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Independent Auditor's Report

To the Members of Persistent Systems Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

1. We have audited the accompanying consolidated financial statements of **Persistent Systems Limited** ('the Holding Company') and its subsidiaries (the Holding Company and its subsidiaries together referred to as 'the Group') and its associate, as listed in Annexure 1, which comprise the Consolidated Balance Sheet as at 31 March 2021, the Consolidated Statement of Profit and Loss (including Other Comprehensive Income), the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.
2. In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on separate financial statements and on the other financial information of the subsidiaries, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 ('Act') in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Indian Accounting Standards ('Ind AS') specified under Section 133 of the Act, of the consolidated state of affairs (consolidated financial position) of the Group and its associate as at 31 March 2021, and its consolidated profit (consolidated financial performance including other comprehensive income), its consolidated cash flows and the consolidated changes in equity for the year ended on that date.

Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ('ICAI') together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors in terms of their reports referred to in paragraph 15 of the Other Matters section below is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

4. Key audit matters are those matters that, in our professional judgment and based on the consideration of the reports of the other auditors on separate financial statements and on the other financial information of the subsidiaries, and its associate were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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5. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Accuracy of revenues and onerous obligations in respect of fixed-price contracts</p> <p>Refer Notes 4 (j) (i) - notes forming part of the Consolidated Financial Statements.</p> <p>The Group has entered into various fixed-price software development contracts, for which revenue is recognized by the Group using the percentage of completion computed as per the Input method prescribed under Ind AS 115 Revenue from Contracts with Customers. The said revenue recognition accounting policy involves exercise of significant judgement by the management and the following factors requiring significant auditor attention:</p> <ul style="list-style-type: none"> • High inherent risk around accuracy of revenue, given the customised and complex nature of these contracts and significant involvement of IT systems. • High estimation uncertainty relating to determination of the progress of each contract, costs incurred till date and additional costs required to complete the remaining contract. • Identification and determination of onerous contracts and related obligations. • Determination of unbilled revenue receivables and unearned revenue related to these contracts as at end of reporting period. <p>Considering the materiality of the amounts involved, and significant degree of judgement and subjectivity involved in the estimates as mentioned above, we have identified revenue recognition for fixed price contracts and determination of onerous contracts and related provisions, as a key audit matter for the current year audit.</p>	<p>Our audit work included but was not restricted to the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of the systems, processes and controls implemented by management for recording and calculating revenue, and the associated unbilled revenue, unearned and deferred revenue balances, and onerous contract obligations. • Tested the design and operating effectiveness of related manual controls and involved auditor's experts to assess key information technology (IT) controls over: <ul style="list-style-type: none"> ➤ IT environment in which the business systems operate, including access controls, segregation of duties, program change controls, program development controls and IT operation controls; ➤ Testing the IT controls over the completeness and accuracy of cost/efforts and revenue reports generated by the system; and ➤ Testing the access and application controls pertaining to allocation of resources and budgeting systems which prevents the unauthorized changes to recording of efforts incurred and controls relating to the estimation of contract efforts required to complete the project. • Selected a sample of contracts and performed a retrospective review of efforts incurred with estimated efforts to identify significant variations and verify whether those variations have been considered in estimating the remaining efforts to complete the contract. • Reviewed a sample of contracts with unbilled revenues to identify possible delays in achieving milestones, which require change in estimated efforts to complete the remaining performance obligations. • Performed analytical procedures for reasonableness of incurred and estimated efforts. • Evaluated management's identification of onerous contracts based on estimates tested as above. • Evaluated the appropriateness of disclosures made in the financial statements with respect to revenue recognized during the year as required by applicable Indian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter
<p>Unbilled revenue in respect of revenue sharing arrangements, i.e., Royalty income</p> <p>Refer Note 4 (j) (i) notes forming part of the Consolidated Financial Statements.</p> <p>Royalty income from one of the main customers is accrued as a percentage of total onward sales made by the customer during the period.</p> <p>Recognition of royalty income for the period of three months before year end, involves estimations made by the Group based on prior trends and booked as an unbilled receivable, since sales for the period by the customer is determined subsequent to the period end.</p> <p>Considering the materiality of the amounts involved, and significant degree of judgement and subjectivity involved in the estimates of the unbilled revenue, we have identified unbilled receivable in respect of revenue sharing arrangements as a key audit matter for the current year audit.</p>	<p>Our audit work included but was not restricted to the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of the systems, processes and controls implemented by management for estimating revenue and the associated unbilled revenue. • Tested the design and operating effectiveness of the internal controls relating to estimation of share of revenue involved in recognition of royalty income. • Evaluated basis of estimation of aforesaid unbilled receivable from the terms of the contract and past trends, and verified arithmetical accuracy of management computation. • Assessed historical accuracy of the forecasts made by the management in earlier period/s. • Performed analytical procedures for reasonableness of revenue and associated unbilled revenue recorded and disclosed as at year end. • Evaluated the appropriateness of disclosures made in the financial statements with respect to unbilled revenue recognized during the year as required by applicable Indian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter
<p>Contingent liabilities relating to export incentive litigation</p> <p>Refer Note 43 – notes forming part of the Consolidated Financial Statements regarding dispute on export incentives scrips awarded to the Group.</p> <p>The Group in previous years has deposited under protest ₹ 296.55 million with the Directorate General of Foreign Trade pursuant to the Summons received from the Directorate of Revenue Intelligence ('DRI'), and have made a corresponding application with the relevant authorities.</p> <p>Further in the current year, the Group has received Show Cause Notice ('SCN') from DRI, claiming that the Group is not eligible for the benefit under the scheme and if the Group has wrongfully claimed such benefits, it will be liable for the such consequential penalties.</p> <p>The management based their assessment and interpretation of various applicable rules, regulations, practices and precedents, and based on various documents filed with relevant authorities to avail these claims, believes that they have a strong case and the export incentives of ₹ 296.55 million deposited under protest are fully recoverable. Accordingly, the duty paid under protest, has been presented as receivable from government authority and has been correspondingly disclosed under contingent liability.</p> <p>In view of the amounts involved and uncertainty pertaining to the final outcome of the matter requiring significant management judgement in determination of recoverability of the aforesaid balance with respect to the said litigation, this matter is considered as a key audit matter for the current year's audit.</p>	<p>Our audit work included but was not restricted to the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of the Group's process and the underlying controls for identification and monitoring of the pending litigations and completeness of such litigations for financial reporting • Assessed the appropriateness of the Group's accounting policies relating to provisions and contingent liability disclosure, in accordance with the applicable Indian Accounting Standards • Discussed developments during the year in the export incentive matter with the management and obtained opinion from the management's expert. • Obtained the documents for various correspondences made between the Group and the respective departments • Involved auditor's expert to test the management's underlying assumptions in estimating the export incentive benefits and the possible outcome of the matters. This involved assessing the probability of an unfavourable outcome of a given proceeding and the reliability of estimates of related amounts which involved consideration of legal precedence and other rulings and expert opinion obtained by the management. • Assessed adequacy and appropriateness of the disclosure made in the financial statement to determine whether management has presented the facts and circumstances adequately.

Information other than the Consolidated Financial Statements and Auditor's Report thereon

6. The Holding Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

7. The accompanying consolidated financial statements have been approved by the Holding Company's Board of Directors. The Holding Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance including other comprehensive income, consolidated changes in equity and consolidated cash flows of the Group including its associates in accordance with the accounting principles generally accepted in India, including the Ind AS specified under section 133 of the Act. The Holding Company's Board of Directors is also responsible for ensuring accuracy of records including financial information considered necessary for the preparation of consolidated Ind AS financial statements. Further, in terms of the provisions of the Act, the respective Board of Directors of the companies included in the Group, and its associate companies covered under the Act are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. These financial statements have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid
8. In preparing the consolidated financial statements, the respective Board of Directors of the companies included in the Group and its associate are responsible for assessing the ability of the Group and its associate to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group and its associate or to cease operations, or has no realistic alternative but to do so.
9. The Board of Directors are also responsible for overseeing the financial reporting process of the companies included in the Group and its associate.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
11. As part of an audit in accordance with Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the holding company has adequate internal financial controls system in place and the operating effectiveness of such controls.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and its associate to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and its associate to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group, and its associates, to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit of financial statements of such entities included in the financial statements, of which we are the independent auditors. For the other entities included in the financial statements, which have been audited by the other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.
12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

15. We did not audit the financial statements of twenty subsidiaries, whose financial statements reflect total assets of ₹ 4,631.34 million and net assets of ₹ 1,652.75 million as at 31 March 2021, total revenues of ₹ 5,140.16 million and net cash inflows amounting to ₹ 7.87 million for the year ended on that date, as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, is based solely on the reports of the other auditors.

Our opinion above on the consolidated financial statements, and our report on other legal and regulatory requirements below, are not modified in respect of the above matters with respect to our reliance on the work done by and the reports of the other auditors.

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16. The consolidated financial statements also include the Group's share of net profit (including other comprehensive income) of ₹ Nil for the year ended 31 March 2021, as considered in the consolidated financial statements, in respect of one associate, whose financial statements have not been audited by us. These financial statements are unaudited and have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the aforesaid associate is based solely on such unaudited financial statements. In our opinion and according to the information and explanations given to us by the management, these financial statements are not material to the Group and its associate.

Our opinion above on the consolidated financial statements, and our report on other legal and regulatory requirements below, are not modified in respect of the above matter with respect to our reliance on the financial statements certified by the management.

Report on Other Legal and Regulatory Requirements

17. As required by Section 197(16) of the Act, based on our audit we report that the Holding Company, covered under the Act paid remuneration to its directors during the year in accordance with the provisions of and limits laid down under Section 197 read with Schedule V to the Act. Further, we report that the provisions of Section 197 read with Schedule V to the Act are not applicable to twenty-one subsidiary companies and one associate company, since none of such companies are covered under the Act.
18. As required by Section 143 (3) of the Act, based on our audit and on the consideration of the reports of the other auditors on separate financial statements and other financial information of the subsidiaries, we report, to the extent applicable, that:
- a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit of the aforesaid consolidated financial statements;
 - b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors;
 - c) the consolidated financial statements dealt with by this report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements;
 - d) in our opinion, the aforesaid consolidated financial statements comply with Ind AS specified under Section 133 of the Act;
 - e) On the basis of the written representations received from the directors of the Holding Company and taken on record by the Board of Directors of the Holding Company and the report of the statutory auditors of its subsidiary companies covered under the Act, none of the directors of the Group companies and its associate, covered under the Act, are disqualified as on 31 March 2021 from being appointed as a director in terms of Section 164(2) of the Act.
 - f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company, and its subsidiary companies, associate company covered under the Act, and the operating effectiveness of such controls, refer to our separate report in 'Annexure A';
 - g) With respect to the other matters to be included in the Auditor's Report in accordance with rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries and associate:
 - i. The consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group and its associate, as detailed in Note 43 to the consolidated financial statements.

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- ii. the Group and its associate did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses as at 31 March 2021;
- iii. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies and associate during the year ended 31 March 2021;
- iv. the disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8 November 2016 to 30 December 2016, which are not relevant to these consolidated financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm Registration No:001076N/N500013

SHASHI
TADWALKAR

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SHASHI TADWALKAR
Date: 2021.04.29
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Shashi Tadwalkar
Partner
Membership No:101797

UDIN:21101797AAAAAQ4235

Place: Pune
Date: 29 April 2021

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Annexure 1

List of entities included

Sr. No.	Name of Entity	Relationship
1	Persistent Systems Limited (PSL)	Holding Company
2	Persistent Systems, Inc. (PSI)	Wholly owned subsidiary of PSL
3	Persistent Systems Pte Ltd.	Wholly owned subsidiary of PSL
4	Persistent Systems France SAS	Wholly owned subsidiary of PSL
5	Persistent Systems Malaysia Sdn. Bhd.	Wholly owned subsidiary of PSL
6	Persistent Systems Germany GmbH (PSGG)	Wholly owned subsidiary of PSL
7	Persistent Telecom Solutions Inc.	Wholly owned subsidiary of PSI
8	Valista Limited (VL) (Dissolved w.e.f. 24 June 2020)	Wholly owned subsidiary of AGL
9	Aepona Group Limited (AGL)	Wholly owned subsidiary of PSI
10	Aepona Limited	Wholly owned subsidiary of AGL
11	Youperience GmbH (YGmbH)	Wholly owned subsidiary of PSGG
12	Youperience Limited	Wholly owned subsidiary of YGmbH
13	Persistent Systems Lanka (Private) Limited	Wholly owned subsidiary of AGL
14	Persistent Systems Mexico, S.A. de C.V.	Wholly owned subsidiary of PSI
15	Persistent Systems Israel Ltd	Wholly owned subsidiary of PSI
16	PARX Werk AG	Wholly owned subsidiary of PSGG
17	PARX Consulting GmbH	Wholly owned subsidiary of PARX Werk AG
18	Capiot Software Private Limited (Acquired w.e.f. October 29, 2020)	Wholly owned subsidiary of PSL
19	Capiot Software Inc. (Capiot US) (Acquired w.e.f. November 7, 2020)	Wholly owned subsidiary of PSI
20	Capiot Software Pty Limited (Acquired w.e.f. November 7, 2020)	Wholly owned subsidiary of Capiot US
21	Capiot Software Pte Limited (Acquired w.e.f. November 7, 2020)	Wholly owned subsidiary of Capiot US
22	Persistent Systems S.R.L. (incorporated on March 23, 2021)	Wholly owned subsidiary of PSI
23	Klisma e-Services Private Limited	Associate Company of PSL

Annexure A to the Independent Auditor's Report of even date to the members of Persistent Systems Limited on the consolidated financial statements for the year ended 31 March 2021

Independent Auditor's Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ('the Act')

1. In conjunction with our audit of the consolidated financial statements of **Persistent Systems Limited** ('the Holding Company') and its subsidiaries (the Holding Company and its subsidiaries together referred to as 'the Group') and its associate, as at and for the year ended 31 March 2021, we have audited the internal financial controls with reference to financial statements of the Holding Company covered under the Act, as at that date.

Responsibilities of Management and Those Charged with Governance for Internal Financial Controls

2. The Board of Directors of the Holding Company, covered under the Act, are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India (the 'ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the Company's business, including adherence to the Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility for the Audit of the Internal Financial Controls

3. Our responsibility is to express an opinion on the internal financial controls with reference to financial statements of the Holding Company, as aforesaid, based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India ('ICAI') prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements, and the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements were established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements includes obtaining an understanding of internal financial controls with reference to financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls with reference to financial statements of the Holding Company, as aforesaid.

Meaning of Internal Financial Controls with Reference to Financial Statements

6. A company's internal financial controls with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial controls with reference to financial statements include those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as