe from a near-shore Eastern European delivery center footprint. Our endeavor is to provide a world class delivery network to our customers by providing best-in-class facilities to our employees in locations close to them and also to encourage them to work from the office for at least a few days in a week.

In summary, we are pleased with our performance in Q4 with continued healthy revenue growth, strong order wins across our focus industry segments, good pipeline and improving profitability despite the macro environment.

Now, I would like to invite Sunil, our CFO, to give a detailed color on the quarterly financials and related matters. I'll come back after Sunil's comments to give you some more details on key client wins, analyst awards and other recognitions for the quarter. Sunil, over to you.

**Sunil Sapre:**

Thank you, Sandeep and good evening, good morning everyone and thank you for taking the time to join us today. While Sandeep has briefed you on the market outlook and how the quarter has shaped, let me take you through the details of financial performance for the quarter.

So, this was the quarter where, I mean, the much awaited one billion milestone was crossed. The revenue for the quarter was USD 274.55 million with a growth of 3.9% Q-o-Q and 26.3% Y-o-Y. You would have seen Services revenue growing by 5.5% quarter-on-quarter. IP revenue declined by 14.6% essentially due to the seasonality in this business. Our total revenue for FY23 stood at USD 1.036 billion with Y-o-Y growth of 35.3%,

with Services revenue registering growth of 42% and IP revenue showing decline of 14.8%.

You will recall that the IP revenue for last year included royalty revenue from one of the contracts that was restructured at the end of Q3FY22 and was converted into a lesser scope T&M contract. Thus, the IP revenue for this year does not include any revenue from that restricting contract. That is partly the reason for the decline in IP revenue.

Revenue for the quarter in INR terms was INR 22,544.7 million, reflecting growth of 3.9% Q-o-Q and 37.6% Y-o-Y. The revenue for FY23 is INR 83,505.9 million, with growth of 46.2% over FY22.

On the segmental growth, BFSI growth was 3.1%. Healthcare and Life Sciences grew by 4.4% quarter-on-quarter, and Technology companies, that is a Software Hi-tech grew by 4.1%.

In respect of linear revenue, the offshore linear revenue grew by 9.6%, comprising of volume growth of 9.3% and growth in billing rate by 0.3%. The onsite linear revenue declined by 1.2%, majorly on account of declining volume by 1.3% while the bill rate grew by 0.1%.

Now, let me walk you through the movement in the operating expenses and the impact on EBITDA. The Employee-Related expenses increased only marginally in absolute terms, while as a percentage of revenue it declined from 63.6% last quarter to 61.6%. This was an account of lesser net addition to technical headcount. We added 262 people as compared to 92 in the previous quarter, technical talent. The freshers, as Sandeep mentioned, added to the talent pool about three quarters ago are now getting progressively deployed on projects. We have also deployed some freshers in the IP-led business, which is where you see increase in the IP-led person months. All freshers are now part of the billable talent pool partly from mid

of Q3 and balance from mid of Q4, which you will find reflecting in the utilization numbers.

You might have noticed an increase in Purchase Royalty expense in this quarter. So, let me give you details around that. So, this particular item traditionally has item which is relating to IP revenue. So, it has got a partner IP, which is in the form of reseller kind of business and it is also about royalty when we are working with some of the partners. However, in the recent deals, we have had licenses as part of delivery, which we are using for the purpose of the long-term projects, the revenue for which is reflected under 'Services'. So, you will need to bear in mind the fact that the growth in the IP or the Purchase Royalty item is not directly linked to the IP-led revenue.

In terms of the absolute amount that we have, there you may see a sudden bump, which has happened because of the recent large deals and this will, as a percentage, get moderated as we go along. We don't expect this absolute amount to increase unless for the reseller deals that sometimes, you know, keep coming over the quarters.

In terms of additional expenditure, as Sandeep mentioned, with respect to the annual planning event, it impacted margin by about 30 basis points. The currency was flat. So, after accounting for movement in all these expenses, you will find that the overall cost as percentage to revenue remained more or less in the same ballpark as the last quarter and hence, EBITDA at 18.5% and EBIT at 15.4%, we are at the same level as the last quarter.

EBITDA for the full year was INR 15,191.3 million growing at 58.5% year-on-year. EBITDA margin for FY23 was 18.2% as against 16.8% in FY22. There is obviously a higher expense in the form of amortization relating to the acquisitions we had done on a Y-o-Y basis. You will find that increase from

2.9% to 3.2%. EBIT for FY23 was INR 12,472.3 million, which grew by 57.4% year-on-year and EBIT margin came in at 14.9% as against 13.9% in FY22.

The Treasury income from the quarter was INR 129.05 million as against INR 87.02 million mainly on account of increased interest rates and increase the treasury size. Forex loss was INR 189.1 million as against a gain of INR 105.4 million in the previous quarter. This was essentially due to the dollar weakness that we saw during January and February, which caused a loss on the realization of receivables as compared to the rate on 31<sup>st</sup> December'22.

On a full year basis, Treasury income was INR 366 million as compared to INR 1,052 million in FY22. The lower treasury income in FY23 is partly due to lower treasury size post payout for acquisitions done in Q4 of last year and Q1 of this year i.e. the acquisitions we did for Data Glove and MediaAgility.

The interest on borrowing availed for acquisition funding and elimination of interest income from ESOP Trust to the tune of INR 195 million on consolidation of ESOP Trust starting April 1, '23 - well, these three factors led to the lower treasury income in FY23.

Profit Before Tax for the quarter was INR 3,405.9 million at 15.1% as against 14.9% in the previous quarter. ETR was at 26.2% as against 26.3% in the previous quarter and will remain in this range.

PAT for the quarter was INR 2,515.1 million at 11.2% of revenue as against INR 2,379.5 million in the previous quarter at 11%. PAT for the full year was INR 9,211 million as compared to INR 6,904 million, reporting growth of 33.4%. And in terms of PAT margin, it is 11% of revenue as compared to 12.1% in the previous year.

EPS for the quarter was INR 33.65 as against INR 31.90 in the previous quarter. The growth in EPS is 5.5%, while the growth in reported PAT was

5.7%. The Board of Directors, as Sandeep mentioned, have recommended a final dividend of INR 12 per share and a special dividend of INR 10 per share.

The operational capex for the quarter was INR 1,232 million. This includes increased facilities in India locations. Total cash and investments are INR 15,199 million as on 31<sup>st</sup> March'23 against INR 15,139 million at the end of last month. The cash balance at the end of Q4 was partially after the dividend payout. I mean, it is lower because of the dividend payout and facilities cost of Hinjewadi.

Coming to DSO, the DSO came in at 68 days as against 67 days in the previous quarter. During the month of March, as a result of the crisis at Silicon Valley Bank, which is one of the banks we banked with, we requested our customers who were paying into our SVB account to redirect payments for other bank accounts. Since there were three weeks in that particular month left before exchange could be accommodated by the customers, there was some spillover of collections into April, which impacted DSO by few days. Forward contracts outstanding at the end of March were USD 230 million at an average rate of 82.83 per dollar.

With that, thank you all again and hand it back to Sandeep.

**Sandeep Kalra:** Thank you, Sunil.

I'll now talk about the key deal wins for Q4 by industry segments.

Coming to the Software, Hi-tech and Emerging Industries, Persistent was selected by a Fortune-50 Technology company as the engineering partner for its Data Warehouse products, as well as its Mobile Application Development products. This is a USD 100 million deal over a five-year period and involves execution on a product roadmap as well as migration of end users to customer's next-generation platform, which we will also be

involved in. Alongside supporting the current and forward-looking roadmap, as a part of the deal, we have licensed the source code for providing extended support for the earlier version of the product for enterprise customers who do not wish to move to the next version. Persistent was selected by a leading Marketing Technology Solutions company to provide engineering and infrastructure services for its platform. This is a large double digit million TCV, five yearly, through our Private Equity go-to market. Persistent was selected by a leading company in Supply Chain Analytics for product modernization and automation.

Coming to Banking, Financial Services and Insurance, Persistent was selected by a leading Private Equity organization to develop a procurement and contract solution for its procurement group as well as modernization of its Enterprise Data Warehouse. Persistent was selected by a leading company in the Fractional Trading and Embedded Finance to develop an integration platform for onboarding and servicing its local customers. On the Insurance side, Persistent was selected by a leading company in Property and Casualty Insurance to build a cloud-based Data Lake to support policy administration, claims analysis and prediction of risk levels for the underwriting process.

On the Healthcare and Life Sciences side, Persistent was selected by one of the largest Pharma and Diagnostic companies to build and integrate genomic workflow management tools for all of the client's acquired businesses leading to significant increase in their experimental throughputs. Persistent was selected by one of the largest companies in Scientific Instrumentation to build an Enterprise Data platform to streamline governance and operations across multiple business groups including procurement, supply-chain, finance and operations. Persistent was selected by one of the largest global providers of kidney dialysis

services to build a patient and experience management application to educate and improve patient satisfaction scores.

Coming to the awards and recognitions for the quarter - Q4 saw us get continued recognition from industry-leading analyst firms and associations. To mention a few, Persistent was included in the Constellation Shortlist for Innovation Services and Engineering for the first quarter of calendar 2023. Persistent was named a Leader in 2023 Zinnov Zones Intelligent Automation Services. Persistent won a number of awards from ISG including being named as a Rising Star in ISG Provider Lens for U.S. 2022, for Google Cloud partner ecosystem, the Rising Star in ISG Provider Lens for AWS Ecosystem Partners for US region for 2022 and winner in the 2022 ISG Digital Case Study Awards for its patented learning solutions.

In summary, we continue to deliver healthy growth and profitability in Q4 despite an increasingly difficult macro environment. With this, I would like to conclude prepared comments and I would like to request the moderator to open the call for questions. Moderator.

**Moderator:** Thank you, Sir. We will now open the call for the Q&A session. We request participants to restrict to two questions and then return to the queue for more questions. Please raise your hand from the participant's tab on the screen to ask a question. First question is from Abhishek Bhandari.

**Abhishek Bhandari:** Yeah. Hi, good evening everyone. Sandeep, I have two questions. The first question is on your growth outlook. You mentioned about, you know, good deal wins what you're seeing in terms of ACV and TCV growth, also finally the growth returning to our top account. At the same time, you also mentioned about, you know, some bit of uncertainty given the macro environment. Could you tell us when do you intend to go back to your 4% to 6% quarterly growth number in FY24?

**Sandeep Kalra:** So, Abhishek, we don't give forward-looking guidance but let me give you a color on the thing. If you look at the trailing 12 months ACV booking, if you look at the quarterly bookings, all of that has shown a healthy trend. So, from that perspective, you know, the booking should translate into growing revenues over the quarters.

In terms of the range, look, we have said in good times we have delivered up to 9% quarter-on-quarter as well. Here, we are looking at, in the subsequent quarters, anywhere between 3%-5%, 4%-6%. That is the range and we'll try and stick to that.

**Abhishek Bhandari:** Got it. Second question, Sandeep, is on your margin outlook. You know, bulk of the improvement what we have seen in the last 12-18 months is on back of SG&A and finally we have started now seeing, you know, some bit of utilization play coming into picture. Could you tell us, you know, going forward on the margin side, what are the key levers beyond improvement on utilization, which you think could help you on both gross margin and EBIT level?

**Sandeep Kalra:** There are multiple levers, Abhishek. So, if you look at it, whether it is scaling our existing accounts, we have been consistently scaling the existing accounts nicely. We have taken freshers. Even today, a significant amount of freshers are not necessarily deployed and they have been in the system anywhere between 9-12 months or even more in some cases. That is the other one.

If you look at the newer areas that we are getting, whether it is Generative AI, whether it is the Cloud side where we continue to grow expertise, those are areas where we are able to get better pricing than otherwise as well. So, there are many different levers along with scale that are there and we have said our aspiration is over the next two to three years to go up by 200 to 300 basis points.



**Abhishek Bhandari:** Got it. Thank you, Sandeep and all the best.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. Next question is from Sandeep Shah.

**Sandeep Shah:** Yeah, thanks. Thanks for the opportunity and congrats for the good execution continuing quarter after quarter. Sandeep, the first question is some of your peers have started talking about project cancellation, project ramp downs, delay in start of the projects as a whole. So does this worry you entering FY24, where you believe the leakage or completion within that revenue could be substantially higher versus FY23 and that keeps you growing your order book higher and higher, otherwise the growth may get impacted, does that worry?

**Sandeep Kalra:** So, look, there are times when the market was good and we were growing at a fairly significant clip, we have grown at times 5 quarters at 9%. The growth has moderated and so that is partly a reflection of all what our peers are also saying and so on. So, have there been, you know, things like ramp down, if you look at our own top customer, we saw the ramp down happen a few quarters back. It was very hard to get it back. Like that we talked about the hyperscaler where we have seen a certain amount of ramp down even in this current quarter. But look, the endeavor that we have is this is part of the game, we can't expect the market to be good to us all the time, you know. We will have to learn to live with this and even then, grow the order book and deliver the best possible growth rates that are there. Rest assured, we are committed to that and that's what we are working on, there will be puts and takes, so like for example, this top customer that we had ramped down or the hyperscaler, we didn't, you know, have any forecast of that coming in. Those were order wins that were there, but we have still grown. If you look at our historic track record, grown despite this and that's exactly what we are committed to. We'll

keep bringing in more so that even if there is leakage, whatever best we can do, and it will be higher than the industry and before you ask us what the industry growth is, everyone is talking between 7% to 10%, we will be higher, much higher.

**Sandeep Shah:** Thanks, thanks. Just the follow up, in one of the large deals which we have signed from European Union last week, there is some M&A event, which has been announced where the controlling stake could be owned by a Private Equity. So does that worry you in terms of any change in the structure of the deal, because that deal has started ramping up and that client entered within your top-10 account list as a whole, and I have two follow ups with CFO as well.

**Sandeep Kalra:** So, Sandeep, it doesn't worry us because the same Private Equity had earlier done a pipe which is basically, you know, if you look at the company record - so the Private Equity is not new to that company, even when we did the deal, they were actively kind of there as investors. Second, the deal construct that we have, it is basically a fixed kind of a construct for the next five years. So, that is where the thing is and if the deal was to be restructured, there are obviously restructuring pieces attached to it, so I'm not worried and again it's a relationship thing, if you have to open the contracts in a different volume, but we are not worried about it. So, the next two questions I'll let you ask

**Sandeep Shah:** Yeah, just two book-keeping questions to CFO. Sir, if I look at the gross block on the Software for nine-months, it was INR 12 crores and at the end of FY23 it is INR 51 crores, so almost INR 38-39 crores being added in the gross block of software in the Q4 itself. So, what is the nature of that and 2<sup>nd</sup> in terms of your Purchase and Royalty costs, is it fair to assume the absolute amount may also decline on a Q-o-Q basis going forward?

**Sunil Sapre:** Yeah, so on the first item, the increase in Software block is actually significant investment that we have done in the cybersecurity area for Persistent as a company, right so that is one important item. The amount in respect of Purchase Royalty you are right, there is, I mean as a percentage to revenue, of course it will moderate. In absolute terms, there may be a slight decline, but as you know, this item has got multiple components as I explained, so in absolute terms it is hard to say because there may be deal-related particularly on the resell side. But as steady state, yes there will be slight moderation, not a whole lot. In absolute terms, it would stay in this range, little lower than this, but in percentage terms it will definitely reflect much.

**Sandeep Shah:** The cybersecurity software we are capitalizing the product development, which is under the WIP?

**Sunil Sapre:** I don't know what you're referring to, because this is third party software, which is bought for our own business as investment in strengthening our own, you know, cybersecurity position.

**Sandeep Shah:** Okay. Got it, got it. I will come in the follow up. All the best.

**Sunil Sapre:** Sure. Thank you.

**Moderator:** Thank you. Next question is from Karan Uppal. Karan requesting, yeah you can go ahead Karan. Okay, we'll take you back. Next question is from Mehta Bhavik.

**Bhavik Mehta:** Thank you. So, couple of questions. Firstly, the headwind what you saw in the hyperscaler account, how is the portfolio trending or have you seen any ramp down in the project in some other clients as well over the course of last quarter or maybe this month and the second question is going back to the license, so maybe what you explained or because of the large deal, is it possible to quantify the impact because there's also shift in the

revenue, so that will help us understand, you know, what was the real underlying growth outside of the license fees? Thank you.

**Sandeep Kalra:** Okay. So, Bhavik two parts to it. So, first on the ramp downs, look, ramp downs there's no other significant ramp down, if there was, we would have called it out. We have been calling it out, whether it was our customer or even this particular case, where the hyperscaler we have proactively got. There is no other significant material thing. There will be obviously projects end, projects start, so nothing to be worried about. Now as far as the large deal is concerned, look, the revenue from the large deal is all services. There are two parts to the services. One is the ongoing, you know, product development that we will be doing for the current product, next generation product, migration from the current product to the next generation product, so that is one part of it. Second is this customer does not want to, you know, provide services to the prior versions of the product because they are more interested in investing in the next generation and in building their own warehouse and so on, so we have taken the license and we are, because of that, starting to win large enterprise customers for the extended support of this product. People who do not wish to or who don't want to wait for the next generation of the product and want to possibly look at extending this for the next few years before deciding on next, so overall services revenue you should see significant increase and profitably. So, keep in mind we are not saying that this is a cause for profitability concern before you kind of think anything on those lines and we are committed as we said before, over the next two to three years, we are committed to taking our profitability up systematically quarter by quarter and take it up by about 200-300 basis points. I can answer any follow up questions.

**Bhavik Mehta:** Thank you. That is helpful.

**Moderator:** Thank you. Next question is from Manik Taneja.

**Manik Taneja:** Hi, good evening. Thank you for the opportunity. Sandeep, I actually wanted to pick your brains around the commentary that I heard from some of your global peers in terms of saying that they are seeing - that they expect a significant increase in offshoring from Hi-tech customer base given the kind of cuts that they've done at their own organization level over the course of the last six to nine months, that's question #1 and the second question was for Sunil, basically we've seen a significant reduction in our subcontracting expenses this quarter, how should we be thinking about this line item going forward?

**Sandeep Kalra:** So, on the Hi-tech thing I would tend to agree and this is what we have been saying for the last many, many quarters. Part of the ramp ups that we have been seeing is by making sure that we are talking to the Hi-tech customers that we have and even for that matter enterprise customers. In the Hi-tech segment specifically here is what has happened. You've seen whatever is happening on the hyperscaler side whether it is Microsoft, whether it is AWS, and Google and so on, everyone has been laying off people trying to restructure their cost base in line with the macroeconomic. There was a significant amount of hiring that happened in the post-COVID era and that is being kind of recalibrated. Now, on the other side in the market, if you look at it, there are mid-market companies that went public. These are companies that were Private Equity owned or were like more importantly Venture Funded owned, which went public at huge valuations. Now, when the revenue growth is taking off and they were earlier also, you know, going very fast, but they were not profitable. Their profitability is coming under even more pressure. So, with revenue growth they bring profitability under pressure and a number of them not being globalized, that is the phenomena that is leading to larger deals for people like us and, you know, anyone who is differentiated on the

engineering side will be a gainer of this trend and we have been a big gainer of this trend and so that will continue at least for the next few quarters and we should definitely see more happening in terms of offshore. Now, second question Sunil, if you want to go ahead and address.

**Sunil Sapre:**

Yeah, sure. So, on the subcontracting side Manik, it is essentially the combination of two factors. One, of course, structurally we have been trying to work on reducing the dependence on subcontractors as mobility is improved, so that is one aspect. The second is of course the link to the ramp down we saw in one of the hyperscalers. So, for this quarter you may see the percentage significantly lower, but on a steady state basis, we think that the way we are winning projects and required to ramp up, sometimes we do depend on subcontractors to fill in the skill gaps, so somewhere at 12%, 12.5% of revenue is something that you should factor for and sometimes it has gone up all the way to 13.5%-14% during the times that travel was not easy, but that's what. So, currently the percentage is sub-11%, it may not be okay to think that it will remain at that kind of level, but the structural difference from 14% to 12% is what we are looking.

**Manik Taneja:**

Sure. And if I can chip in with one more, if you could share your thoughts around wage increments for FY24 and when do you plan to implement that?

**Sunil Sapre:**

Yeah, so wage increments are a function of the way outlook on inflation and how things are, so currently if you see, inflation moderation is happening, which is reflecting in all the central banks reducing the commentary regarding further interest rate hikes and so on. So, it would be a tad lower, maybe couple of percentage points as compared to the last year wherein you say 8%-9% offshore and 3%-5% for onsite, but we are working on it still because our wage hikes are effective 1<sup>st</sup> of July. We will update you as we go ahead.

- Manik Taneja:** Thank you and all the best for the future.
- Moderator:** Thank you. Next question is from Prashant Billur. Prashant, please unmute yourself. Okay, next question is from Pankaj Kapoor. Pankaj, can you please unmute yourself.
- Pankaj Kapoor:** Yeah, hi thanks for the opportunity. My question is on the cash flows. If I look at this year, we had a close to 50% revenue growth, but it is translating to just 13% growth in our operating cash flow, so looks like your working capital has been under a lot of pressure. Maybe if you can just take us through what is causing this and how you're planning to improve things in FY24?
- Sandeep Kalra:** Yeah. So, Pankaj, the way it panned out was that during the period of the pandemic, the release of cash that happened during the course of FY21 and FY22 led to a significant bump up in the ratios with respect to cash. In FY23 what had happened is that it has to an extent normalized on one side. There is a structural, you can say situation we faced is because of the SVB crisis in the last quarter. Had that not happened, cash flow would have looked a little better and thirdly, we had announced in Q2 and Q3 that increasing DSO that had happened from levels of 60 to 67 last quarter was on account of deals in the IP area with large enterprise customers, which have a deeper credit arrangement. So, this would take, so there are no fresh deals in that bucket happening, but it would take some time before the - these are amortized payments, it's not - so every quarter we do receive some payments and this will moderate over time. So, structurally, we are not extending larger payment terms except for some very, very large customers. So, I don't think there is a working capital blocking that is happening in a significant manner, but we are conscious of this. We will work towards improving the cash flow and bringing down, you know, the gap between both, I mean on the DSO side and on the working capital side.

**Pankaj Kapoor:** Understood. So, can you just tell us what kind of a DSO trajectory you're looking at in the next 3-4 quarters? Do you expect it to remain flat or maybe improve by a couple of days as I believe you were hinting at the start of the call?

**Sandeep Kalra:** Yeah, sure. So, we would be working towards getting it back to 64-65 kind of levels, that would be the level.

**Pankaj Kapoor:** Got it. Thank you and wish you all the best.

**Moderator:** Thank you. Next question is from Nitin Padmanabhan.

**Nitin Padmanabhan:** Yeah. Hi good evening, Sandeep, Sunil, and Saurabh. Couple of questions, so, one is, see, we have had these client-specific issues considering the environment, not surprising, but other way you see, going forward, are you seeing things getting better or you see things getting worse, so that's the first one. The second one was, see, if you look at the deal wins, basically we had USD 168 million of net new ACV that includes the last deal as well of USD 100 million. Do you think that, and I think it wasn't - you didn't have such large deals in the prior quarter, so I just wanted to know, is it getting difficult in terms of the kind of sizes of deal wins overall in terms of quantum that are consistently booked, do you see that getting tougher on a going forward basis, that's the second. Third, on the Purchase and Royalty costs, if it is a pass-through is there - has there been an equivalent revenue booking or is there some revenue cost mismatch out there? Right, those are the three questions. Thank you so much.

**Sandeep Kalra:** So, Nitin, I'll take part of the question and then I'll have Sunil answer the rest. So, in terms of the environment is getting tougher, yeah it is tougher and if you look at the color commentary and the results from any of the peers who have announced so far, we'll figure that out. Now, is it going to be tougher forever, we are expecting it to be tough for the next one to two



quarters and then it should kind of start getting better and so on and even in tougher environment, we are not saying there is lack of opportunity, there is a good opportunity and we will have to just be alert. The order books are a reflection of that. Now, one correction I would do is the USD 100 million is that TCV on that deal, the ACV on that deal obviously is different because it's USD 100 million for 5 years, so you can extrapolate that. Now, in terms of order book/pipeline, there's a healthy pipeline. There are definitely deals that we would have liked to book last quarter, which the deals are taking a longer period of time, but there are opportunities even in tougher market and it is going to be tough for the next one to two quarters and thereon, hopefully it gets better and comes to a normal kind. Sunil.

**Sunil Sapre:**

So Nitin, on the Purchase Royalty side, what you should look at is, so this is not as such in a pass-through kind of a form, this is at normal margins that we would expect, you know, for the company to have on a large deal like this. The only thing that is happening is that out of this Purchase Royalty, I would say about 40%-45% of the amount presents expense in form of Purchase Royalty, which has corresponding revenue with adequate margin on the Services side. So, what you would find is there is a mismatch in that sense that while you may see this item reflected as we could have otherwise reported it as Other Direct Expenses, so in the fact sheet we don't presently have that kind of a category, it would have been very odd to mention it in that form, but that is the, you know, way you need to look at and there is no pass-through or without margin kind of thing. I hope that helps you understand the structure.

**Nitin Padmanabhan:** Yeah, sure. So, basically, you're saying that whatever cost is there, there's an adequate margin in line with company models and there's no really revenue cost mismatch for the quarter, which would come later, fair understanding?

- Sunil Sapre:** Absolutely.
- Sandeep Kalra:** And Nitin, to add to that, when we are successful in scaling our support business for the extended support, this should be a significant margin enhancer and we've already won our first deal in extended support. So, as it builds up, this is a pretty good, you know, business model along with, you know, obviously the Services revenue that we're getting on developing the next generation products.
- Nitin Padmanabhan:** Sure, perfect. This is very helpful. Thank you so much and all the best.
- Moderator:** Thank you. Next question is from Mohit Jain.
- Mohit Jain:** Yeah. So, two questions. One is the increase in IP-led person months, I think after long gap is there some change in thought process there or is it also related to the deal that you were explaining in the previous question? That's one and the related part is it really part of billable when you calculate billable or these guys are separate who are not billable because they're part of IP?
- Sandeep Kalra:** So, IP business is IP businesses, it is not like a T&M that, you know, it is basically you can correlate the IP-led person months to that quarter's revenue 100% directly, it doesn't work that way. So, it is basically, sometimes we are investing in forward-looking line in doing extensions of the existing products or in this particular case it is both - we are working on developing extensions to whatever products we have, whether it was our products or otherwise and we have done a significant amount of investment in building a practice around Viva, which we also did a press release with Microsoft a few days back and we are also integrating that with OpenAI. So that is our foray in terms of getting into the next generation technologies and so on, whether it is on the employee

productivity, whether it is on generative AI and so on. So, that's where we put our money to work where we want to.

**Mohit Jain:** But is it also related to some product development, like are you guys starting to develop some new product as well on the IP side?

**Sandeep Kalra:** So, see the generative AI component and the Viva things that we have developed, these are like reusable components. These are not full-blown products, but they need people to be put onto a focused way of developing these and enhancing this and that is how we will differentiate ourselves in the market. So, these are not going to be full-blown products that are branded as full-blown products, but these are reusable components that we will take to accelerate our Services go-to-market.

**Mohit Jain:** Understand and on the utilization, are they billable and I'm assuming if they're not billable, then if you could give some number for employee addition in FY24?

**Sandeep Kalra:** So, okay. As far as the employee addition for FY24 is concerned, look, that will directly be in line with the revenue growth that we expect to come and since we don't give forward-looking guidance and we've already talked about it earlier in the call. In terms of fresher hiring, I can give you a number roughly, about 850-1,000 freshers is what we will hire in the next year, so that is where it is and from a billability perspective, yeah we do cost this whatever we are putting in the IP side as billable. You know, somewhere we are putting that cost towards the product development/reusable component.

**Mohit Jain:** 800-1,000 is that the right number for fresher intake?

**Sandeep Kalra:** 850-1,000 freshers, laterals will be obviously as we need.

**Mohit Jain:** And you do not see much scope of increasing utilization, this will be in sync with the revenues, revenue growth?

**Sandeep Kalra:** Utilization, we have we have a good scope of, you know, that is definitely a lever for us right now. We are pretty much, if you look at it, 77% or thereabouts offshore. We can, over a period of time in a disciplined approach, there is enough to be done to take it to 82%-83% offshore and even onsite we have levers. Now, obviously keep in mind this utilization figure that we are talking about includes freshers that have been brought into the billable pool over the last quarter and earlier quarters. So, as these freshers get to be productive, that's a significant margin lever for us and it will show up in the utilization metric. So, there is definitely that inventory we are carrying, the new inventory we will build up over the year with the freshers we will have and then whatever laterals we need to hire, we will hire. That should also give you the overall color commentary on what would be the total headcount additions for the next year.

**Mohit Jain:** Perfect Sir. Thank you very much.

**Moderator:** Thank you. As per time restriction, we request participants to ask one question at a time. Next question is from Dipesh Mehta.

**Dipesh Mehta:** Yeah, thanks for the opportunity. I just want to get sense about the M&A, you also indicated now we are back to active kind of thing, so the priority in terms of tuck-in versus scale acquisition, and if you can provide some perspective, last time we have seen some bunch of kind of things in some of the area earlier you highlighted, but if you give some sense about what we intend to do with the M&A from overall strategy perspective, because one of the things you highlighted from strategy perspective, supersizing existing accounts, so if you can give some holistic answer. Thanks.

**Sandeep Kalra:** Sure. So, look we've always said we will acquire for capabilities and not for revenue. So, in simple terms we are looking at adding more capabilities, which we can take to our existing customers and build more revenue in those existing customers as well as, you know, through that we get more

newer customers that we can mine for our capabilities that would be a great addition. That is what we have done earlier when we have acquired companies on the Azure side on the GCP side and so on. And just to give you a context for example, we won a USD 70 million deal in the last quarter that was a combination of our data integration capabilities, which was built on our capabilities along with the CAPIOT acquisition that we have done. It also had a significant amount of Google stack, so our MediaAgility acquisition that we had done, which is now our Google Business Unit, a combination of our Persistent capabilities in Google work and MediaAgility, so those two plus a few other combinations led to that USD 70 million-plus. So, from that perspective, we are looking at a string of pearls in areas whether it is Consumer Technology, Cybersecurity, generative AI, or in specific areas within Healthcare or BFSI and from a geography perspective in Eastern Europe from a delivery perspective. So, that is the landscape, that is what we are looking at and, you know, we will do a tuck in acquisition wherever we get in the right capability over a period of time.

**Moderator:** Thank you. Next question is from Karan Uppal. Yes, Karan go ahead. Okay.

**Sandeep Kalra:** Karan, we are not able to hear you.

**Karan Uppal:** In the last five years, so how are you thinking in terms of capital allocation in medium term when the macro is tougher?

**Sandeep Kalra:** So, we lost the first part of your question, if you can repeat the question please?

**Karan Uppal:** Yeah, I was asking in terms of capital allocation, the payout has been quite handsome this year at 42% versus average of 28% in last five years, so how are you thinking in terms of payout in the medium term when the macro is tougher?

**Sandeep Kalra:** So, look, from our perspective, this year was a special year. So, in our company's 33-year history, this is the first time we have had a billion dollars from annual revenue perspective and we wanted to thank our investors as well, so that is the reason the payout ratio is higher. We have a very defined policy on payout ratios and as we have said we will do a good combination between providing dividends and doing tuck-in acquisitions for growth and that also should answer a question that is there on the chat. So from that perspective, rest assured, our focus is to bring in the right capital allocation towards acquisitions, which will aid our growth and which will also fuel obviously various different parameters further.

**Karan Uppal:** Okay. Thank you so much.

**Moderator:** Thank you. We will take one last question from Mr. Abhishek Shindadkar.

**Abhishek Shindadkar:** Hi, thank you for the opportunity. First, a clarification, the hyperscaler revenue, is it lost or it is, you know, delayed?

**Sandeep Kalra:** So, it is an existing project, which was ramped down, so it is lost in that parlance and at the same time there, are many other discussions where we have said very clearly over the next several quarters, we'll recoup that amount of revenue and maybe even more. So, that is where it is. So, in simple terms, it's lost.

**Abhishek Shindadkar:** Okay, got it and on revenue growth, Sandeep you mentioned that you expect, you know, at least softness to last for two quarters and then you also kind of highlighted, you know, 3%-5% kind of growth. So if I reconcile those two, are we looking at a back-ended growth with softness in H1 or, you know, we are expecting a consistent growth across all the four quarters?

**Sandeep Kalra:** So, a consistent and a growing trend is what I would say.

**Abhishek Shindadkar:** Okay and just one follow up on earlier question, it seemed like we are going back on the end-of-lifecycle product investments to the earlier question of Bhavik if I'm correct. Is this a change in strategy that, you know, from a pure OPD focus that we were running for the past two years, are we going back to the end-of-lifecycle product investment strategy? Thanks.

**Sandeep Kalra:** So, from a strategy perspective, no. From an opportunistic perspective, if it is at a company profitability and better and gives us access to enterprise customers, where we can go and mine and sell many other services and it makes business sense for us and our stakeholders, absolutely we will be opportunistic about it, but from a strategy perspective, no.

**Abhishek Shindadkar:** Thank you for taking my question and best wishes on a great quarter.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you very much. Thank you very much to the Persistent management. Ladies and gentlemen, on behalf of Persistent Systems Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines and exit the webinar.

**Sandeep Kalra:** Thank you.

**Sunil Sapre:** Thank you.

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