

"PERSISTENT SYSTEMS EARNINGS CONFERENCE CALL, THIRD QUARTER, FY24 ENDED DEC 31, 2023"

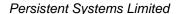
January 22, 2024

MANAGEMENT:

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 Third quarter of FY24 ended December 31, 2023. We have with us today on the call Mr. Sandeep Kalra - Executive Director and Chief Executive Officer, Mr. Sunil Sapre - Executive Director and Chief Financial Officer and Mr. Saurabh Dwivedi - Head of Investor Relations. Please note, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need any assistance during the conference call, please raise hand from the 'Participant' tab on the screen. While asking questions, request you to please identify yourself and your company and 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 Morning and Good Evening to all of you depending on where you're joining from. I would like to start by wishing everyone a very Happy New Year 2024 and I hope the New Year has started well for all of you. We sincerely appreciate your taking time with us despite today being a holiday for most of you. Before discussing our financials, I would like to highlight two significant recognitions we received during this quarter. First, we were named the most promising company of the year at CNBC TV18's India Business Leadership Award. Second, Persistent was included in three major Capital Market indices - the MSCI India Index, S&P BSE 100 and S&P BSE Sensex Next 50 Indices. These recognitions are a testament to Persistent's strong fundamentals, growth potential and competitive edge in the global technology services market as well as an unwavering commitment to creating sustainable value for all stakeholders while maintaining high corporate governance standards.

With this, let me now start the update on our quarterly financials. I'm proud to share with you that we crossed the US\$ 300 million mark in



revenues in Q3, clocking US\$ 300.55 million representing a growth of 3% sequential quarter-on-quarter and 13.7% on year-on-year basis. In Rupee terms, the growth for the quarter came in at 3.6% quarter-on-quarter and 15.2% on year-on-year basis. On a constant currency basis, this translates into a growth of 3.1% sequentially.

Coming to EBIT, our EBIT margin for Q3 came in at 14.5%. The EBIT margin expanded 80 basis points quarter-on-quarter despite the impact of furloughs, aided by higher utilization, cost optimization measures undertaken in Q2 and lower travel cost. Sunil will provide more color on the EBIT margin movement later in this call. We remain committed to our goal of improving EBIT margins by 200-300 basis points over the next 2-3 years.

Now coming to the order book for the quarter, the Total Contract Value for the quarter came in at US\$ 521.4 million with TCV of new bookings being US\$ 277.4 million. We crossed the US\$ 500 million TCV mark for the first time, reflecting a healthy pipeline conversion. The Annual Contract Value component of this TCV is US\$ 392.1 million, of which the ACV from new bookings contributed to US\$ 182.9 million. As most of you may be aware, 79% of our business comes from North America and we typically see higher quantum of renewals in the December quarter, leading to substantial increase in renewal ACV and TCV numbers in this quarter. This corresponds to the end of financial year for most of our customers in North America. While the demand environment remains fluid, our focus on account mining and large deals were key factors that aided our healthy order bookings in Q3. Please note, as always, these TCV and ACV numbers include all bookings, small and large, renewals as well as new bookings across existing and new customers.

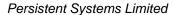


Now coming to the client engagement sizes, let me give you some color on our performance across client engagement sizes. We witnessed healthy growth among client buckets with our Top-5 customer revenue up 2.1% sequential quarter-on-quarter, Top-10 up 2.4% sequential quarter-on-quarter, Top-20 up 4.7% QoQ and Top-50 up 3.4% sequential quarter-on-quarter. Our Top-50 customers, a portfolio of our market relationships, delivered a secular growth of 3.4% in Q3, which is better than the overall revenue growth of the company in the quarter, and reflects our continued momentum.

The progression of our customers across engagement size categories continues, with a total of 176 customers in the greater than US\$ 1 million bucket in Q3. I am happy to report the entry of new customers in the US\$ 1-5 million and US\$ 20-30 million buckets, which have the potential to scale up further in the upcoming quarters.

In terms of the geographical breakup of our revenues, from a geography perspective North America revenue grew by a healthy 3.6% quarter-on-quarter in USD terms, ahead of the company average, while India revenue grew by 6.8% quarter-on-quarter. Europe revenue and the Rest of the World revenue declined 2.8% and 15.1% quarter-on-quarter, respectively, although on a much lower revenue base.

Coming to the people front, at the end of Q3 our total headcount stood at 23,336, an increase of 494 from Q2. 75% of this headcount increase is attributable to increase in lateral headcount, while majority of the remainder is owing to the fresher hiring. We've added a total of roughly 400 freshers in Q2 and Q3 of this year. The blended utilization for the quarter came in higher at 81.5% as against 80.6% in Q2, as we continue to focus on increasing utilization of our existing employee base, while adding lateral hires to augment for critical assessments. Trailing 12-month

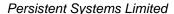




attrition for the quarter came in at 11.9% compared to 13.5% in Q2. As you will notice, our attrition has come down to a comfortable band over the past few quarters. Nonetheless, this decline should be seen in the context of general moderation in hiring across the sector, slow down in sector growth over the past several quarters as also from the positive outcomes from our employee value-related interventions.

Now moving from operational metrics to certain strategic highlights from the quarter. A lot of you are interested in the progress that we have made on Gen AI, but before I get to that, let me give you an update on how we have been playing in the overall AI realm over the years. As you would remember, Gen AI is just one form of advanced AI and the market for AI and Persistent's capabilities in AI span across a longer duration of time and are much more expansive than just Gen Al. Since its inception three decades ago, Persistent has been a frontrunner in solving complex data challenges, while navigating the evolving landscape of AI. Our journey with All started in 1990s with our partnership with the then technology leaders on engineering database products and their implementations. Our early partnership with IBM Research Labs and SPSS, a company later acquired by IBM, enabled us to work with the world's leading enterprises in solving the critical business challenges using the latest data and AI techniques. Our Al capabilities came to the full fruition in early 2000s with us setting up Analytic Centers of Excellence for our marquee customers and taking on end-to-end responsibility across data integration, data profiling, data processing, model preparation and model maintenance and calibration.

As AI technologies kept unlocking newer possibilities, we continuously engaged in niche projects such as early detection of lung cancer and chronic kidney diseases, automation of sanctions screening, processing trade finance, autonomous enterprise insights to just name a few. This paved the way for our deepening relationships with leading hyperscalers





such as Microsoft, AWS, Google as well as data technology providers such as Snowflake and Databricks. among others. In each evolutionary stage of AI, from descriptive to predictive and now Generative AI, Persistent has gathered a treasure trove of insights and experiences and customer relationships while working with the technology leaders. Today, our Data and AI business is pretty robust and is powered by over 3,000 data engineers and experts working across a range of mission-critical customer engagements.

With this background, let me also give you an update on the latest in GenAl at Persistent. For the last 12 months-plus, our team of Al practitioners, researchers and senior leaders have been strategically adapting and actively participating in the rapidly evolving GenAl space, while being guided by industry thought from the domain. While our current engagements in GenAl are modest from a revenue perspective, there is a clear indication from our customers that this trend is on the cusp of a significant shift. I am excited to share that we are already witnessing the green shoots of large-scale opportunities at the convergence of Al, Data, Cloud Computing and Automation.

Let me now share some examples of recent engagements on GenAI. In the BFSI sector, we are collaborating with a Fortune 500 Financial Services company facing challenges due to a complex collection of thousands of analytics reports developed over the years, leveraging a multitude of technology stacks. This complexity was a significant barrier to efficient data analysis and decision making, not to mention the cost sprawl that happened due to the use of multiple technology stacks. Our team undertook a comprehensive migration project. utilizing our proprietary GenAI-powered report migration tools. This innovative approach enabled us to transition these reports to a unified modern technology stack 30% faster and with significantly higher accuracy than traditional, manual

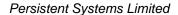


migration methods. It not only streamlined operations, but also allowed us to identify and rationalize unused reports, reducing costs associated with legacy technology stacks. As a result, our client can now access and derive insights more efficiently and cost effectively.

Similarly, in the Healthcare space, we are engaging with a global healthcare company that needs to revamp its data management and AI initiatives to become more agile and innovative. We are building a strategy along with the client that includes launching an internal marketplace for their users to consume and share information, establishing an AI Center of Excellence to explore new business use cases and automating data consumption and product development through expanded data fabric, while propagating safe and ethical AI usage. These initiatives aim to unlock the full potential of data and AI and drive innovation and achieve strategic growth objectives across the organization.

In keeping with our innovative spirit, we recently launched an innovative GenAl-powered Open Source Maintenance Service, a pioneering solution in our industry. The service targets both enterprise software as well as enterprise IT organizations and utilizes advanced GenAl technologies to ensure that an organization's open source software remains current, incorporating all necessary patches, bug fixes and the latest software releases. Each of these engagements and offerings have the potential to be multi-million, multi-year deals replicable across organizations. We strongly believe that Al will be a driving force, driving significant productivity in engineering transformation and enterprise modernization and this will also spawn off much more downstream work through the need for improved data quality.

Now, coming to the Analysts Recognitions related to GenAl. I am pleased to share with you that Persistent has been recognized as GenAl market

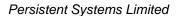




leader in the HfS Horizons: Generative Enterprise Services, 2023 report. This accolade is a testament to our rich heritage and digital engineering and data proficiency along with the early adoption and leadership in the domain of GenAI. It is a recognition of the clarity and boldness of our vision and a strong endorsement from our customers and hyperscaler partners. We were recognized by the Everest Group in their PEAK Matrix assessment as a Leader for Talent Readiness in the Next Generation IT Services, reflecting our team's preparedness for next-gen technology challenges and our comprehensive learning and development initiatives focused on cutting edge skills including GenAI, cybersecurity and overall data domain. We were also named a Leader in Everest Group's Data and Analytics Services for Mid-market Enterprises PEAK Matrix Assessment, 2023, acknowledging our substantial investment in next-generation technologies including dedicated AI Labs and our strong partnerships that enhance cloud capabilities and our commitment to delivering business goals.

Now coming to the updates on our hyperscaler partnerships. Keeping up the momentum on our hyperscaler partnerships, we announced a strategic collaborative agreement with AWS earlier this quarter to accelerate GenAl adoption. Through this alliance, Persistent gains an early access to AWS GenAl resources to build proof of concepts to help clients achieve tangible business goals. Adam Selipsky, the CEO of AWS, spotlighted our achievements in his keynote at the Annual AWS Reinvent Conference, underscoring the strength of our partnership and our dedication to enhancing developer productivity.

Coming to our other investments in GenAl - to accelerate our coinnovation with our customers and partners, we marked a new milestone this quarter with the launch of state-of-art GenAl Studios across US, UK and India. These innovation hubs serve as a playground for Persistent, our





customers and our partners to lead at the forefront of AI technology and creativity, while shaping the future of industries together.

Last but not the least, I'm excited to announce the appointment of Praveen Bhadada, one of our distinguished leaders and my current Chief of Staff, to spearhead our GenAl business portfolio companywide effective immediately. In his new role, Praveen will unify our overall Al initiatives including GenAl across the organization under one umbrella, giving us the power to synergize across industries and will focus on propelling our growth trajectory in the same. With this strategic pivot towards Alpowered Digital Engineering and Enterprise Modernization, our endeavor is to be at the forefront of Al revolution and deliver unprecedented value to our customers across the industries that we service, and also have a leapfrogging of our capabilities and service offerings powered by Al across our service lines. We will continue to highlight the progress on this topic in the subsequent quarters.

Now coming to the management updates. In-line with our growth aspirations, we continue to add muscle and fortify our management team. We welcomed Dhanashree Bhat as our Chief Operating Officer. With her over 28 years of experience, Dhanashree will further strengthen Persistent's operations to ensure client success. She will be responsible for Talent Supply Chain, Delivery, Excellence, Learning and Development, Enterprise Risk Management, IT and Facilities among other. Prior to joining Persistent, Dhanashree was the Chief Delivery Officer of Communication, Media and Telecom vertical at Tech Mahindra.

We also welcomed Barath Narayanan as our Head for Global BFSI Business as well as the Europe geography. Barath comes with over 24 years of experience and brings to us deep experience in managing large P&L units, shaping and winning large deals, managing consulting businesses and



delivering complex programs that drive growth and profit. Prior to joining Persistent, Barath was heading the Digital and Cloud Business globally for Wipro.

Coming to the ESG and administrative updates - as we continue our journey on our commitment to be among the best-in-class for our ESG endeavors, I am glad to report that our Corporate Sustainability Assessment S&P Global score has moved from 47 to 60. On the Scope 1 through Scope 2 emissions, our aspiration is to become carbon-neutral by 2025 and towards this, we are working on sourcing 100% of our electricity consumption from renewable sources. Our efforts are now towards net-zero carbon emissions, much ahead of the stipulated timeline 2050 set by United Nations Intergovernmental Panel on Climate Change.

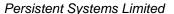
On the facilities side, we inaugurated a new office in Kochi, Kerala in November 2023 as part of our continued efforts to reach out to locations where our employees are based. We also expanded our presence in our New Jersey office in the US.

In summary, we are pleased with our performance in Q3FY24 in a challenging business environment. I would now like to invite Sunil, our CFO, to give a detailed color on the quarterly financials and related numbers. Sunil, over to you.

Sunil Sapre:

Thank you, Sandeep, and good morning and good day to all. Thank you for taking time to join us today. Wish you all a very Happy 2024. Sandeep has shared some business outlook, let me now walk you through the financial performance for the guarter ended December 31, 2023.

The revenue for the quarter was US\$ 300.55 million, the growth of 3% quarter-on-quarter and 13.7% YoY. Revenue for the quarter in rupee terms was ₹ 24,982 million, reflecting growth of 3.6% quarter-on-quarter and





15.2% YoY. For the nine months the cumulative revenue is US\$ 875.2 million, with a growth of 14.9%. In rupee terms, the revenue for nine months is ₹ 72,311 million, reflecting growth of 18.6%.

Coming to sequential growth for the quarter – at the segment level, Healthcare and Life Sciences grew by 16.6% quarter-on-quarter, Hi-tech and Emerging Verticals grew by 0.1% quarter-on-quarter, while BFSI declined by 0.7% mainly on account of furloughs. As you know, seasonally Q3 of the year is impacted by furloughs. The overall impact on the margin was 60 basis points during the quarter due to the furloughs.

There is an increase in onsite effort mix which we will observe, which is due to initial phase of the ramp up of the deals won in the previous quarter, which is also reflected in increase in sub-con expenses. The impact on margins due to the higher onsite mix was about 60 basis points. So, these margin headwinds were more than compensated by margin-accretive composition of IP revenue, which contributed 80 basis points, higher utilization, and lower travel expenses, each contributing 30 basis points and SG&A rationalization in Q3 coupled with benefit from headcount optimization undertaken in Q2, contributing the majority of remaining improvement in margin of 60 basis points.

Attrition continued to decline in-line with industry trend, with TTM Attrition at 11.9% as compared to 13.5% in the previous quarter. With this, the EBITDA margin for the quarter was 17.7% as against 16.8% in the previous quarter. EBITDA for nine months period stands at 17.6% vis-a-vis 18.1% for the comparable period last year.

Depreciation and Amortization was 3.1%, same as in the previous quarter. The increase in amortization in absolute terms is due to amortization of software used for internal systems. We have been working on strengthening these to support the increased scale of operations.



The EBIT came in at 14.5% as against 13.7% in the previous quarter. EBIT for nine months period stands at 14.4% viz-a-vis 14.8% for the comparable period last year.

As I mentioned in the earlier quarter, we have invested in sales and marketing and there is an increase in G&A expenses due to more employees working from office.

The Treasury Income for the quarter was ₹ 181.08 million as against ₹ 166.28 million, mainly on account of improved cash flow. Forex gain was ₹ 80.9 million as compared to ₹ 83.7 million in the previous quarter. Profit Before Tax for the quarter was ₹ 3,893 million at 15.6% as against 14.8% in the previous quarter. ETR was 26.5% as compared to 26% in the previous quarter.

PAT for the quarter was ₹ 2,861.3 million at 11.5%. YTD PAT for nine months was ₹ 7,782 million at 10.8%. Excluding the one-time expense in Q1 on US\$ 1 billion milestone celebration, PAT was 11.3%. EPS for the quarter was ₹ 37.83 is against ₹ 35 in the previous quarter.

RoCE for the quarter was 29.3% as against 30.2% in the previous quarter.

RoCE is based on trailing 12 months EBIT. The operational capex for the quarter was ₹ 321.32 million.

Cash Conversion for the quarter continued to be good at 101% of EBITDA and OCF up to EBITDA for nine month period ending December 31 stands at 0.71 vis-a-vis 0.60 in the corresponding period last year.

Total, cash and investment on books is ₹ 18,472 million at the end of December as compared to ₹ 15,693 million at the end of September. The DSO came in at 66 days, same as in the previous quarter. Forward contracts outstanding at the end of December was US\$ 240 million at an average rate ₹ 84.04 per dollar.

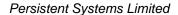


Couple of other updates for this quarter - as you know, Q3 is usually the quarter in which we declare interim dividend and I am pleased to share with you that the Board of Directors declared an interim dividend of ₹ 32 per share for FY24 on the face value of ₹ 10 per share. This compares to the last year's interim dividend of ₹ 28 per share. It is our endeavor to maintain consistent dividend payout ratio while we augment our growth through capability-led acquisitions. In order to make it more convenient for shareholders to participate in Persistent stock, the Board of Directors has also recommended to the shareholders the resolution to split the face value of shares from ₹ 10 per share to ₹ 5 per share. This will be subject to shareholders' approval, which will be processed in due course.

Thank you all and now I hand it to Saurabh for covering deal wins and awards and recognitions. Saurabh.

Saurabh Dwivedi:

Thank you, Sunil. I will now talk about key deal wins for Q3 by industry segments. Let me begin with Software, Hi-tech and Emerging industries, our largest vertical. Persistent was selected by one of the leading providers of remote work tools for collaboration and IT management to transform its Salesforce-based applications, connector factory and IT Service Management under a managed services model. This is a US\$ 50 millionplus TCV deal and it is another major successful event for our Private Equity channel. Persistent was selected by a leading publisher to establish a greenfield IT setup and provide managed services over a 5-year period. This entity is a newly formed organization as part of a carve-out done by a leading private equity from a global media conglomerate. This is another case study of Persistent's established framework for carve-out transactions, which leverages Persistent's intelligent IT operations framework and components from hyperscalers and leading technology vendors. Persistent was selected by two of the hyperscalers as a strategic partner for the development and support of their connector development

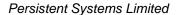




programs. These deal wins are special because they provide us access and partnership with the next-generation tool development programs of these hyperscalers including in the Generative AI domain.

Coming to Banking, Financial Services and Insurance, Persistent was selected by one of the largest US banks to develop and maintain its applications across domains such as Capital Markets, Payments, Treasury and Customer Support. This is a US% 50 million-plus renewal deal where Persistent is also a beneficiary of vendor consolidation. Persistent was selected by a leading Canada-based provider of financial technology to credit unions for developing and supporting the core banking platform, which will be rolled out to more than 40 credit unions. As part of the engagement, Persistent would also manage the cloud and security operations of the customer. Persistent was selected by a large global financial conglomerate to modernize its security operation center for its American operations including providing a holistic view of security posture to the top management. This is a managed services engagement with complete ownership with Persistent and has the potential to be replicated in other geographies for the customer.

And, finally, within our Healthcare and Life Sciences vertical, Persistent was selected as a strategic partner by leading analytical instrument company to engineer their key product suite including building data analytics capabilities for the chromatography platform, instrument support solutions and algorithms for micro array images. This is a large renewal deal with one of the largest healthcare customers for us. Persistent was selected by a Fortune 500 scientific instrumentation company to undertake, upgrade and migration of the database for its clinical research group, while ensuring regulatory compliance in the US and Japan. Persistent was selected by leading pharma contract research development and manufacturing organization for development of Artificial Intelligence-





led drug discovery platform. This platform will accelerate drug discovery process from molecular design to preclinical candidate selection by creating a central, reusable repository for quick decision-making for compound synthesis and biological evaluation.

Now moving on to the awards and recognitions for the quarter from leading analyst firms. Q3 saw us get continued recognition from industry leading analyst firms and associations. To mention a few, Persistent was recognized as the only provider to win in four different categories in the Star of Excellence Awards based on voice of the customer. The ISG Star of Excellence Awards, part of the ISG Provider Lens Research Program, is the premier industry recognition program for the technology and business services industry. These awards recognize exceptional client service experience and serve as a benchmark for measuring client-centricity in our industry.

Following were the categories in which Persistent was recognized Persistent was recognized as ISG Star of Excellence Universal Industry,
Persistent was recognized as ISG Star of Excellence BFSI Industry,
Persistent was recognized as ISG Star of Excellence Healthcare and
Pharmaceuticals Industry.

And finally, Persistent was recognized as ISG Star of Excellence Cloud Native. Additionally, Persistent was recognized as a Breakthrough 15 Provider in the Q3 2023 ISG Global Index for the second consecutive quarter.

Moving on from the ISG awards, Persistent was recognized as a Leader in IDC MarketScape Worldwide Software Engineering Services 2023 Vendor Assessment. Persistent was recognized as a Leader in the Zinnov Zones ER&D Services and Digital Engineering Services 2023 Report for the 11th



year in succession. Persistent was recognized as the Best Enterprise Services Vendor of 2023 by Constellation Research.

This completes the section on key wins and awards and recognitions. With this, I would like to conclude the prepared comments and would like to request the operator to open the floor for questions.

Operator:

Thank you, Sir. We will now open the call for Q&A session. We will wait for a few minutes until the question 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.

Okay, the first question is from Sandeep Shah.

Sandeep Shah: Yeah, good morning. Can you hear me?

Sandeep Kalra: Yes.

Sunil Sapre: Yes, we can.

Sandeep Shah: Yeah, yeah. Congrats on a good execution. Sandeep, just wanted to

understand entering into 2024, any signs of recovery in a discretionary, small-size, faster-converting deal wins in terms of client discussion,

starting some of the projects which are put on hold in any of the verticals?

Sandeep Kalra: Look from our perspective, yeah, that discretionary spend we are seeing

some green shoots, but I wouldn't say that the environment is any

significantly different from the last few quarters. Most of our growth, if

you see, is coming from the proactive efforts that we have had in our

existing customers and new, and these are longer-range deals that we are

in. So, I wouldn't say necessarily that we are seeing too many green shoots,

there are some green shoots, we'll let that time pan out and see how this

goes from a discretionary perspective.



Sandeep Shah: Okay. Thanks. And Sunil Sir, looking at the margin walk which you have

provided with subcontracting cost and furloughs together impacting

margin by close to around 120 bps, is it fair to assume furloughs may

reverse in the fourth quarter and we can exit the fourth quarter with a 15%

EBIT margin?

Sunil Sapre: Yeah. So, as I mentioned, the increase in subcontractors is on account of

the ramp up in the recent deal wins and this will continue for some time

before the offshoring starts. So, you're right directionally. We are working

towards multiple levels to improve EBIT margin and that's the effort to

continuously improve the EBIT margin from here on.

Sandeep Shah: Okay, will come in the follow up. Thanks.

Moderator: Thank you, Sandeep. The next question is from Manik Taneja.

Manik Taneja: Hi, good morning to the leadership team. I hope I'm audible?

Sunil Sapre: Yes.

Manik Taneja: So, couple of clarification questions. Sunil, the first question is for you.

When I look at our segmental performance, what we see is that through

the course of last three or four quarters, our segmental margins on the Hi-

tech side have been coming off with the exception of this particular

quarter. So, what is explaining the movements in terms of segmental

margins given the fact that in the past, we renegotiated the deal at the

large customer, which was to step up the margins for the business and also

the second question is basically clarification on this large ramp up, is this

largely to do with the Healthcare business, which was a deal that you won

on the Healthcare Payer side in the prior quarter?

Sunil Sapre: Yes, Manik. So, the answer to the second question is yes, that is what it is,

but it is also not just that one deal, there are some other deals as you would

recall, we had announced in the earlier quarter, which are also ramping



up. Coming to segment margins, what you mentioned about the Hi-tech margins, basically it is a function of three areas. Hi-tech is an area where we have the larger ISV business, which includes the top customer. There are IP-related revenues that are coming over there, not just in the large customer, but also in our Accelerite portfolio and there is also the recent trend where we have seen carve-out kind of deals, right. There is also certain portion of IP revenues over there. So, the margin is a function of, if there are partner IP revenues coming in that, the margin conversion on that is lower and in this quarter, particularly, we had good accretion in our own IP revenues because of which the margin on the Hi-tech side is higher this quarter. So, it's a portfolio of customers we carry and the deals in every quarter may have you know relevance to the way margins pan out. But overall if you see the gross margin is steady and we have been able to improve the EBIT margin.

Manik Taneja:

Sure. Thank you and all the best for the future.

Moderator:

Thank you, Manik. The next question is from Ravi Menon.

Ravi Menon:

Congratulations on a really good quarter. One question is on the Healthcare side. If I look at your breakup of customers, it looks like there is now pharmaceutical companies, payers, providers, and clinical research organizations, is this a change from the whole scientific instruments and medical devices focus that you've had maybe three years back, are most of these new customers?

Sunil Sapre:

Ravi, good observation. So, if you look at our Healthcare portfolio, we have had good footprint in the scientific instruments, medical devices, that was the leading segment for us, which used to contribute a lion's share. We did have pharma customers, providers at scale. Providers is where our Salesforce business dominates in the US compared to our competition. What has happened is, there have been some good accounts super-sized



in all these domains and we have invested heavily in the payer domain and some of the larger wins we are getting are additionally in the payer domain. So, now it's a very well-balanced portfolio across scientific instruments, medical devices, pharma where we play mostly on data analytics and the specialty pharma on the Salesforce front, providers where we are leaders based on Salesforce and other CX initiatives and payers, where our next generation development capabilities as well as data analytics is playing out. So, now yes, it's more diversified and scaling in all of this.

Ravi Menon:

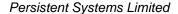
I also see that you are beyond the top-10 customers, the traction continues. So, can you explain also that you're seeing some wins from your Private Equity channel. Anything else that you could call out, some of these customers their potential to take them to the top-10?

Sunil Sapre:

Yeah. So, good question. So, if you look at the mix of the wins that we have had, so as we have grown from being a US\$ 500 million organization to a billion-dollar organization, as we have grown our capability significantly along with the addition of leadership teams and so on, we are now being invited to the much bigger bids. So, today if you look at the wins that we are having, they are against the top-5 in India, the big-5 across the globe, and so on and so forth. So, the revenue mix, the client mix is changing, and to your point, some of these customers have the propensity to absolutely become among our top-5, top-10 customers, and you will see the top-10 customer mix changing in terms of the names moving in there, the quality of customers moving in there over a period of time.

Ravi Menon:

Yeah. One last question on the SG&A side, you used to have about 20% of your revenue as SG&A and now it's down to 16% or so. Do you think there is a further leverage possible?





Sunil Sapre:

Yeah. So, good point. Let me answer a few more things along with this. There have been a few questions alluding to the margin side of it before and all of this comes together. So, if you look at the sales and marketing side of it, if we look at our investments in sales and marketing, we have brought in a significant rigor to sales and marketing. We have overinvested in sales and marketing as well in absolute terms, if you look at it. If you look at year-on-year comparison, not just quarter-on-quarter comparison, we may be at a higher level in terms of SG&A from a year back and part of it, whether it is direct SG&A investments, part of it are investments which are in enabling things which enable our sales to be much more productive, whether it is in our capability-build around the Private Equity side, capability-build around our AI, and GenAI side, capability-build more deeper into certain parts of our cloud infrastructure and security and so on so, all of them are enabling the growth and there is definitely further leverage on the SG&A side as we go along.

Now, let me also take this opportunity to answer the broader margin question before everyone asks us the margin question in different forms and shapes. We have said very clearly, we will increase our margin from 200 to 300 basis points between now and the next two to three years and I do want to recognize the mistake on one of the earlier calls I had said 150 to 200, our intent is 200 to 300 basis points, I want to clarify. Now, let me build it up for you before everyone asks the same question. If you look at our utilization today, our utilization is at 81.5%. If you decipher that utilization into two distinct buckets, the laterals that we have and the people we hired from the campuses who are yet to become productive and these are, I'm talking of the volume hiring that we have done two years back. That hiring is yet to be productive more than 64% of what it was. Our laterals are running at 85%, so as a company we have the propensity if we, look forward to in charge utilization up from 81.5%, slowly up to 83%, 84%,



and 85%. For each percentage of utilization going up, there's 30 basis points of margin that we release at the PAT level. So, keep that in mind that's one part. We talked about the SG&A leverage. So, we have invested significantly in our SG&A and not only SG&A in terms of sales folks, but if you look at the leadership hires that we have brought on board, in the last one to two quarters, those are leaders that will kick in, in high gear as we move along. They don't have the impact on the current quarters, they're just settling in, but as we move into the next financial year, we will have a leverage of it.

Then, again if you look at things like our facilities and so on and so forth, there is certain amount of leverage that will come in because we invested in certain facilities. You would have seen many announcements in India and outside and as we see our revenue growing, all of those is going to kick in. It is not going to necessarily increase in line with the revenue part, not to mention the amortization that we have from the earlier M&A that we have done, as our revenue increases that also gets defrayed over a larger base. So overall from a margin perspective, we are reasonably sure and we have initiatives inside the company where we will incrementally, whether it is next quarter or the next few years move up. Now, obviously in certain years, when the macro is soft, we will not press that trigger on margin improvement that hard. If you look at the current year, we wanted to make sure we come in first on the top end of the growth quartile and then comes the margin initiative and as the economy stabilizes, the focus will move and it will always be cross-balance with growth being the first priority. So, with that, back to you moderator.

Ravi Menon: Thank you so much.

Moderator: Thank you, Ravi. The next question is from Karan.

Sandeep Kalra: Karan, we can't hear you?



Karan: Hi, can you hear me now?

Sandeep Kalra: Yes, please.

Karan: Okay, great. Again, obviously congratulations on a fantastic quarter and

looking forward to see what comes ahead. So, I just wanted to dig a little

bit into the GenAI pipeline and let me start with a basic question, which I

know you won't answer, but I'll try it anyways and then I'll ask just one or

two sort of follow up questions to that, which is, is it possible to get to sort

of US\$ 100 million of revenue from GenAI in the next two to three years,

just in terms of size, scale, and scope. Of course, there's no kind of firm

guidance for anything, but just in terms of how big it can be and I guess

that's part of that my question would be, can you add some color on just

the size of the pipeline in the sense that how many of your 176 clients have

some kind of POC related to GenAl and then related to that, what

percentage of the POC's are leading to production and we've seen surveys

where actually the vast majority, more than 50% of POC's will enter

production, so actually the technology works broadly and I think

everybody understands and realizes there's a lot of POCs out there, but

they have an uncertainty around what that conversion rate will be, but the

leading indicator seems very strong. So, if you can just add some color

there? I know a lot of questions there, but whatever you can answer.

Sandeep Kalra: Sure. So, the first question, can GenAl lead to US\$ 100 million business

over the next two to three years? Look, anything is possible and so GenAI

is one form of AI and look, GenAI cannot be implemented beyond POC till

the time you have an enterprise-wide wherever use-cases you are trying

to put, clean data available to you in very simple terms and if you have to

do that, GenAl you should look at it as a tip of the spear. For us to be able

to deliver to any enterprise and for any enterprise to be successful in

GenAI, it will spawn off many different initiatives, which will involve data



engineering, data cleansing, many other things. So, GenAI in absolute terms just as a simple use case, we'll have many other things. We will put all those things together, can it lead to US\$ 100 million business for us over the next three years, absolutely the answer is yes. Now, we'll let the time pan out and we are not going to get into that conundrum of now report your GenAI revenues like people used to do digital revenues and so on. I think GenAI is going to be mainstream in everything that we do in next two to three years. So, keep that in mind as well.

Now, second part, of the 176 customers, how many POCs are we running? Today, if I was to look at overall at Persistent, there are more than 75-plus POCs that are running on GenAl in different formulations. How much of those will get to production, we'll see how that flows in. Today, any boardroom, whether it is ours or our customers, there are discussions on GenAI and that spawns off initiatives and CIO organization, CTO organizations, the business leaders are given the mandate to go and experiment with GenAI in their own fields and that's what is leading to those POCs and that's what is also leading to the collaborative agreements that we have with Amazons of this world, the Googles of this world, Microsofts of this world to go and do more POCs, so that we can unlock the aperture and people look at different possibilities. Very hard to say how much of those 50%, 100% what will lead to production, but over a period of time, it will definitely lead to good amount of revenue uptake. One last thing, I'll say on this, not everything will lead to GenAI. GenAI is one form of AI, which is easy to use and so on, but also keep in mind, the bills on GenAI can very soon go up for enterprises and there are alternate forms of AI which are available, not everything needs to use GenAI as a use case and we have been doing that for many years. That's why in my prepared comments, I also referred to. So, we are very positive about AI being there in every part of Persistent service lines, digital engineering, to



Salesforce implementations to the cloud infrastructure, security and so on, and you will see us announce many more initiatives in the next three to six months. Back to you, Moderator.

Karan:

Thank you. Thank you so much.

Saurabh Dwivedi:

So Sandeep, there is a question on the chat related one on GenAI, where Gaurav Rateria is asking us have we been part of discussion in helping clients save costs somewhere else by becoming more productive and channelizing those savings in these GenAI initiatives?

Sandeep Kalra:

Yeah, so, look, every enterprise or every enterprise software company at the end of the day their ability to spend, if I may say so, their expense budget or their pot of gold is only limited. So, when a number of people are looking to forward-looking initiatives and this is nothing new, this has been happening for long. People aware and reduce the spend in business as usual and take that to more next generation initiatives, in this case it is GenAl and there are other ways also people are looking at us to help them, whether it is enterprise software companies or enterprises right from developer productivity. Now, looking at their own implementations of developer productivity tools like Microsoft GitHub Copilot or AWS Code Whisperer to many other things that we bring to bear with our IP like report rationalization tools and there are many things that are there on cost reduction and taking that money to see how we can impact the revenue side it or customer experience side of it using GenAl. So yes, there are many initiatives.

Moderator:

Sir, we will take the next question from Abhishek.

Abhishek:

Hi, thanks for the opportunity and wish everyone a Happy New Year and congrats on a good quarter. Again, a related question to the topic we are discussing. So, Sandeep, there was a comment about an increase in the



cost of ownership of software products in one of the industry analysts call last week related to GenAI spend. So, first question is on that topic is are you seeing an increase in product engineering spends because you have a very strong relationship with software product companies and 2nd, is there a trend in terms of because of that spending we will see a moderation in non-AI related spending including cloud migration-related spends?

Sandeep Kalra:

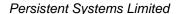
Yes. So, we are talking two different things here. See, the second part that you talked about the cloud migration and so on. So, that is much more relevant in the enterprise world because a number of enterprise software companies are today more and more cloud native in their new product development and a number of them who are there from the past have already moved their legacy products to the cloud. Now, as far as the spend on GenAI is concerned in enterprise software, is there more adoption of that and broadly AI, yes it is and everyone is trying to control their budgets, moving money from where they can squeeze on the business as usual support side of it to doing feature enhancements using GenAI, doing copilots, doing other things from a CX perspective, customer support perspective, and enterprise software and so on. So, yes there's a movement and we are gainers of that and it's early in the game. It's not just that today GenAl is accounting for majority of our growth, but GenAl and AI over the next few years will definitely account for more and more revenues for us.

Abhishek: Thanks for taking my question.

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

Sandeep Kalra: Dipesh, we can't hear you yet.

Dipesh: Yeah. Can you hear me now?





Sandeep Kalra: Yes, please.

Dipesh: Can you hear me now? Okay. Two questions. First about the Private Equity

genre, I think now last couple of quarters, we have seen couple of

successes in Private Equity channel. So, can you just help us understand

what we are doing differently, which works well for us and any specific

action we have taken which drives success? Second question is about

revenue composition change. We don't report service mix, so just want to

get sense, let's say three years back, kind of what we used to do, how has

it evolved in three years and if you can help us understand how you expect

it to evolve in the future? Thank you.

Sandeep Kalra: Yeah. So, I'll take the first question, second I'll let Sunil answer. So, from a

Private Equity channel, if you look at it, we have been developing this

channel for the last 4-4.5 years and we have hired people who understand

this channel and so our Private Equity channel is housed with folks who

have worked for Private Equity or worked in companies that have serviced

Private Equity. On one side, we are mapping to strategic Private Equity

folks like accounts. So, look at them as accounts we manage at the highest

level. On the other side, the capability at the end of the day, it's all about

the capabilities that you bring to bear. So, we understand what a Private

Equity firm needs and what their portfolio companies need. So, we are

partnering with Private Equity right from the stage when they're evaluating

deals. So, we have certain tools, techniques, methodologies that we have

perfected on that. We help them analyze companies, the platform, so right

using from our digital engineering capabilities to analyze the platforms

that these companies that they're trying to acquire the majority of those,

their hypothesis on engineering effectiveness, the capability to cost reduce

using different levers and innovate using the forward-looking technology.

So, we are right there when they are evaluating deals to the time the deals

are brought in and there is work to be done if it is a carve-out. We have

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more and more become a carve-out specialist where we have tools, techniques, methodologies to de-risk the transition services and so on. So, across the Private Equity spectrum, right from pre-diligence to diligence to the value realization once a company is acquired to even the exit, we have a very clear set of service offerings and those are well proven along with the IP assets that we have built to deliver these. So, that's what is differentiating us and increasingly making us the preferred partner for all these large Private Equities as they go and you have seen number of our wins come from that. Now, Sunil.

Sunil Sapre:

Yeah. Dipesh, so in terms of the services and IP-led revenue composition. If you want to understand the growth profile, yes, both the parts of the business have been growing and if you take a period of three years, the only thing that has moved is the large deal that we had, which we discussed the end of 2021. So, that's the only period when the IP-led revenue had a bump up because of that contract, but otherwise on our own whatever accelerators, our own IPs in the Accelerite portfolio and the new work that we have been doing in multiple areas where we are able to bundle our own solutions to customers

Dipesh:

No, sir I was not looking for that service, right. I just broadly understand the change services composition of revenue, how it has changed, let's say earlier we used to have very large Salesforce skewed kind of revenue. So, over a period of time how broad based that revenue mix is changing?

Sandeep Kalra:

Fine, let me take that question, Dipesh. So, if you look at our services mix, so and I alluded to that earlier in the call as well, as we have grown from being a firm which was US\$ 500 million to a firm that is beyond a billion dollars now and we have also built capabilities. whether it was building more capabilities right from our cloud native and the digital engineering side, where we are, we have always been very differentiated. We have



built on capabilities on those. We have added on application, maintenance, and support capabilities the ASM part of it. We have built on the cloud part of it in terms of doing the next generation infrastructure on the cloud, cloud ops and so on. We've built significant capabilities on data side. So, what all this brings together is when anyone is looking for at one of the, let's say Fortune 1000 companies looking at doing an RFP and wanting to bring one or two challengers in the mix as they look at their current providers, we are definitely being involved and that is where if you look at some of the larger wins we have won against the top five in India, the top five globally, and so on and so forth. So, the services mix is changing towards, a lot of people think Persistent is discretionary. I would tend to believe Persistent is lot more non-discretionary today than what it was three to four years back. So, from that perspective, long-term deals across these segments, stickier revenue, annuity revenue that is the kind of services mix that we have built over the last few years and that's where we are going while not losing the sense ethos of making these differentiated. Even our AMS, the application maintenance and support, we bring a lot of tools to bear. A lot of AI is what we are infusing in that. So, it is the next generation ops, the next generation development, and so on that is what is there, but the mix is definitely there.

Dipesh: Thanks.

Moderator: Thank you, Dipesh. The next question is from Chirag.

Chirag: Hello. Congratulations on good set of execution in challenging times. So,

Sandeep, what's our M&A outlook for next two years?

Sandeep Kalra: So, if we look at our M&A strategy, it has been built on small tuck-in

acquisitions, which are based on the capabilities that we want to enhance

for geographical footprint that we want to acquire. So, we keep evaluating

deals. Obviously, we have to make sure that the deals have the right fit



both from a technology, cultural, and the valuation standpoint. From our next one to two years, we'll be focused on deals on the cusp of AI, cybersecurity, in terms of going into verticals, micro verticals within Banking Financial Services, Healthcare Life Sciences, and finally from a geographic perspective, tuck-in acquisition in Western Europe from a revenue/customer acquisition perspective because Europe is one place where we do want to scale up in terms of our revenues and the delivery in Eastern Europe. So, those are the broad contours and we are on the lookout for good targets and if anyone on the call has anyone anything to refer to us, please let us know and Saurabh also leads our Corp-Dev.

Chirag:

And just one follow up, vertical wise in AI offerings, which vertical you feel we will get more revenue acceleration once client look for more deals in AI-related areas?

Sandeep Kalra:

So, our point of view is this is going to be a secular adoption of AI. Having said that, Healthcare Life Sciences has usually been a laggard in terms of adopting new technologies. We do believe Healthcare Life Sciences followed by BFSI will be the way we will see the percolation, but we'll let the time pan out and then there are several use cases like Contact Center Optimization using GenAI and so on, which are agnostic of all the verticals. So, there are certain horizontal propositions and there are certain vertical propositions.

Chirag:

Thank you.

Moderator:

Thank you. The next question is from Mohit Jain.

Mohit Jain:

Sir, just one question on Hi-tech vertical. This quarter was a little slow. So, if you could share your outlook on that vertical and if you could split it between, say top client and the rest of the Hi-tech, how should we look at it going forward? Thank you.



Sandeep Kalra:

So, Mohit, as you would have seen, our top client declined a little bit in this quarter and it was a planned decline based on particular large program, it has a profile where we had a certain amount of revenue going up and then it has a certain tapering. So, that is what caused a little bit of perturbations on the Hi-tech vertical and if you look at the Hi-tech vertical, that has been a very strong vertical for us for growth and so small blips will come here and there because of one or two things and December being the quarter where there are furloughs, there were some minor things there as well, but nothing to worry there. If you look at our overall growth, we've said that in the past, it'll be led by Healthcare Life Sciences and Hi-tech followed by BFSI. So, that's where it is.

Sunil Sapre:

So, operator, can we take the last question? We are coming to the end of the slot.

Moderator:

The last and final question is from Vibhor Singhal.

Vibhor Singhal:

Yeah, hi. Am I audible?

Sandeep Kalra:

Yes please.

Vibhor Singhal:

Yeah. Hi, thanks for taking my questions. Sandeep, just one question from my side. You just mentioned AI cybersecurity is probably the focus areas for M&A, but as you mentioned that if you look at our profile at more than a billion dollars today, do you believe those traditional areas of let's say ERP or let's say BPO, which are kind of white spaces for us, would you also be looking to expand your portfolio with them as we become full-service companies and as you mentioned, we get attracted to, invited to more and more large deals, wouldn't our, let's say, I mean I wouldn't say inferior, but let's say lesser-capability in those domains hamper our chances to win those deals? Any thoughts on that in terms of growth and whether organic or inorganic that you're looking at?



Sandeep Kalra:

Sure. So, Vibhor, valid questions, but look at it this way. We are a billiondollar company in a much, much bigger market. As far as the ERP side is concerned, number one, there are many more, much more mature players in the market and second, I would tend to believe ERP basically plays the role of a system of record. There's much more that can be done on top of it in terms of systems of engagement and that's where we play. So, there is, if I am given US\$ 100 in investment, I wouldn't want to go after a red ocean, I would want to build on our capabilities and there is enough and more market there. Same for BPO, where we play in the BPO realm is we go and disrupt the BPOs. We go and disrupt the BPO using technology, using GenAI, AI, and so on making BPOs much more effective, reducing the opex on the BPOs using technology, and that's where we have enough and more to do. Now, in terms of larger deals, when you go to large enterprise customers, they don't usually go with one single provider. So, they go with a mix of providers even if they're going with large or bunch of disruptors and so there is a way to partition the deals in a way where everyone brings their strength and the biggest strength that we have is on forward-looking technologies and that is where there's a significant amount of addressable market for years and years to come. So, we'll stick to our knitting, we'll bring AI into it, we'll bring differentiated capabilities much ahead of our larger peers and midcap peers. So, that's where our focus is at.

Vibhor Singhal:

Got it. Thank you so much for taking my questions and wish you all the best.

Sandeep Kalra:

Let me try and close this call. The key message that I want to leave with our investors today is that we have delivered top quartile revenue growth for the last 15-plus quarters. Now, we are looking at good deal bookings converting into revenues going ahead despite a difficult macro environment. We will continue to operate as a strategic partner to our customers and enable them to drive their key business imperatives. We



are positive on our growth prospects going forward, although we are cautiously optimistic on the macroenvironment. Nonetheless, we will watch these developments and will ensure that we remain relevant to our customers. We once again thank you for your participation and we thank our 23,300-plus team members, customers, and partners for their support in our growth. We look forward to giving you an update in three months from now. Thank you.

Sunil Sapre: Thank you.

Saurabh Dwivedi: Thank you.
