Persistent

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"Persistent Systems Limited Q1 FY-21 Earnings Conference Call"

July 27, 2020

MANAGEMENT:

Dr. Anand Deshpande
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Mr. Christopher O'Connor
Executive Director & Chief Executive Officer

Mr. Sandeep Kalra
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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 the Persistent Systems Earnings Conference Call for the first quarter of FY '21 ended June 30, 2020. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Christopher O'Connor – Executive Director and Chief Executive Officer; Mr. Sandeep Kalra – Executive Director and President (Technology Services); Mr. Sunil Sapre – Executive Director and Chief Financial Officer; Mr. Saurabh Dwivedi – Head of Investor Relations; and Mr. Amit Atre – Company Secretary. Thank you and over to you, Sir.

Christopher O'Connor: Thank you very much. Good Morning, Good Afternoon. It is our pleasure to be here with you today and it is also our pleasure to have this opportunity to speak with all of you regardless of where you are in the world. I want to open this with a heartfelt wishing of safety for all of you during these times and for all of your families. It is unprecedented times in the world and I think it is important that we always start with safety first. It gives us a lot of pleasure to share today's results with you. You have seen the earnings results as we published them, arguably this has been one of the most interesting business environments we have all seen in the last 30 years and it unfolded in a very interesting and a very good fashion for us as we went through the quarter. Let us quickly just highlight the results in US dollars, $131 million of top line which is our best quarter ever, 3.1% QOQ, 9.5% year-on-year growth in terms of that top line. We saw a growth of 1.8% to quarter-on-quarter in our services business, which translates very well into a growth of year-on-year of 15.3%. We also saw our IP-led revenue grow by 9.8% quarter-on-quarter; while there was a decline of 11.6% year-on-year, we think directionally this is an improvement in the right direction for a variety of reasons we can talk about as we go through the call. Our margins likewise crept upwards, EBIT at 10.4%, we think that is sustainable and we think in the future there could be upside on that as well.

The quarter quite frankly unfolded for us in two broad trends. First, we worked with all of our people and all of our clients to get through the COVID transition and you should think of that as pretty much the month of April. The second thing that we noticed as we went through April, was that client curiosity was at an all-time high. Clients were open for suggestions and opportunities and discussions of all types whether that was in the way that they made software or in the types of the solutions they brought to market and in the sectors where we focused this turned into growth for us, it turned into growth in existing clients and it turned into new clients, all of which we managed to obtain and close inside of the quarter at the same time, so it is fascinating and very busy quarter in terms of all those items that we did to accomplish where we are today. Let us talk about the COVID situation for a minute and its impact on our business. First we brought home everybody in the company in about a week during early April and late March. This included all of their work, it is stressed and tested our IP systems. We use many of the technologies that we work with our customers on and we held up well, so basically everybody came home in a week, everybody was productive, nobody was not productive and with the exception of maybe one minor case where we had a client where we had to work through some fiduciary terms, all of our work came home with us and so we came home in a very neutral and flat trajectory meaning that we had everything that we started with and we did not lose much if anything along the way. This gave us a lot of strength.

We had couple ramp downs during the quarter, a few discounts, most of which were minor, some of which have already ended in their discounts and have gone back to normal pricing or normal rates as a part. Our cloud pipeline in digital projects was strong as we entered the quarter and it maintained its strength. We found that digital cloud projects maintain the strength the entire time and grow in opportunities as our client curiosity kind of took over and clients were asking themselves how can I use cloud oriented digital technology to extend my business during this situation and for the future, so that pipeline was active as we entered the quarter and it became more active as we went through the quarter, and the market was just simply active. If you answer the questions of the customers and the curiosity was there, we found work and as I mentioned already, we expanded existing clients and found new clients as well. Overall, there was a demand for improvement and how the people writes off were too. We found certain set of clients who were very open for the idea that we could help them do software better than they could by themselves and that led to both expanded existing business and new business and we think that client curiosity remained high as we exit the quarter and we certainly have it as a goal to continue to work as we go into 2Q as well.

Last, the COVID situation also led us to think very much about how and who we are in the industry. We announced the donation of 25 crores of which we started that contribution during the quarter, so that it is baked in to our financial results and we can talk about that as well, but that is included in our results for the quarter and as part of all the numbers that I have just reflected with you, so we feel strongly as Persistent and as who we are that part of our responsibility is to help the region and areas of the world where we participate and we know the clients and the population's needs and we are very proud of the donation that we have done around the world as a result of that. Our growth engine continues to progress. We talked in previous sessions with you about the need to bring together a very integrated system, the need to not just rebrand the company, but to have marketing and sales work in a coordinative fashion, we continue to make significant progress this year or this quarter as a result.

The thing that quarter provided for us was the opportunity to really retool how we think about market progression and how we think about creation of pipeline and so our marketing team went completely digital. Instead of having this blend of on-premise events and things that people would usually go to, we went completely digital and we went digital with our partners doing strong, lead demand generation events with people like Salesforce, AWS, Mambu, Appian, etc., a whole variety of them we did and we have never done it stronger, so we got the digital marking machine engaged, we got the marking machine engaged with partners. Partners, likewise, for the first time started to donate marketing spend dollars to Persistent meaning clients, meaning partners spending money on funding Persistent's marketing of the overall story we have to tell in the market and we received funding from Salesforce, from AWS, and from IBM to help tell our story with them as our partner in the industry. We see this as significant trend oriented progression of our story, of our solutions, and of the value we can bring clients and in cloud oriented digital technology and the solutions that they engender, so we think this is paying off.

Let us know move last and finally to focus on the two units as we have been operating in this year. Technology services run by Sandeep who is here on the call with us today just continued steady growth and numbers for this quarter. Sandeep will give you a brief overview on the TSU results and also the details of what we are sharing now with you in terms of our BFSI and our healthcare life sciences businesses and how well they are doing. From my point of view, I am only impressed by the track record of TSU and it continues in an impressive fashion and Sandeep will give you that overview in just a minute. The alliances business unit also grew during this quarter, it grew at 6.6% quarter on quarter. The growth was driven under the new leadership of a new president, Jiani Zhang, who could not be with us today due to time zone differences. In short, if I had to summarize what happened, key focus on services to our largest clients and services through them to their enterprise clients particularly in cloud and Red Hat domains. If you follow that quarter, you will notice that IBM did a press release with us around their cloud pack software. This is a software that IBM is leading into the market around how they are approaching cloud and they announced a partnership with Persistent as one of the premier providers of capabilities to help clients deploy again value over that and in this quarter we closed our first several wins in that area also with IBM, which helps us build a pipeline into subsequent quarters of that growing as IBM focuses there and as we can focus there as well.

We likewise grew the IP revenue. We grew total revenue in other areas as well, bringing this more into balances. Our reseller businesses did well. Our reseller business also included services in nearly every contract that they did, which is a change for us. We have put a very keen focus on making sure that there are services attached to every reseller deal and in nearly every deal that we did including Europe’s largest airplane manufacturer. We brought home services that are part of those components of the deal and it gives us more balance, it gives us better control on the margin out of that business and it gives us more build and strength and things we can do with those clients in the future. IBM for its own part focused on their own contracts with all of their vendors. We have over hundred contracts with them and we are happy to say that nearly everyone of those contracts was held in place and we survived and worked through all the questions that IBM had with all of its vendors around their own spend rates and we came through very well in terms of the contracts that we have existing and so we are optimistic of what we see happening with our businesses with Red Hat and IBM as well as the work that we are doing around cloud as well as continued good trajectory for our IP businesses that we do with that client as well, so we think this is key.

Finally, our largest client recognized us as the key GSI among five others in their earnings report as well as personally in a letter penned by Arvind Krishna to all of his employees. We have never had this type of recognition from our largest client before and we think it propels us well into being a recognized provider of capabilities for their enterprise clients as we look forward. All in all, just a tremendous amount of activity this quarter. The team frankly refused to lose, we gave the team just a simple mandate which was after we got home, we just simply told them, grow and nearly all of our teams did that and accomplished that with a pipeline they had and the pipeline they built, I cannot articulate the amount of activity well enough or how proud I am of the team, but it was a fantastic journey this quarter for us. With that, let me turn it over to Sandeep for his overview on the TSU business. Sandeep, over to you.

Sandeep Kalra: Thank you Chris. Good Morning, Good Afternoon to all of you. We are happy to report technology services delivered yet another strong quarter. As we had mentioned in the last quarter, we have combined the business for Accelerite with TSU, so whatever I am going to talk from here on in terms of numbers with the combination of the two businesses. From a Q1 FY '21 perspective, the numbers panned out at 100.97 million versus Q4 FY '20 of 98.84 million. This represented QOQ sequential growth of 2.1% and YOY of 16.9%, this is for the combined Accelerite and Technology Services the erstwhile numbers.

From an industry vertical perspective, the growth was broad-based. BFSI came in at 4.9%, healthcare and life sciences at 5.7%, and tech companies and emerging verticals at 1%. From an horizontal performance perspective, the service lines that we have, as Chris pointed out, the digital product engineering service line as well as cloud and infrastructure service line panned out at the top with others following sequence.

From a top customers' quarterly revenue growth within TSU, we had a healthy broad-based growth as a part of our strategy to mine our customers effectively. The top customers in TSU grew by 11.3% sequentially on a quarterly basis, top five by 5.8%, top 10 by 4.5%, top 20 by 9.2%, so the fact that the top 20 grew by 9.2% sequentially should give you the comfort that the mining strategy that we have in place is working out well.

From orders booking perspective, this was a good quarter once again for TSU. We won a number of multi-million, multi-year deals, these were across existing and new customers, both. In terms of significant events and large deals in the quarter, from a BFSI perspective one of our leading BFSI customers selected us in their vendor consolidation exercise and so we are expecting that account to grow further with more business coming our way along with other vendors who are in the preferred partners on this account. For a US-based retirement healthcare educational savings third-party services provider, we won multi-year, multi-million Dollar deal, this is to role out and manage AI enabled IT service management asset management platform.

Healthcare and life sciences, we won a number of deals and a number of them are mentioned in the factsheet as well. To give you an example for a large pharmacy benefit managers, we won a deal to build a collaborative platform in the Salesforce. This is for nurse practitioners and caregivers to coordinate care in hospitals. From a technology company perspective and in the emerging verticals perspective, you would remember earlier in the quarter gone by, we had announced a large deal. This was with leading enterprise software company in data virtualization space. This deal was done with the existing customer and has incremental revenues of $50 million plus over five years. Similarly, we won a number of deals in the enterprise software/enterprise space on digital product, engineering as well.

From a go-forward perspective, we continue to have a reasonably decent pipeline of multiple multi-million, multi-year deals which are looking promising for Q2. These are a mix of our proactive proposal in our existing accounts and a number of RFP invitation from newer corporates.

On the analytics recognition again, we had a good quarter. Among various recognitions, there was this ISV recognition naming us as top 15 sourcing standing out in less than billion dollar category. This is based on the deal flows that ISV receives from various providers being invited to and so it was a good recognition for us.

In summary, Q1 was a good quarter for us. We remain cautiously optimistic and we believe pending any other events, this quarter would also be a fairly decent quarter for us.

With this, I will hand over to our CFO, Sunil Sapre for his comments. Thank you.

Sunil Sapre: Thank you, Chris and Sandeep, and Good Evening and Good Morning to you all and hope you are all doing good and are safe and healthy. While Chris and Sandeep have given you the business updates and some of the developments as we see in the market as where we are placed, let me take you through the margin movement and certain financial details for the quarter. The revenue at 131.02 with QOQ growth of 3.1% YOY growth of 9.5%, the Rupee growth was 7% at 9914 million and YOY growth of 19.1%. The linear revenue grew by 1.8% quarter-on-quarter and 15.3% year-on-year and as you know the growth in linear revenue is net of the impact of COVID in form of discounts and ramp downs. The IP led revenue grew by 9.8% quarter-on-quarter while year-on-year basis as Chris mentioned, it declined by 11.6%. The growth was mainly driven by reseller business here while the royalty income was steady. Coming to linear revenue, the onsite linear revenue grew by 5.5% comprised by volume growth of 7% and decline in billing rate by 1.4% reflecting some of the discounts agreed. The offshore linear revenue declined by 0.6% constituted by increase in volume by 2.2% while there was a decline in billing rate by 2.7%, so this decline in billing rate is essentially the effect of discounts offered to customers over a shorter term and this will progressively come down in the subsequent quarters. I would like to draw your attention to the fact you would have seen the segment reporting, so our focus on industry verticals, we have decided to reorganize the segment reporting into BFSI, healthcare, and life sciences and technology companies and emerging verticals. The revenue contribution by the organization units is also given in the factsheet which is technology services and alliance being the two units, and as Sandeep mentioned, the Accelerite unit is now part of the technology services unit effective April 1st.

In terms of industry verticals, the BFSI growth was 4.9% quarter-on-quarter and 26% year-on-year and healthcare growth was 5.7% quarter-on-quarter and 14.1% year-on-year. In terms of the technology companies and emerging verticals, the quarter-on-quarter growth is 1% and on YOY basis, we saw a dip of 0.6% mainly on account of YOY dip in the royalty income that you would have seen. Sandeep has already given you the numbers with respect to the TSU growth, which was 3.1% quarter-on-quarter and 17.8% year-on-year in its old format and including technology services, it was 2.1% quarter-on-quarter and 16.9% YOY. Henceforth, we will report TSU numbers along with Accelerite. Now, moving to gross margin, the gross margin for the quarter was 33% as against 33.8% in the previous quarter. Gross margin reflects the impact of COVID in form of customer discounts and the increase in resale revenue. This was partially offset by lower person months deployed in the IP portfolio, you would have seen that in the IP person months. Lower salary cost due to the pay cuts and the currency benefit. We expect the discounts as I said to taper down over the next two quarters and we should be looking at normalization by the end of third quarter. In some of the new engagements we started recently, we have higher subcontracting expenses which are also expected to come down over the next couple of quarters.

Coming to sales and marketing cost:

You would have seen that being much lower at 8.7% of revenue as against 10.2% in the previous quarter mainly on account of lack of travel expense. The admin and other expenses were lower at 8% of revenue as against 9.1% last quarter as we could see reduction in our facility cost and also in the previous quarters, we had been providing for IL&FS deposits which were fully provided by March 20th. Coming to the doubtful debt provision, we have provided for an expected credit loss of $650 K on customer outstanding where we see some stress and this is required as per COVID reporting guidelines and that reflects in the higher provision for doubtful debts. In addition to the regular CSR spend, we had additional spend on account of COVID donations of Rs. 74 million which accounted for 0.7% of our revenue, so out of the 25 crores that we have committed to donate, about 30% has been contributed during the quarter. With the lower spend on SG&A, the EBITDA was 14.8% as against 13.8% in the previous quarter. The currency benefit in terms of the favorable impact on margin is 110 basis points. Depreciation and amortization accounted for 4.4% as against 4.5%, so fairly steady there.

The operational EBIT was 11.1% without considering the donation for COVID relief and on constant currency basis at 10% as against 9.2% in the previous quarter, post COVID donation the EBIT was 10.4%. Treasury income for the quarter was Rs. 279 million as against Rs. 229 million. The reduction in interest rates and the rally that happened helped us to have better gains in terms of mark-to-market gains on debt funds that is the reason for the increase in Treasury income while the interest rates have dropped on the fixed deposits that we hold with banks. Forex loss was Rs. 88 million as against a gain of Rs. 45 million in the previous quarter mainly due to loss on realization against hedges booked last year. Finally, the profit before tax was Rs. 1220 million at 12.3% as against 12.2% in the previous quarter. ETR for the quarter was 26.2% and PAT was Rs. 900 million at 9.1% as against 9% in the previous quarter.

Coming to operational CAPEX:

We had a little higher operational CAPEX this quarter amounting to Rs. 280 million. This included procurement of laptops to enable work from home and certain fit out expenses we incurred at our Hinjewadi campus for housing the newly started engagements. The addition in intangible assets includes payment of $1.8 million which was part of the large deal we won during the quarter. Being a long-term contract over five years, this amount is treated as an intangible asset in form of contractual rights and will be amortized over the contract period. The cash and cash equivalents amounted to Rs. 14,940 million as compared to Rs. 14,717 million.

The increase in DSO from 65 to 69 days includes spillover of collections from a large customer, which happened in the first week of July which impacted DSO by two days and the other two days is because of slowness we saw in certain collections impact of COVID. We expect the DSO to come back to 65 levels within a quarter. In terms of forward contracts, we hold steady hedges of $121 million at an average rate of 75.39.

Just to update, you might have read that in the press release in respect of our Board, Mr. Kiran Umrootkar was the Chairman of the Audit Committee and Mr. Prakash Telang retired as Independent Director at this AGM which we had on July 24th. With that, I thank you all and hand it back to Chris.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Sandeep Shah from CGS CIMB India. Please go ahead.

Sandeep Shah: Thanks for the opportunity and congratulations on a very strong execution, I think one of the very few companies which reported a positive growth in this quarter as a whole, so congrats to the Management. Just a question first to Sandeep related to technology services, can you give details in terms of the growth outlook because you said at least for 2Q you believe the growth momentum can continue and also the deal pipeline which you are looking going forward basis and in this quarter outside of $50 million deal, have you had enough wins outside that as well?

Sandeep Kalra: Sandeep, I will take your question the reverse way around, outside the $50 million win where there other wins that we saw in this quarter, yes, we had multiple deal wins in this quarter and they were like multiple, multi-million-dollar, multi-year deals, many of those are mentioned in the factsheet that we have submitted. As well as the pipeline for this quarter is concerned, yes, we have a decent healthy pipeline of similar kind of deals. We do not give forward-looking guidance, so I will not be able to give the color on the revenue side, but as far as pipeline is concerned, we have a healthy pipeline and we have healthy bookings last quarter.

Sandeep Shah: Chris, can you give a outlook in terms of Alliance business because if you can bring down within IP and services because reseller business though the potential looks good, but it still continues to remain lumpy and you believe by what time this services business with Alliance because of Red Hat tie-up can actually start turning around and can start showing a sequential growth?

Christopher O'Connor: Lot of questions in there, we continue to remain optimistic and bullish on the composition of the Alliance business unit and as I have told you in prior calls, the trick to this is to get the pieces to work in concert, so our reseller business on straight resell grew this quarter adding multiple new clients and several major clients. The piece that I am watching carefully on a reseller businesses are tax rate of services, which we have not done before and so while we have attempted it before we have not executed it well, before this quarter we executed it well. We changed the composition of our team a little bit, we got focused on selling services with every resell deal and in nearly all the deals we included a service component so this included opening up services at for example, Europe's largest aircraft manufacturer, a major German automotive company, several industrial clients in the United States, and so to me that builds durability because the resell deal will come and go inside of the quarter, but leaving behind your people becomes a durable facility to revenue growth and this is a focus of ours right now to help make that happen, so we saw evidence and progresses and deal wins there. Likewise, we have doubled down in the alliance business unit on focusing on our largest clients and so this led us to the cloud announcement that we did with them led us to putting a lot of work and effort behind marketing, their cloud capabilities including Red Hat. We found new clients as a result of doing that that started the pipeline would be the right words and we have built a pipeline to go after now in subsequent quarters with them, so we are motivated by that as well. We think all of this will balance the IP revenue which will continue and I think continue to be strong but as we all know has a little bit of cyclical fashion based on how they sell, so we think this will help us balance out and we saw good evidence there.

Sandeep Shah: Chris, just a follow up whether the OPD business within the alliance can actually also have an upside because of the Red Hat where some of the legacy products of IBM can actually be upgraded for the Red Hat platform or do you believe that maybe a expectation par in future?

Christopher O'Connor: We have actually been doing work with our largest client on upgrading every product they have to include Red Hat, open shift, cloud based capabilities, and so this is absolutely a part of every IP piece of work that we do and at the guidance and in conjunction with our largest client, we have been upgrading actively and releasing that software back out with open shift and Red Hat technologies included in its core and it gives that software frankly a cloud based point of view which it had never before which we think is exciting for their clients.

Sandeep Shah: Just a last question to CFO, in terms of CAPEX if I look at the intangibles you mentioned that $1.8 million have been paid because of the large deal, but if I look outside that also, the organic addition to the software and the acquired contractual rights has been much higher in a quarterly basis this time versus what it used to be earlier, so what is the nature of that, is it the transition from WIP to the asset block or is it the incremental spends which we have capitalized as a whole and a bit of a clarity in terms of margin sustainability going forward in the coming quarters?

Sunil Sapre: Absolutely Sandeep, you are right it is conversion from WIP to the asset block because we capitalized the ERP implementation cost that we had incurred in the last year and as we went live on the ERP models that was the main item there and in terms of margin sustainability as you would have seen from the comments I have made with respect to specifically the gross margin area, we have several levers and we are working towards each one of them to improve the margins, so there is enough room available for us to sustain the margins at these levels.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: Thanks everyone for taking my question and Congratulation on extremely good set of numbers, very good execution in this difficult times, so I have only one question which is little on the strategic side, so Chris what is your sense, how has this pandemic impacted the tech sector, I am not asking a very near term impact because obviously in near-term there is lot of pain in different economies, so things may not be as great but from a medium to long-term perspective, do you think that tech spells have got accelerated and tech client queries who have accelerated and things may improve much more people would be happy to spend more on tech or you would say it is too early to comment?

Christopher O'Connor: I have a view which is still forming, but the view is as follows. The words tech sector is a pretty big word. Inside of tech sector I think they are going to be puts and takes, clients have clearly shown an interest in understanding if they have optimized how they build and make software, and I believe that has accelerated clients that the work profitable or that had growth, but had not tuned their software R&D, now are seeking to tune every area they have and that includes how they build software and I think inside of tech sector, optimization of software R&D will continue to be very important subject for clients and they will have an effect long-term, I believe moving that capability into a much more mechanized and manufacturing oriented approach for experts like Persistence and who know how to do it well, so that is one trend that I see. The second trend that I see is that clients are digitizing and going to cloud-based technologies in an increased rate as a result of what is there, the trend was already there but the businesses were approaching it in a more casual style. We see much more concerted press to bring a digital front door to their clients and to how they do business. I use the word front door because that does not mean a complete application overhaul and in our cases it does not mean an application migration, in all cases it could but this notion of digitally extending yourself even existing things that you have is very, very active and I think that will continue if that accelerates as well. I think on the other end of it, clients are looking at status quo areas or build and run areas that they have with a new light of negativity in terms of how much am I going to spend there and I think you will see that trend continue also as you look forward, so those are the macro movements, but it is puts and takes in tech sector, I think it remains strong but those are the growth areas we see very active in the market.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions, one is on I am talking about pricing, are the realization discounts as you said in the opening remark, the discounts will fade of automatically over the next two quarters, so how much impact will be there from a full-year perspective in terms of price discounts that you have offered to your clients?

Sandeep Kalra: From my perspective, these discounts are not very steep discounts or anything and they are not across board. They are in very specific customers and we have a handful of customers in travel, transportation, and hospitality, and similar sectors which are more hit. Outside of that, there are handful of other customers, so we do not expect this to continue for too long, few of them have already stopped, so I do not think you should take it as a very material impact going ahead. From Q2 onwards, you should see these come down to very low levels.

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

Madhu Babu: Sir, on this cloud opportunity and cloud migration deals, could you elaborate more on that because we have both AWS and IBM cloud types announcement, so what are the kind of deal sizes and any enterprise deals we are doing on the cloud matrix because that is a hot area as of now?

Sandeep Kalra: Madhu, good to hear from you, both the things are there. We are seeing traction in enterprise cloud application migration where the trend is accelerating, so that is one side and there we are strong on three clouds, AWS, Azure, and now we are also seeing increased participation in GCB although that is relatively much smaller than AWS and Azure. On IBM cloud pak, we have obviously that has started over the last one to two quarters, that is accelerating as Chris pointed out as well, so all this things they have been because of COVID seen a more accelerated journey, so that is at a high-level that I can give for you.

Christopher O'Connor: I would point out on this that our clients are not making singular choices, in many cases they have all three of this cloud environments and are looking to understand how to bring that together and the best technology to build solutions from, so this notion of hybrid cloud is very active and a lot of the work we do and we do not see our partnerships as opposing each other, we actually see them as complementary.

Moderator: Thank you. The next question is from the line of H. R. Gala from Finvest Advisors. Please go ahead.

H. R. Gala: Congratulations for good set of numbers, just one question, it was very nice to see Chris in the annual report that your mission is to be a $1 billion company, can you tell what will be the rough timeframe and by reaching that level, what kind of structural changes do you expect in the business in terms of different verticals, the clients, and the practices that you follow and how will that spell on the margin which is currently say around 13%-14% at EBITDA level?

Christopher O'Connor: I think on your first question on timing, the world is a funny place right now, so any timing that I could potentially give to you would probably be not the reality, so we watched the world today to see how it unfolds, however, we are focused on getting their and with that said we are focused on our organic path in terms of the businesses we see, we like the segments we are in, we like the world of BFSI, we like the world of healthcare life sciences, we are greatly enjoying our workaround technology sector in engineering and the work that we do with ISVs. Likewise, the fact that we are able to start self-services with our largest client is popular as well, as these units continue or as these sectors continue to do well, one could picture that they have become primary structures for us as you look forward into the future. Likewise on the inorganic side, we continue to think broadly in a marketplace have nothing to announce today, but that would be a component of our growth as well not looking to advance into areas we have no knowledge of, but more looking to build complementary structures and enjoy the people that come actually with that at the same time as future members of the Persistent team, so hopefully that gives you kind of a broad-base set of thoughts and we are executing in time.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBI CAP Securities. Please go ahead.

Deepesh Mehta: Two questions from my side, first of all the margin outlook, I think Q3 earning call we indicated about 35 percentage gross margin aspiration, Q1 we are around 33, so should we expect there is still some scope left for gross margin expansion which is likely to flow to EBITDA margin, so if you can provide your thought process around margin? Second question is about segment outlook, if you can provide across segment and what are the other measures of segments part of your emerging vertical and any investment plan to build capabilities to create new growth engine as a part of your emerging industries?

Sunil Sapre: In the gross margin as I have mentioned, there are multiple levers that are there in this quarter, of course the biggest impact that we saw due to ramp downs and discounts that unwinds in starting second quarter as we talk. The other bigger opportunity there is where we have begun the new engagements, these new engagements start with little heavy initial preparatory costs which will not repeat in the next quarter, so that is the other part that will be there and the third thing that I talked about is with respect to the subcontracting expenses. We are working in a focused way that how that can be transitioned to our own teams and reduce that part of the expense, and when the royalty income also looks up that adds directly to the margins, so it has seen some softness in the last couple of quarters as you would have seen, but that is the lever where we do not directly control but yes that is another additional item.

Christopher O'Connor: In terms of outlook, our segments have been reporting on today obviously are segments we continue to think will do strong inside of tech companies and emerging. We have our businesses that we continue to grow around the work we do with other software providers, ISVs. We likewise have inside there, the work that we are doing around industrial sector. We have smallish pieces of work that we do with several other sectors including Telecom and Media and in some other areas. As they grow and as they turn into key focus areas in terms of their sustainability, we will break those out going forward, but those are the types of things that are in that road and we see our tech companies and emerging verticals.

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

Manik Taneja: Just wanted to get your thoughts with regard to the kind of deal that we signed during the quarter, do you see a significant pickup in activity around transactions like this given the current macro environment? Secondly, just wanted to understand from you what are the sustainable margins over Persistent over two to three-year timeframe and what levers do you think will drive those margins?

Christopher O'Connor: I will do a quick summary on the last question, and Sandeep, I will turn the deal question over to you. On the margins, we think our margin level we have today is pretty sustainable, this is the right range for the international churn that we see. If you look forward a couple of years I think it will rise, I think getting back to historic levels where we were in 2019, have always said is achievable. We think we are on our way to that, so if you look forward just to keep it as A level to look at EBIT heading into the 12% range is certainly longer term, when exactly probably will depend on worldwide conditions, that hopefully gives you margin overview.

Sandeep Kalra: Manik, as we said before there were multiple deals in the quarter gone by, so in Q1 we saw multiple deals and there are there in the factsheet as well. From a current quarter perspective and an ongoing pipeline perspective, we have a decent pipeline, I would say this is a combination of proactive proposals that we have ongoing with our existing customers. There are RFI/RFP invitations both from existing and new customers and then there are multiple other channels where we get invited to deals, these are sourcing advisors like ISV etc. and then there are other channels that we closely have relationships with. These are private equity portfolio companies and the VC funded companies and so on, so we are seeing a decent amount of deal flow, and for now, I would say it is a healthy deal flow.

Moderator: Thank you. The next question is from the line of Prakash Chellam from Marathon Edge. Please go ahead.

Prakash Chellam: Could you give me a sense of the, your deal wins have been fantastic, given the outlook given by Gartner and IVC where they are talking about a drop in IT services spend recently updated in May, could you give us some color in terms of the incremental revenue growth, how much of this is coming from existing customers versus new customers and also sense of how much of this is market share that you are taking away from somebody else as opposed to brand-new engagement that you are creating for yourself, if you could give me some color on that, that would be great?

Christopher O'Connor: I will answer the last question first and then Sunil I will turn over to you for our numbers in terms of new and existing. The broad trends in those studies there are very inclusive of everything, whether they are right or they are wrong, my think is their opinion and they might be right. However, inside of that is a huge set of different types of capabilities and projects since we got to break this apart and when you break it apart, we see quite a bit of acceleration and need inside of what we have referred to as digital cloud oriented project solutions and works extending client domains to be associated with others using cloud and digital capabilities to be able to do that extension and that segment where we are focused is large and very active and so while it is a component of potentially a larger report like you mentioned and there could be some other areas that have negativity, we are enjoying this quite a bit of growth in terms of that area, we think we do it well, we think we compete well, we think we end up in the final talks with all of the clients we bid for there and we often win as a result of the work that we have done, so for us it is very competitive area to address hence we are focused.

Sunil Sapre: In terms of the new deal wins, the last quarter and this quarter whatever deal wins have happened will take a couple of quarters to play out in terms of the actual contribution to total revenue as the engagements ramp up. What effect actually you can see is between 5 to 10 where the existing accounts have also grown so that is the validation how the existing accounts are also growing and we will be in touch as you kind of aware Sandeep talked about the 10-20 as well, so that is the place where we would see the new clients contributing to revenue. It will take couple of quarters to make a sizeable difference there in terms of total volume.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Good evening and Congratulations on a great set of numbers, I wanted to check for the cost base perspective assuming, forget the operating levels that may come from higher revenues, at the cost base, the most optimum in Q1 that is first question? Second question is what are the headwinds that you see from revenue perspective or whatever two or three things that you should be mindful of?

Sunil Sapre: Susmit, the first quarter was something that had lot of limitations on what we could do with changing cost base a whole lot, so we did, you can say, several adjustments to ensure that we work with the client, do not take the lid of the every opportunity that came our way and ensure that we fulfill that, but there are levers in terms of the optimization of the headcount that we deploy in our IP portfolio as you would have seen some optimization and wherever we have growth opportunities internally to release the people from the IP portfolio into the normal services business and keeping the option to swap them back when they are required to fulfill the new projects that hit the IP roadmap. The third angle which is there is of course the increased the new deal wins that have happened where some of the portion of these deals which is onsite which also get converted to offshore, so that I would say the main key areas which lend leverage, the operating leverage and the cost base to improve.

Sandeep Kalra: Susmit, you talked about the headwind from a revenue perspective, so the fact of the matter is COVID-19 has not gone away. Till the time there is a vaccine and/or an antidote or both, it is going to be uncertain times, so while we are seeing some amount of stabilization, while we are seeing some green shoots, we will have to walk with caution in this path , so that is point one. Point 2, in larger customers there is definitely talks of vendor consolidation, we have come out as winner in many of those, some of those time will tell whether they will go through those exercises or not, so we have to keep an eye open and we have to be close to our customers. Third is, we have won a number of deals and we have to be able to fulfill those deals and in these uncertain times getting people in the market depending on the skill sets and most of the work that we do are forward-looking skill sets, so from that perspective that is another thing, those are the kind of headwinds, some of them are in our control, some of them are not, so those are the things that kind of keep us away.

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

Girish Pai: I just wanted to touch on the vendor consolidation that you did currently for a leading BFSI client, can you throw more color on that in terms of did you displace existing large vendor, that is question number one? Second, you mentioned that some cloud Hyperscale is probably investing some marketing dollars in you, will this continue and can you quantify this amount?

Sandeep Kalra: From the large bank perspective that you talked about, the vendor consolidation part, so there is in any large organization like that, there is a number of bigger providers and then there is a long tail of medium-to-smaller providers, so they are consolidating the entire deal to a select set of larger providers to them, larger does not mean that the organization size is larger or larger means that we are a significant provider to them in the technology areas and in the business areas that they have chosen to work. Yes, we will be consolidating their mid-to-smaller suppliers over a period of time, that is on that part.

Christopher O'Connor: Co-marketing dollars to us is an indication of our strategy, that work it is just us that our software partners are invested in us now for their own success and so one is achieving that milestone was a great thing to see it happen and achieving it with three large partners helps us balance our approach strategy as well, so if you add it all up you get to kind of a six-figure number. If you add up the potential of what it could be, it could be a seven figure number easily as you look forward in time and that is a good expectation to try to manage your marketing team to which is to maximize that effect. It just furthers your inroads with that company in terms of helping to be able to solution a client together.

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

Rahul Jain: Congrats on great performance, firstly did you see many of this digital majors have turned incrementally positive on the digital rationalization thought process and which companies was talking about most calls done in the history in the last two months, so why we do not see that kind of an optimism extrapolated into our commentary despite strong performance in positioning in these technologies?

Christopher O'Connor: I missed the first part of it, I heard digital, but I missed the word that was?

Rahul Jain: I mean leaders like Salesforce talking about significant acceleration post COVID, why do we not see that kind of optimism coming in our commentary despite strong performance and positioning in these technologies?

Christopher O'Connor: I believe the sector for digital cloud-based acceleration is the strength area in the tech industry. I think you hear our cautious optimism in that the world is an uncertain place until certain revenues are available or we can resume a greater degree of freedom of commerce particularly geographically, which is inhibited right now so I think what you are listening to is, we remain very focused down this path of digital oriented cloud and our prowess and ability to do softer projects for people and to us that has strong pipeline. However, it is subject to how the world revolves around the pandemic and how it grows and as we have all seen, we have seen recent lockdowns in certain countries, we have seen countries debating their approach and we have seen certain micro-geographies open up and then close back down again, so I think that is the caution you hear in our voice.

Moderator: Thank you. Ladies and Gentlemen, we take the last question from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: I was asking that given the strong increase in deal wins, how are we incentivizing the sales people and considering the fact that otherwise there is a lot of focus on cost control, what measures have we taken to basically incentivize the sales?

Sandeep Kalra: Rishi, from a sales perspective I think we have talked about it in earlier quarters as well, so we have incentivized our sales team to work on longer terms the annuity kind of deals and so on in our spaces which are mostly digital, and so from that perspective there is no clamping down on that and only clamping down on SG&A that is happened is natural, it is the travel-related thing. From our company wide perspective, I do not think we have done anything to clamp down on the sales spend or the incentivization for anyone, in fact they are more incentivized to do the longer-term deals with our existing customers and our business.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Christopher O'Connor for closing comments.

Christopher O'Connor: I want to thank you guys for all your insights and your detailed questions. We remain at your disposal; you know how to reach us if you have any follow-on questions and with that we are going to close the call. Thank you very much.

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