Persistent

NSE & BSE / 2023-24 / 143

October 23, 2023

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

Ref: Symbol: PERSISTENT

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

Ref: Scrip Code: 533179

Dear Sir/Madam,

Sub: Transcript of investor/analyst call held on Thursday, October 19, 2023
Ref: Our earlier intimation with Ref. No. NSE & BSE / 2023-24 / 140 dated October 19, 2023, titled as Outcome and Audio call Recording of investor/analyst call held on Thursday, October 19, 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 the attached transcript of the investor/analyst call held on Thursday, October 19, 2023, for the quarter ended on September 30, 2023.

The transcript of the investor/analyst call is also made available on the Company's website.

The link to access the same is as follows: Analyst-Call-Transcript-Q2FY24.pdf (persistent.com)

This is for your information and record.

Please acknowledge the receipt.

Thanking you,

Yours Sincerely,
For **Persistent Systems Limited**

Amit Murari Atre
Digitally signed by Amit Murari Atre
Date: 2023.10.23 19:31:51 +05'30'

Amit Atre
Company Secretary
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"PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, SECOND QUARTER, FY24 ENDED SEPT 30, 2023"

September, 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 the second quarter FY24 ended September 30, 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 notes all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need any assistance during the conference call, please raise your hand from the participant tab on the screen. While asking questions, request you to please identify yourself and your company. Please note, this conference is being recorded. I now hand the conference over to Mr. Sandeep Kalra. Thank you and over to you, Sir.

Sandeep Kalra: Thank you, moderator. Good evening, good afternoon, good morning to all of you, depending on where you're joining from. Please pardon my scratchy voice as I'm just coming off a viral infection. I would like to start this quarters call by sharing with you that I will be completing three years as Persistent CEO on 23rd October, four days from now during these auspicious days of Navratri. I'm grateful for the responsibility that was entrusted into me by Anand and the Persistent Board of Directors and the support and guidance I have enjoyed from them during this period. Also, I would like to acknowledge the contribution of Sunil, our CFO and the entire leadership team as well as all our 22,800-plus employees in 21 countries around the globe. It has been a privilege to work with each one of them through a period which has seen Persistent grow from one pillar of strength to the other and emerge among the growth leaders in global IT Services Industry. I would also like to thank each one of you on the call as well as our broader investor base, customers, partners for the support and continued trust in us during this period.

With that, let me now start with our quarterly financials. We are pleased to report yet another quarter of healthy revenue growth despite an uncertain macroeconomic environment. The revenue for Q2 came in at $291.71 million, representing a growth of 3.1% quarter-on-quarter and 14.1% year-on-year in US dollar terms. In rupee terms, this translates into a growth at 3.9% Q on Q and 17.7% on Y on Y basis.

Coming to EBIT; the EBIT for the quarter came in at 13.7%. The EBIT margin declined 120 basis points quarter-on-quarter were in primarily to the wage hike we awarded our employees from July 1, 2022. We give an average hike of 7% offshore and 3% to 4% on onsite. We were able to partly mitigate impact of the wage hike and higher SG&A investments through revenue growth leverage, higher utilization as well as lower visa cost. Sunil will provide much more color on the EBIT margin later in this call. We remain committed to our goal of improving EBIT margins by 150 to 200 basis points over the next two to three years as we have stated prior to this.

Coming to the order book for the quarter - the total contract value for the quarter came in at $479.3 million with new order book TCV coming in at $313.1 million. The annual contract value component of this TCV is of the order of $315.9 million, of which the new ACV component contributed to $184.2 million. The order book number for quarter includes some of the deal spill from the last quarter as we had alluded to in the last earnings call. While the demand environment remains uncertain, our razor-sharp focus on staying close to our customers and focus on margins aided by our healthy order bookings in Q2 has remained steadfast in our growth journey.

Please note that as always, these Total Contract Value, Annual Contract Value numbers include all bookings, small and large renewals, as well as new bookings across existing and new customers.

Coming to the client engagement sizes - we witnessed healthy growth among various client buckets with our top 5-customer revenue up 4.5% Q on Q, top-10 up 2.8% Q on Q, top-20 up 3.4% Q on Q, and top-50 up 3.7% Q on Q.

As you would notice, our top-50 customers is a portfolio of our marquee relationships delivering a secular growth quarter-on-quarter. In this quarter, the portfolio of the top-50 customers delivered 3.7%, which is better than the overall revenue growth of the company. The progression of our customers across various engagement sizes continues with a total of 175 customers in the greater than $1 million bucket in Q2, an increase of 8 over Q1. I am happy with the entry of new customers in the $1-5 million and $10 million and $5 million buckets, which are likely to scale up further in future quarters. As you will notice, there's a growth in customer count in all categories other than greater than $20 million and less than $30 million bucket, where the count reduced by due to movement of one into the higher category and one into the lower. This is normal given certain amount of project ramp ups, ramp downs across quarters.

In terms of geographical breakup, North America revenue grew in line with the company average at 3.1% Q on Q in USD terms, while India revenue grew by 1.3% Q on Q and Europe revenue came in at 0.3 percent Q on Q. Rest of the World revenue was up 41.8% Q on Q on a low revenue base.

Coming to the people front - in Q2, our total head count stood at 22,842 as of September-end. This is a decline of 282 FTEs from Q1. While we gave industry-leading wage hikes in FY24, we also took suitable measures in line with our stated policy for the bottom performers within our employee base. The gross hiding overall was a little lower than the total exit of employees in Q2, which led to the decline in employee head count leading to better utilization. We carry significant dry powder in terms of talent to be able to deliver to the growth that we aspire for and in line with the bookings that we've done. In terms of freshers, we onboarded 277 freshers in Q2 and we will focus on the deployment and existing bench while hiring for critical skills laterally based on project requirements over the next several quarters as we move ahead.

The blended utilization for the quarter came in substantially higher at 80.6% compared to 78.3% in Q1. This was aided by volume growth and decline in net headcount. We continue to focus on increasing utilization of our existing employee base while adding lateral hires to augment for critical skills. The trailing 12-month attrition for the quarter came in at 13.5% compared to 15.5% in Q1. The attrition has come down to a comfortable band compared to the last several quarters. The decline in addition should nonetheless be seen in the context of general moderation hiring across the sector and positive outcomes from our employee value.

Moving on from operational metrics to certain other strategic highlights for the quarter. First on Generative AI. As a testimony to the Generative AI focus that we have had over the last several quarters and the various investments we have undertaken, we today have some exciting Gen AI customer stories to share. To give you some examples, we worked with a sports technology company that provides motion analysis and performance insights to athletes to an app-based biomechanics coach. This is aimed at providing personalized insights and recommending specific actions to the athletes. Persistent leveraged the Gen AI technology stack encompassing AWS, Bedrock, Titan, and LangChain to help analyze the unique and large database of 350 million baseball and golf swings data and give personalized insights summarized for its user in an intuitive way, ultimately helping the user finetune their skills and become better at their game and analyze the game in real time. The solution will also allow our customers to expand their addressable market beyond elite athletes to mainstream users and unlock newer streams of revenue through tiered service offerings.

We recently engaged with the Fortune 200 molecular, diagnostics, and technology solutions provider to address the productivity challenges in writing clinical study protocols using historical protocol documents, other internal content, and information available in public domain. The clinical study protocols for everyone's reference are comprehensive documents that outline detailed plan for conducting a clinical trial or a research study and this work was currently being undertaken by a 100-plus people team largely through a manual process, which was time-consuming and also prone to errors. To address this issue, we leveraged a Google Vertex-based custom Gen AI solution using Advanced Natural Level Processing and Information Rating. The solution is helping the customers streamline the protocol creation process and reducing the time requirement by up to 90%, thereby enhancing the productivity of the team, while at the same time enhancing the quality and giving time-to-market benefit for the customer. In the quarter gone by, we also worked with a top-tier biotechnology firm, which was looking to modernize its image processing application that captures images from various kinds of medical instruments. Typically, in such scenarios, the development team would manually study the source code base and have experts translate that to target technology stack and test the application.

Persistent, using our WingMate accelerator and innovative Integrated Development Environment, an IDE in technical terms, an extension that seamlessly merges traditional coding practices with the groundbreaking potential of Gen AI, powered by Azure, Open AI was tuned to automatically understand the legacy source code, build the test suite, and ultimately migrate the application in 30% less time compared to the manual approach. This approach also helped our customers de-risking themselves from the labor shortage on legacy skills and open a wide array of possibilities to accelerate their modernization journey across various enterprise applications.

Coming to Persistent as a Gen AI Customer Zero for assets. Embodying our commitment to innovation, we are integrating Gen AI through the various facets of our own organization, delivering new internal efficiencies, and enhancing the employee experiences with Gen AI solutions. Let me give you a brief overview of a few of these case studies. PiBOT, which is Persistent Intelligent Bot, is a digital assistant powered by Azure Cognitive Services and Open AI that houses all company related policies, processes, and brings curated guidance to our global employee base based on their geographies they operate from. This platform provides a single window to all enterprise interactions like timesheets, lead management, internal service requests, personalized learning paths, suggestions, skill progression among others. This is geared towards enhancing employee experience while reducing the dependency on shared HR services and the links. Leveraging this, any Persistent employee can seamlessly access any information needed for their day-to-day working and undertake several workflow actions without the need for any human intervention.

Moving on to another example. SMART QMS is our internal quality management platform powered by Gen AI and Azure Cognitive Search, ACS. The SMART QMS enables our developers, project managers, and architects to access engineering frameworks, Persistent proprietary tools, and other processes, and knowledge assets across organizations. This platform is currently being used by more than 5,000 employees to re-use 1,500-plus assets across the organization. Over time, the SMART QMS will not just bring our engineers better efficiency by leveraging AI systems, but will also help them benchmark their own performance with similar cohorts across Persistent while anonymizing the data. We will continue to take best practices that will learn from these internal projects to not only become more efficient ourselves and deliver better services to our customers, but to also take these assets into our client Gen AI engagements.

On to management updates. In-line with our growth aspirations, we continue to add muscle and fortify our management with the inclusion of several well-respected industry leaders. We welcomed Rajiv Sodhi as our Senior Vice President for Hyper Scaler Business and Strategic Alliances based out of Seattle and Ayon Banerjee as Chief Strategy and Growth Officer based out of Gurgaon. Rajiv joins us from Microsoft after spending 16-plus years in various leadership roles across the US and India. Rajiv will be responsible for managing our 360-Degree relationship with Microsoft, Google, and AWS, as well as overseeing the strategic industry and technology analysis for us globally. Ayon joins us from ANSR, where he was a President, prior to which he was Managing Director and Partner at Boston Consulting Group, BCG leading their transformation practice within India. With more than 30 years of experience across consulting and operational rules, large enterprises, Ayon will drive Persistent strategy as we charter our journey towards our $2 billion goal and beyond.

On to strategic investments. At this point in time, all our earlier acquisitions are fully integrated and deal wins are also fructifying through the combined capabilities of Persistent and our acquired entities. We are once again active on the M&A front. I will report progress on this front over the next several quarters.

Coming on to the administrative side. On the administrative side, we inaugurated a 250-seater office in Kolkata, West Bengal in our continued efforts to reach out to locations where our employees are based. We are also in the process of opening new offices in Chennai and Cochin and also expanding our facilities in places like Noida and Hyderabad. Our endeavor is to provide world class facilities to our employees in locations close to them and encourage them to work from office at least two to three days every week.

Let me now move to a unique achievement by Persistent, which all of us are very proud of and are excited to share. As Persistent crossed the billion-dollar annual revenue milestone in FY23, we decided to send a token of appreciation to our global employees for their contribution to our continued success. Among the choices given to our employees were an electronic audio device, travel accessories, bicycles, and a few other alternatives. To our pleasant surprise, 9,000-plus of our employees opted for a bicycle, which prompted us to also initiate a Guinness World Record attempt and further encourage the fitness journeys of our employees. We are very proud to state, we have received 3 Guinness World Records that include #1 - creation of the company logo with 704 number of bicycles which is the best in class, world class. #2, we have showed our cycling awareness tutorial live by 7,348 Persistent employees and their family members concurrently. #3, an online video album of people riding bicycles with 5,098 individuals contributing to it. These achievements, though small, they clearly commemorate not just the billion-dollar annual revenue milestone for us, but also reiterate our and our employee’s commitment towards the environment and employee well-being.

In summary, we are pleased with our performance in Q2FY24 in a challenging business environment. I'd like to now invite Sunil, our CFO to give a detailed color on the quarterly financials and related matters.

Saurabh will come after Sunil's comments to give you some color on the deal wins, the client awards, analysts awards, and other recognitions. Sunil, over to you.

Sunil Sapre: Thank you, Sandeep and good evening, good day to all. Thank you for taking the time to join us today. Sandeep has walked us through the business outlook and a lot of details including market perspective. Let me now walk you through the financial details of the quarter. The revenue for the quarter at $291.71 million implies a QoQ growth of 3.1% and 14.1% YoY. In rupee terms, the revenue was ₹24,116.7 million, reflecting growth of 3.9% quarter-on-quarter at 17.7% YoY. We closed H1 with total revenue of $574.61 million with growth of 15.6% YoY and in rupee terms it translates to ₹47,328.5 million, with growth of 20.5% YoY.

Coming to sequential growth for the quarter in terms of segments, Healthcare, and Life Sciences grew by 7% quarter-on-quarter, Hi-Tech and Emerging Verticals grew by 3.8% quarter-on-quarter, while BFSI remained flat for the quarter. This quarter, we focused on improving utilization, Sandeep mentioned the improvement was significant from 78.3% to 80.6%. Attrition declined to 13.5% from 15.5% in the previous quarter. As you are aware, we have our regular pay hike cycle in Q2 every year that's effective 1st July and we have given pay hike to all our employees, which is about 7% to offshore employees and about 3% to 4% for onsite employees. The total impact of pay hike was about 2.7% on the margin, which was partially offset by improved utilization, currency benefit, and the absence of visa costs. We have continued our investments in sales and marketing. There were certain marketing events this quarter such as Reinforce AWS Summit, which led to some one-off expenses in this quarter. Additionally, certain expenses were incurred on exited employees, both these one-off expense items were offset by a corresponding one-off credit on account of reduction in liability towards performance-based earnouts in one of our acquisitions. With this, the EBITDA came in at 16.8% as against 18.2% in the previous quarter. Depreciation and amortization was within range at 3.1% as against 3.2% in the previous quarter. The EBIT came in at 13.7% as against 14.9% in the previous quarter and for H1, the EBIT stands at 14.3%, vis-à-vis 14.5% in last year's H1 and in absolute terms the EBIT grew by 19.4% YoY.

Treasury income for the quarter was ₹166.28 million as against ₹154.58 million, mainly on account of improved cash flow and higher interest rates. As you know, we paid final dividend of ₹22 per share during the quarter amounting to ₹1,703 million. This was paid in July 2023. Forex gain amounted to ₹83.7 million as against Forex loss of ₹64.1 million in the previous quarter. Profit before tax for the quarter was ₹3,557.6 million at 14.8% as against 13.2% in the previous quarter and this is essentially because of one-time expense we had in the previous quarter towards $1 billion celebration expense. ETR for the quarter was at 26% as against 25.5% in the previous quarter. PAT for the quarter was ₹2,632.7 million at 10.9%.For H1, the PAT came in at 4,920.4 million at 10.4%. Excluding one-time expense in Q1 on $1 billion milestone celebration, the PAT for H1 was 11.2% vis-à-vis 11% in H1 of last year.

EPS for the quarter was ₹35 as against ₹30.5 in the previous quarter. ROCE for the quarter was 30.2% as against 30.4% in the previous quarter. The operational capex for the quarter was ₹355.63 million. We continue to invest in facilities as more employees are coming back as well as we also invested in IT systems for the company. Cash conversion for the quarter was strong at 119% of EBITDA and for H1, OCF to EBITDA stands at 0.55 vis-à-vis 0.54 in H1 of the last year. We are working towards OCF to EBITDA 0.7 for the whole year. Total cash and investments were ₹15,683 million as at 30th September as compared to ₹14,093 million at the end of June. DSO came in at 66 days, one day reduction as against 67 days in the previous quarter. Forward contracts outstanding at the end of the quarter were $240 million at an average rate of 83.92 per dollar. Thank you all. I wish you a happy festive Navratri and I now hand over to Saurabh, who will take you through the key deal wins and awards and recognitions for the quarter.

Saurabh Dwivedi: Thank you, Sunil. Let me begin with Software, Hi-Tech and Emerging Industries, our largest vertical. Persistent was selected by one of the largest communications technology conglomerates to undertake product engineering and customer support for a cloud-based security platform that limits access to all applications based on endpoint device as well as user risk profile. Persistent has been rewarded with engineering work on this core platform based on its excellent performance and other tracks. Persistent was selected by a leading media technology company as a strategic product engineering partner for its auto management platform, which is used by clients of this media company for outcome-based advertising. Persistent is also an exclusive partner for the data strategy and migration of customers applications through Google Cloud. Persistent was selected by a leading provider of engineering, data, and technology solutions company to establish a Greenfield IT setup and provide managed services over a five-year period. This entity is a newly formed organization as part of a carve out done by a leading private equity firm from a leading global provider of business and Financial Information Services company. This deal also involves Persistent leveraging its Intelligent IT Operations framework alongside components from hyperscalers and leading technology vendors.

Coming to Banking, Financial Services, and Insurance. Persistent was selected by a US-based multinational financial services and wealth management company to provide platform engineering and support services for its data stack, including big data, business intelligence reporting, and data governance. Persistent was selected by a leading US-based insurance underwriter to build its Insure-tech platform and be a strategic partner across technology initiatives such as data analytics, application development and support, business intelligence, and DevOps. Persistent was selected by a leading US-based financial software company to modernize and manage its identity management platform, which will be used as a horizontal platform across all software products of the company to manage authentication, authorization, lifecycle of users, and their personal and contact information.

Finally, within our Healthcare and Life Sciences vertical, Persistent was selected by a leading Fortune 500 company in the healthcare domain to undertake modernization of its data road map across consumer applications in domains such as clinical solutions, medical networks, enterprise and pharmacy, customer support, claims and payment integrity, and revenue cycle management. Persistent was selected by a leading company in the precision oncology domain to build laboratory information management system as well as provide other product engineering services to enhance its existing cancer detection platform. Persistent was selected for its demonstrated experience in genomics, laboratory information systems, and deep capabilities in data analytics domain. Persistent was selected by a leading player in the radiology imaging services domain to build a cloud-based picture archiving and communications platform including a call center management system to transform patient engagement. Persistent was selected on account of its intelligent digital engineering platform for code evaluation extensor as well as rich pedigree in product engineering, data, cloud, and compliance related expertise.

Moving on to the awards and recognitions for the quarter. Q2 saw us get continued recognition from industry leading analyst firms and associations. To mention a few, Persistent won The Golden Peacock Award for Excellence in Corporate Governance for the year 2023. Persistent was named as a Challenger in the 2023 Gartner Magic Quadrant for Public Cloud IT Transformation Services ahead of a number of larger peers. During the quarter, Persistent also achieved Premier Tier services partner status in the AWS Partner Network. In the low code and automation domain, Persistent was recognized as a Top partner of the year 2022 by Outsystems and also honored by UiPath with a 2023 America's Partner Award in the Innovation category. Persistent also won two awards from Constellation, including 1st - Listing on the 2023 Constellation Shortlist for Public Cloud transformation services and 2nd - Listing on the 2023 Constellation Shortlist for AI Services. Persistent was recognized in the Everest Group's 2023 Engineering Services Peak Matrix Provider of the Year Awards. Finally, Persistent was listed as a Breakthrough 15 provider in the 2Q 2023 ISG Global Index for the second consecutive quarter. This completes the section on key events and awards and recognitions for this quarter. Thank you and back to you, Sandeep.

Sandeep Kalra: Thanks, Saurabh. In summary, we have continued to deliver top quartile revenue growth and robust deal wins in Q2 despite a difficult macro environment. We're proactively staying closer to our clients, getting them in prioritizing their technology spend towards cost optimization and transformation. I'd like to thank each one of our team members globally who have persevered through the uncertain macro conditions and delivered yet another good quarter for us. Our decision to continue with our normal wage increase cycle and pay out more than 100% in our corporate performance bonus across board in this environment is a testament to our gratitude to our employees for this effort. With this, I would like to conclude the prepared comments and would like to request the operator to open the floor for questions. Operator.

Operator: Thank you, Sir. We will now open the call for Q&A session. We will wait for a few minutes until the queue assembles. We request participants to restrict to two questions and then return to the queue for more questions. Please raise your hand from the 'Participant' tab on the screen to ask questions. The first question is from Sandeep Shah.

Sandeep Shah: Yeah. Can you hear me?

Operator: Yeah, Sandeep, go ahead please.

Sandeep Shah: Yeah, yeah. Congratulations on a good quarter and very strong bookings and good execution. Just wanted to understand on the BFSI, I, I do agree the flattish growth is on a base of a good quarters earlier, but anything to read in terms of any further caution by any of your large clients or other clients within the BFSI and Sandeep, the recent conversation with any of your clients indicates any amount of green shoots because kind of order book you have reported, it looks like we did closures especially outside the larger deals are happening better in Q2 versus what it used to be earlier.

Sandeep Kalra: I would like to take the things in the reverse order. So, if you look at our deal wins for the Q1, that was a tad bit lower than the earlier quarters and we very clearly said some of the deal wins had moved or shifted over to the next quarter. And they have come in along with a very healthy Q2 as well. That is what contributed to the order wins. And some of these deals are longer-term deals, and that is what is the healthy part of it – the TCV to ACV ratio has improved significantly. That is as far as the deal wins for Q2 are concerned.

Now, in terms of green shoots, our pipeline is healthy. This again, in October, November, December quarter is typically a smaller quarter, because come December 15th, things will start shutting down in our primary market, which is well-known. And so, we'll let the quarter pan out.

The pipeline is pretty healthy. And this pipeline, I can say with pride, is because of the proactive efforts of the Persistent team, not because of reactive RFP responses and so on. So, we'll let the quarter pan out. The demand that we've generated for ourselves is reasonable.

Sandeep Shah: Okay. And just few things, we were earlier indicating 2 to 4% QoQ growth, it looks like despite macro issues, do you stand by that number even for the 2nd half? And, you were earlier indicating a flattish EBITDA margin for the full year of FY24. How do you see that statement in the post Q2 result?

Sandeep Kalra: Sure. So, the guidance part is a very interesting thing. We always said that we don't give forward-looking guidance, and then we were boxed into 3 to 5, 4 to 6, whatever it is. Now, from our perspective, we give among the richest data points in the industry. If you look at our data points, we are announcing the TCV wins, ACV wins, TCV new. So, you can pretty much see what is our annual, ACV new you can see what the annual is. So, if you do the mathematics, I don't think you should be asking us for any guidance. You can pretty much make the guidance based on that. And, if you were to analyze the headcount trends as well, you can fairly figure out, and at a utilization of 80.6%, we have enough dry powder in our kitty to be able execute to the order books alone. So, from here on, I would restrain ourselves from getting to the trap of giving any kind of guidance. We never used to, and then we got into this whole thing by media and others. And a number of you, yourselves, have guided us not to give any kind of guidance. So, we will refrain from giving guidance. All we'll say is, this is the 14th sequential quarter of strong growth. And if you look at our order wins, they are pretty good and they should give you a good analysis, if you were to analyze the ACV versus our revenue outflow. And I'll pause there.

As far as EBITDA, EBIT is concerned, look, our first order of business is to make sure that we come in at the same levels as the last year. Obviously, quarter to quarter there are puts and takes, there are quarters where we give wage hikes, and when we give wage hikes, the margin comes down. Then we again work through operational efficiencies and revenue growth to bring it back. And, that is the historic track record, we have been able to do that. And we are reasonably confident we should be in that direction. Balance, we'll let the performance pan out whether it is our revenue, whether it is our profitability, and you should look at our historic, last 14 quarters-plus.

Sandeep Shah: Okay. Just last thing. On furloughs, do you expect higher than normal furloughs, because some of your peers have called out that.

Sandeep Kalra: Yeah, we are expecting furloughs to be in line with every other year. Every other year, there are a few companies, especially the larger ones on the banking side, there are a few others in BFSI side, and then there are a few on the tech segment which are known for these furlough trends. That is the trend that we are seeing this year. Even if it is a little bit here or there, that should not necessarily be beyond the seasonality or whatever it is. But we will again let the quarter pan out.

Sandeep Shah: Okay. Thanks and all the best.

Sandeep Kalra: Thank you.

Moderator: Thank you. The next question is from Vibhor Singhal.

Vibhor Singhal: Yeah hi. Thanks for taking my question, and congrats on the great set of numbers. I hope I am audible? Sandeep, great performance again. I just wanted to get some points from you on the Hi-tech vertical. I think the Hi-tech vertical overall, I mean, our competitors, I know our business is different from our competitors, but it has not been doing that great, maybe apart from one who has seen green shoots in the last two quarters. How are we seeing the Hi-tech vertical? Of course, it has been growing very steadily. How are we seeing the Hi-tech vertical play out, let's say, in the next 2-3 quarters? And also, many of the hyperscalers and the Hi-tech companies, do you believe the layoffs at their end, we could be coming to an end for that, and they themselves could be more confident of their overall business environment so as to be able to give us more business?

Sandeep Kalra: Yeah, so there are multiple things there. As far as the Hi-tech vertical is concerned, are number of our competitors are predominantly players in the IT segment. We have the biggest strength, in our industry, I would tend to believe we are among the strongest in engineering in the Hi-tech segment, which is the heart of that engine. And we have developed good capabilities on the IT side as well. So our growth, if you look at it, is a combination of furthering our inroads on the engineering side in our customers, as well as winning a number of deals, especially in the Hi-tech segment, in terms of carveouts, where we are becoming specialists in doing a standup of new carveouts, by large to mid-sized Private Equity, from larger firms. So, a combination of our progress, and including the new tooling that we are doing on GenAI, we are much ahead of our competition in this segment. So I would tend to believe, Hi-tech will continue to be a good growth engine for Persistent for times to come compared to the competition.

Now, in terms of the hyperscaler side of it, look, I can't tell who is going to do what layoffs and when they're going to stop. All we can say is, the market overall, the hyperscalers are also trying to bring their own set of growth engines, whether it is their GenAI forays. And GenAI, look, why people look at GenAI and think of open AI or Bedrock or Titan? These are pinnacle activities, these are the tip of the spear. But, they drive a lot of pull through in getting an enterprise ready from a data perspective. That also provides a lot of pull through from a cloud perspective. So overall, these hyperscalers, they are on that journey, and I'm pretty sure that has spun off a good amount of work for people like us who are riding that wave with them and are ahead of the rest. So, there is good amount of work that can come over the next several quarters and years on that.

Vibhor Singhal: Got it. Thanks a lot for that detailed explanation. Just my second question on the top client. I think this quarter, the top client again grew. But I think the contribution that we saw from the top client towards our overall growth was, to our good surprise, much lower than the high concentration that we had in the last two quarters. And prior to that, of course, we had been talking about gradually the top client trending down. So, is this quarter's performance in line with the roadmap that we have planned for the top client in terms of how they will grow? And where will they end up being as part of our overall business?

Sandeep Kalra: We are very pleased with the way our relationship with the top client has panned out over the last many years, and even in the last several quarters, we went through a small hiccup and we are back on it. But look, the top client is the top client but the virtue of the amount of business that we do with him. So at that clip, obviously the growth rates can be different. It is like a portfolio of stocks that any of our buy side guys manage, not everything will grow at the same clip. So, we are very happy having them where they are, and the way they have grown. And the company, at times, may grow much faster than the top client may grow. But, at this point in time, we've very happy with the way the relationship has panned out, and it has contributed very well to our company.

Moderator: Thank you Vibhor. The next question is from Mohit Jain.

Mohit Jain: Hi sir. I have two questions. One is a follow up of the previous one. So, what is our outlook in top client, given that we have some fluctuations in the 3rd quarter? So should we expect, now that we are on a steady path, or do we expect that fluctuation in the coming quarters, specifically from the top clients perspectives?

And, second is related to margins. So there's this sharp jump increase in S&M expenses over the last few quarters, and therefore, our margin expansion, possibly is not happening in FY24 versus FY23. So, what is your view from here on? Should we assume steady reversions to industry margins, or do you think for a few years, you can invest little more in S&M, and therefore, we may resume margin expansion after a gap of few quarters?

Sandeep Kalra: Let me start with the margin part and Sunil can give more commentary later. So, see, as far as we are concerned, we've always said, we want to be having a steady revenue growth. That comes first. Margin expansion, you can always try and cut costs here and there and improve your margins. That is not where we are playing. We are seeing good demand for our services, we have added to our capabilities. Look at the recognitions we are getting from the Gartners of this world for our cloud services. Look at the kind of management bandwidth we are expanding by bringing the best-in-class talent to aid us continue our growth journey. We have, over the last 14 quarters, whether it was COVID times, post COVID times, weak macro or whatever it is, we have been in the journey of delivering industry leading growth. That is our first forte, margin expansion can come later. Having said that, we are still committed, in the next 2-3 years, will expand our EBITDA margins by 2-3%, and that should flow down.

Now, as far as your other question about our client is concerned, there used to be a seasonality in certain quarter in the top client. Now, we have gone away from our dependence on revenue-sharing engagements in the top client. So, that should partly answer your question. And second, look, I would look at Persistent as a whole. As a portfolio of customers big and small, top-10, top-50, top-100 and so on so forth. If we look at the disclosures we give, our growth is pretty good across all segments, whether it is our top-1, top-5, top-10, top-30, top-50 and so on so forth. So, I don't think anybody should worry. It is like, if you are investing in a portfolio, the portfolio is doing very well. Sometimes one customer may do better than the other, that's okay. And not every customer will grow every quarter at the same rate. That was my commentary.

Mohit Jain: Right. So sir, just for my understanding, you are saying Q3 seasonality that we have seen in the past, may not happen given that we have moved to a linear relationship with them?

Sandeep Kalra: That's the right understanding.

Mohit Jain: Perfect. Thank you, sir and all the best.

Moderator: Thank you. The next question is from Dipesh Mehta.

Dipesh Mehta: Thanks for the opportunity. Two questions. First, I just wanted to understand if you can provide some demand trend what we are witnessing in BFSI and Healthcare, which obviously if you can help us get some business outlook also for those two verticals. And, any sub-segment if you see area of strength and area of weakness in those two buckets, that would be helpful.

Second question is about deal wins. We have a good deal win quarter. We have partly benefited from some of the slippage which we have seen in Q1. But, if you can provide some quantification in terms of quality of deal and other things, that would be helpful. Thanks.

Sandeep Kalra: That's a lot of questions in that, but let's try. So, if you look at the segments like Healthcare, so where we are seeing more traction over the last several quarters, is the Payer segment. And in the last quarter, we also saw pretty good conversion in the Scientific Instruments and Medical Devices segment. There are four segments that we deal with as Persistent – Payer, Provider, Pharma and Scientific Instruments and Medical Devices.

Now, the peers are the large insurance companies and so on and so forth. So, that's where we have had very good deal winds, and these are against the who's who, tier 1s, Indian origin, US origin and so on so forth. We are actually being seen as a good disruptor with good capabilities, good agility, good solutioning, etc. and that's is what is behind the quality of wins that we are seeing in this set of segments.

Now, in terms of BFSI, again, there are customers that we have in the tier-1 banks, there are tier-2 banks and then there are other regional banks. Then we have financial services organizations, we have insurance companies, InsureTech and other FinTech. Where we have seen a good amount of traction also, is where people are looking a little fatigued with the tier-1 providers. Wherever there are renewals coming up and they are doing a rebid, we are being brought in as a disruptor. And I'm proud to say that a small team Persistent, a billion-dollar company, is winning against $10 billion, $20 billion, $30 billion companies, and that's where we are gaining market share in newer customers and even in some of our existing customers.

I hope that gives you a colour commentary. I would want to keep confidentiality of our customers. That is where our wins are, and our pipeline again, continues to be good across these segments. Dipesh, hopefully that answers.

Dipesh Mehta: Yeah. And the second question about deal win, if you can give some qualitative comment about this.

Sandeep Kalra: Yes, so I was talking about deal wins as well. So overall, the deal wins if you look at it, the spillover that happened was not necessarily the reason for the TCV being bigger. TCV is bigger because a number of these deals, let's say for example, the Payer segment deal win that I talked about. This is nearly in the range of $75-100 million TCV. The deal wins that we talked about in terms of carveouts, these are carveouts where we are setting up greenfield IT. There are multiple of these deal wins we have had, and these are the marquee logos that we have won against the who's who in terms of the potential competition. The competition here was, in one of the cases, multiple tier-1 of our competitors, and these are deal wins where we are setting up the greenfield IT for organizations and then doing managed services for 5 years. And these are sometimes even run by the Gartners of this world and so on. So hopefully, that gives you enough colour.

Dipesh Mehta: Great. Thanks.

Moderator: Thank you. The next question is from Rishi Jhunjhunwala.

Rishi Jhunjhunwala: Yeah hi. Can you hear me?

Sandeep Kalra: Yeah Rishi.

Rishi Jhunjhunwala: Great! Thank you for the opportunity. 2-3 questions. Firstly, over the past 12 months, as you've seen demand slowing down across the industry, I just wanted to understand what has been your experience in terms of the ACV getting converted into revenues? Has that been complete 100% or have we seen delays in that? And the reason we are asking that is, while you rightly mentioned that your disclosures on ACV, TCV are among the best, it would just help us in understanding how the deviation could potentially be if the macro remains the way it is.

Sandeep Kalra: Do you want to ask the others as well?

Rishi Jhunjhunwala: No sir, I'll ask one by one.

Sandeep Kalra: So Rishi see, you are right. There is a certain amount of delay, that you would have noticed, from even our other peers as well, and everyone has a different dynamic. So, I would not comment on their dynamic. In our case we are seeing, if the earlier leakage was less than 10%, in terms of the full year conversion, today it is much more. It can be in the range of, in some deals, even 10-15%, and in rare cases, a little more than that. So, there is definitely more leakage, because there is a delay in terms of what is signed, and what is actually getting delivered because of the customer's own delays and so on. So, the ramp up that you would see, is a little bit more protracted as compared to the earlier years.

Rishi Jhunjhunwala: But, it's only a matter of time and not the quantum getting reduced, right?

Sandeep Kalra: Yeah. So, I want to be respectful of the time on this call, but when you talk of ACV, at least in Persistent, we talk of the revenue conversion for the next 12 months. So, if the ACV is $100 for the next 12 months and we are able to convert, let's say, 85, in our terms 15% is leakage. It can shift in whatever way, but at least that is the way we are looking at it; the way we are announcing it.

Rishi Jhunjhunwala: Understood. The second question is just on capacity or supply. I mean, our hiring has clearly slowed down, we are focused on improving utilization. So, what level of utilization do you think, from which we will start hiring back again in line with how our revenues are growing?

Sandeep Kalra: Look, we are not going to be throttling hiring just to bring the utilization up. But in terms of an aspiration utilization, our aspirational utilization is in the range of 83-84%, and we have done that in the past. And for every percentage of utilization, it creates an impact of 30 bps to our PAT. So, that is the equation driving it.

Rishi Jhunjhunwala: Understood. And just quickly on this capital payout; capital return in terms of dividends and all. Historically, our numbers or payout ratios have been lower, in the bottom half of where the industry has been. But, we saw some increase in FY23. With the kind of cash buildup that we are seeing and the potentially a large part of the acquisition is behind us, is there any intention to increase the payout ratios in this year and going forward?

Sandeep Kalra: So Rishi, look at it this way. We are focused on the total shareholder return. The total shareholder return can come through capital appreciation and dividend payouts and everything. So, if we grow at the top clip, that provides another way of value for our investors. So, if we are not able to do further acquisitions, over a period of time, we'll revisit this. But for now, our dividend policy remains what it is. We gave a one-time special dividend because of the billion dollars. We are committed to making sure we use the capital prudently towards enabling growth in areas where we need to build capability inorganically; that is where we'll use the excess cash. And if not, as I said earlier, we'll return it.

Rishi Jhunjhunwala: Okay. Thank you. All the best.

Moderator: Thank you. The next question is from Kawaljeet Saluja.

Kawaljeet Saluja: Yeah, hi. Thanks a lot. And, congratulations on a reasonably good quarter. Couple of questions. First is, what direction gives you comfort on improvement in profitability, let's say over the medium term, given the fact that, say, in FY24 you struggle to expand your margins? And you know, the labour market and this year has been as benign as it can get. And you have also consumed a fair bit of the, so called, perceived lever. So, any direction you want to give to that comfort on profitability improvement, that's the first question.

Sandeep Kalra: So, directionally if you look at it, this has been a year which is not a normal year. This has been a year where, if we had to close $100 in bookings, we had to generate maybe $200 or more in pipeline. In a normal year, for $100 in bookings, maybe $150 in pipeline, qualified pipeline, would have been good enough. So, the amount of sales and marketing effort that we have put in in far more. The choice was, don't put that sales and marketing effort, degrow. That was not a choice as far as we were concerned at Persistent. We have worked very hard to bring a discipline to the growth engine, and that's where we have invested in the right places, whether it is our SG&A, whether it is anything related to our employee hikes. We can easily do the profitability improvement like now our peers have done it, by defraying the employee increases; not paying proper performance bonuses. We paid 107% corporate performance bonuses at the least across the company. We paid 7% increase in India, 3-4% increase globally. Cut any of these, we can improve profitability and that would take away your question of the challenge of profitability improvement in this year. We could have, it doesn't take too much to cut costs, it takes a lot to provide growth. So hopefully, Kawaljeet, that gives you the answer. And as we keep growing and as the market stabilizes, maybe the SG&A level will come down. Maybe as the revenue goes up, there are certain amount of costs that get defrayed over much bigger revenue base. There are other levers. Still at utilization we are at 80.6. If we are at 83.6, 3% yields, 1% right there, 90 bps. I just said 30 bps for every 1 bps of utilization. So, we are not done yet, and we are very inefficient as a company. We still have a lot of things to do. So, rest assured, when we say something.

Kawaljeet Saluja: Just indulge me a little bit Sandeep over here. Let's say, you never get a perfect year. Every year there will be some challenge or the other, right? you never get a perfect year. Yeah, there is a sales and marketing leverage; I take your point. But in your view, is that enough?

Sandeep Kalra: I want to be respectful of time, we have 8 minutes on this call, and I'll be happy to have an offline discussion with you. Buts I can tell you with confidence, if we correct our inefficiencies and if we keep growing the way we are growing, there's enough to be done to improve the profitability. And, we can and we will try and achieve what we have set out.

Kawaljeet Saluja: Fair enough. The second question is, none of us know what's going to happen on macro. But let's just assume that in a recessionary environment, how do you think, let's say if you're a CIO of a large organization, how would you go about prioritizing your spends? What type of would you prioritize and de-prioritize? But more, how would you prioritize your spends? So what goes through the funnel, what gets canned, assuming it's a recession next year?

Sandeep Kalra: So look, assuming it's a low year next year, obviously, everyone would first try to see which are the most critical projects that you need to do. The good-to-have projects will definitely be delayed or put on the back burner and so on. Second, keep the lights on. How much can you squeeze, how much can you get from there into the buffer of doing the projects that you want to do? And, the vendors that you want to have are the people who can bring the next generation technologies to be able to squeeze out wherever you want to squeeze, and to be able to accelerate where you want to accelerate faster, better, cheaper. Then, some of the vendors that you're fatigued with, and that's where you will possibly have more opportunities for a Persistent of this world to rise and shine as well.

Kawaljeet Saluja: Okay. Fantastic. Thank you so much and all the best.

Sandeep Kalra: Thank you. I can see the skepticism in your voice, but we'll let time pan out.

Moderator: Thank you. Keeping in mind the timeframe, we'll restrict it to one question at a time. The next question is from Gaurav Rateria.

Gaurav Rateria: Hi, am I audible?

Sandeep Kalra: Yes Gaurav.

Gaurav Rateria: My question is regarding the Generative AI. You kind of provided three use cases. I just want to understand, how do these engagements really play out in terms of becoming larger project sizes, because these are pretty small projects that you talked about?

Secondly, a related question is that, some of the platforms that you talked about internally using, what can we do to our own software development efforts to kind of really drive productivity there? And, would it not be, sort of, cannibalizing our own revenues? How do you foresee that playing out? Thank you.

Sandeep Kalra: So, there's a bunch of good questions there. So, let me start with the projects versus bigger engagements. Now, if you were to look at it, the way we are looking at GenAI is this. Right now, we are engaging our customers in as many discussions as we can, because that's also a learning ground for us in different used cases, in different industries. And not just us, even our customers are experimenting with this. While we are doing that, we are also experimenting in-house with building tools. We're building things which are rinse and repeat, at scale. These maybe things like, for example, doing a Teradata to a Snowflake migration or taking something from our Tableau to another one, or taking consolidated reporting tools to Power BI and so on, using GenAI, which will be not necessarily people-based projects, but these are, because we are building IP, because we are using some of these models to speed up things. There is a secret sauce that we are building as Persistent secret sauce using GenAI. We'll be able to monetize it at scale, make it rinse and repeat.

The other part would be where there are customer-specific, segment-specific things that we will create IP on. And, there are the custom projects that we will do. So, all of this is going to flow through. But, there's a good think tank of 100-150 engineers in Persistent which are working on Persistent's specific secret sauce, that will enable us to differentiate in GenAI, and not become commoditized even in GenAI.

Now, on the software developer productivity. Look, we have tie-ups with AWS big time, where we are working with their engineering team on even evaluating things before they are released to the market. We are embracing those technologies in our landscape, taking it to our customer. Same for Microsoft's Co-pilot; we are working with them as well. And, it's not just about these tools. It is about modern application development, modern product development, and the entire toolchain. So, these are just a few, and then there's a full pipeline-related toolchain that we are experimenting. And, if we can provide productivity benefits to our customers, we'll absolutely do that, because if we do that, we'll again be seen as disruptors. If Persistent today has 23,000 employees, I'm pretty sure our biggest US-based competitors, India-based competitors are 20-30 times our size. If we cand disrupt ourselves, the market for us is huge. So, we are not worried about disrupting ourselves, we are worried about providing the right value to our customers and bringing them the latest and greatest. If we do that, I'm pretty sure, for a small company that we are, we'll keep growing and we'll healthily out beat our nearest to the farthest competition. Hopefully that gives you enough.

Gaurav Rateria: Thank you for the detailed answer. That's it.

Moderator: Thank you. The next question is from Abhishek.

Abhishek: Hi Sandeep. I just want to probe a little bit more on BFS and Hi-tech. our advantage in our Hi-tech offerings is key player. But for BFS too, it is a vertical which is currently extremely shy of spending on technology. I mean, in this light, what is our right to win versus a bigger player with, let's say, a better offering in terms of cost optimisation, if at all? Any clarity on that would be helpful.

Sandeep Kalra: So Abhishek, inbuilt in that question is an assumption that a bigger player, by the size of being bigger, can provide a better service to a customer. This market is huge, and there's a lot of fatigue with the bigger peers of ours with many of our customers and prospects.

The refreshing change for them is, when we are able to bring automation, when we are able to bring the latest tools, the approach that we bring to them, is refreshing, and it is not just bring in more people to solve the problem. So, there are enough avenues. And, a number of our deal wins are where we are replacing the so-called bigger peers or competitors of ours. I don't think the size matters beyond a point in time. At today at a billion dollars, we are at a critical mass where we are clearly large enough to scale, but at the same time, the kind of management attention, the technology solutions that we are bringing, are good enough for people to give us the bids that we need. And, we are increasingly in competitive landscape with the bigger vendors. So, I'll keep it short, we're out of time at the call, but I'd happy to have an offline discussion with you.

Abhishek: Thanks Sandeep.

Moderator: Thank you. The last question will be from Bhavik.

Bhavik: So just one question. You talked about the delays in deal conversions in terms of revenues. But, is there also a delay in conversion of the deals itself, in terms of decision making by clients which could have pushed out these too for the quarters as well?

Sandeep Kalra: Yeah. So that is exactly what happened, and even in your note you have mentioned that. So if you look at it, that is exactly what is happening. When I said, in response to Kawaljeet also, if we needed $100 conversion, earlier we need $150-160 in pipeline, today we need $200. That's because the deals are taking more time. Sometimes, they are getting delayed even at the last minute. So yes, in short, that is happening. But that's where we have to double down more and keep our heads straight and work.

Moderator, I think we should…

Moderator: Okay. Thank you. Thank you everyone.

Sandeep Kalra: Just a last one from my side, and then you can close the call. So, from our perspective, look, the quarter gone by was a fairly strong quarter. We are optimistic about our prospects even in this uncertain environment. As we've got an uncertain environment, we are staying close to our customers, we aspire to maintain industry-leading revenue growth, and with Navratri and Diwali around the corner, we would like to wish everyone on this call and your families, a safe and happy festival season. We look forward to connecting with you again in 3 months' time. Thank you.

Moderator: 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. You may now disconnect your lines and exit the webinar.

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