



R SYSTEMS INTERNATIONAL LIMITED

Corporate Identity Number : L74899DL1993PLC053579

[CMMI Level 5, PCMM Level 5, ISO 9001:2015 & ISO 27001:2013 Company]

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REF: SECT/08/2024/14

DATE: AUGUST 14, 2024

To, The Managing Director National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051 NSE Symbol – RSYSTEMS	To, The General Manager BSE Limited P.J. Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code - 532735
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Dear Sir/ Madam,

SUB: SUBMISSION OF TRANSCRIPT OF THE INVESTORS/ ANALYSTS CALL FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2024

This has reference to regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Investors/ Analysts call held on Thursday, August 08, 2024 on the financial results for the quarter and six months ended on June 30, 2024.

Further, please note that the Transcript of the Investors/ Analysts call held on Thursday, August 08, 2024 is being available on the website of the Company at the following link: <https://www.rsystems.com/investors-analysts-call/> .

This is for your information and records.

Thanking you,

Yours faithfully,

For R Systems International Limited

Bhasker Dubey
(Company Secretary & Compliance Officer)



“R Systems International Limited
Q2’ FY24 Earnings Conference Call”

August 08, 2024

**MANAGEMENT: MR. NITESH BANSAL – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER**

MR. NAND SARDANA – CHIEF FINANCIAL OFFICER

**MR. KUMAR GAURAV – VICE PRESIDENT (FINANCE &
ACCOUNTS)**

Notes:

1. Please note that no unpublished price sensitive information was shared/ discussed during or in pursuance to this Earnings Call.
2. This transcript has been edited for readability purpose and may contain errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.



*R Systems International Limited
August 08, 2024*

Moderator: Ladies and gentlemen, good day, and welcome to the R Systems Q2 FY 2024 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kumar. Thank you, and over to you, sir.

Kumar Gaurav: Thank you, Ray. I welcome all participants to R Systems Q2, 2024 Earning Call Conference. We have today with us, Nitesh Bansal, Managing Director and CEO R Systems; and Nand Sardana, CFO, R Systems. We have shared the presentation with the investors late evening yesterday as well as uploaded on Company's as well as stock exchanges website. I hope all of you have received that.

We will start the call with opening remarks on the performance of the company by Nitesh followed by the financial overview by Nand. Thereafter, we'll have a closure statement by Nitesh. Subsequently we'll open for Q&A session.

Before I hand over, let me read out the customary disclaimer statement on behalf of the Company:

Investors are cautioned that this presentation contains certain forward-looking statements that involve risks and uncertainties. The Company undertakes no obligation publicly to update or revise any such statement, these statements may undertake revision because of new information, future event or otherwise. Actual results, performance, achievement could differ from those expressed or implied in such forward-looking statements.

Now I'll hand it over to Nitesh for his opening comments. Thank you and over to you, sir.

Nitesh Bansal: Thank you, Kumar, and good morning, everyone. Thank you for joining call for second quarter 2024. I'll start with key highlights for the second quarter. We ended the quarter at INR 4,320 million or INR 432 crores of revenue. In U.S. dollars that translates to \$51.8 million, which translates to a year-on-year growth of about 6.2%. And with a year-over-year adjusted EBITDA growth of about 19%. The net profit is INR 249 million or \$3 million. From an EBITDA perspective and an adjusted EBITDA perspective, we've gone from 14.4% to 16.5% as EBITDA percentage. And we're calling it adjusted EBITDA because it is adjusted for the expense of INR 65 million in Q1 and INR 80 million in Q2 relating to RSU granted to employees. After considering those expenses, the respective EBITDA percentages would be 12.8% in Q1 and 14.7% in Q2.

Look at the adjusted EBITDA bridge, we started off the quarter or the opening at about INR 600 million or INR 60 crores. We got benefit of improved utilization to the tune of about 10%. We've got another benefit of higher billable days to the tune of about 7%. We have given pay hikes



during the quarter to our employees, this is the annual salary increment that we usually roll out. And we have absorbed that impact and there were normal operating benefits that we got of about another about 3% to 4%, resulting in the final EBITDA of about INR 714 million or INR 71 crores, which is 16.5%.

Looking at the key highlights on H1 basis or at the end of half year 2024, our revenue stands at INR 8,487 million or \$102 million, that's a year-over-year revenue growth of 4.7% and year-over-year EBITDA growth of 14.9% with net profit of INR 524 million or \$ 6.3 million. So comparatively, H1 '23 was 14.1% EBITDA, H1 '24, we're reporting 15.5% EBITDA, again, similarly adjusted for the RSU expenses as I mentioned in my previous note.

From a balance sheet items perspective, equity attributable to shareholders is INR 6,032 million, cash and bank balances of INR 1,791 million, AR and unbilled of INR 3,284 million and our days of sales outstanding stands at 60 days.

If I look at the financial trends across 8 quarters, we've gone from INR 398 crores to INR 432 crores in the top line over the 8 quarters and EBITDA going from 14.5% to 16.5% of revenues. So our revenues have crossed INR 430 crores quarterly run rate. Our adjusted EBITDA has crossed INR 70 crores run rate. And our quality of revenue continues to improve as our approaches related to verticalization and winning deals in areas such as cloud, data, AI etc. are beginning to bear fruits, and we are seeing green shoots of wins in these areas.

Looking at operating metrics, there isn't any significant change for those of you who have been attending our earnings calls, I think numbers look very similar and consistent. Our North American markets have contributed approximately 75% of the revenues. Southeast Asian countries give us 12.5% to 13%. Europe has been contributing in the vicinity of 9%, has fallen slightly to 8.3% and rest of the world have been giving 3.7%.

Our client concentration also remains largely the same. Our top 10 clients are giving us close to 22% of revenues with our top client giving 5.2% in this quarter which is slightly lower than last quarter, but that's mostly a quarterly fluctuation kind of a thing with a minor reduction. But overall, our top 10 clients continue to remain robust and stable, and we continue to get business as we are expanding on revenues, we are expanding quite evenly across the top clients as well. So overall percentage remains largely constant.

Our utilization has consistently gone up. There has been a lot of operational rigor and focus on improving utilizations and that number has gone up consistently, quarter-on-quarter. We moved from approximately 76% utilization as of about 3 quarters ago to approximately 81% or 82% utilization.

Days of sales outstanding has largely been in the range as we have operated between 60 to 64 days. This quarter, we have ended at 60 days and that way our collection cycles are running fairly robust.



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If I look at some of the things that we are doing as an organization for building for the future, continuing to work on the strategic items that we have talked about in some of the previous calls as well. We have further strengthened our go-to-market and started executing on the strategy of partner-led and channel-led kind of pipeline development. As a result, we participated and partnered with Boomi and participated in their Boomi World 2024, which was organized in May this year. We shared the stage with their leadership and obviously, had a great conference with a lot of traction generated during the conference.

We also have deepened our partnership with Microsoft and have become a key partner for Fabric which is basically enabling a lot of clients to migrate from traditional data and BI solutions to more of the Microsoft, One Lake, Power BI and comprehensive data engineering and data science solutions.

From an offering and positioning perspective, we launched an AI-enabled partner onboarding solution at Boomi World 2024, and it is available on our website, and we are also seeing some follow-on activity through that launch.

We have also recently launched an AI-enabled end-to-end Power BI solutions, including accelerators for migrating from other BI platforms to Power BI. So those have been some of the specific launches this quarter, and we'll continue to work on some of these as well as other new solutions.

From an integration perspective, the integration of Velotio and Scaleworx capabilities and overall R Systems has actually led to creating stronger practices within our tech, Internet & Platforms vertical as well as for Data & AI and Cloud & DevOps. These were some of the competencies that Velotio also brought to the table. And as we combine the capabilities putting a single global leadership across these practices, it has resulted in deeper rights to win and the better offerings to the market.

Highlighting some of the key wins for this quarter, even in the press release we've talked about 8, I'm highlighting 4 or 5 of them over here. One of the leading real estate and investment advisers has engaged us to build an innovative property analysis application and especially also enabling IoT through handheld devices, so that there can be a cutting edge bug reporting tool, which will enhance the efficiency and functionality of how they provide services to their end customers, which are usually buildings, and tenants and real estate companies.

Our U.K.-based digital communication firm has partnered with us to streamline their CRM integrations so that they can develop a robust communication framework and drive operational efficiency and innovation. We've also partnered with one of the largest global financial services groups who have asked us to create digital transformation of their legacy system to cloud native Java and React applications. And these are some of their important customer-facing applications that we're working on.

A U.S. based large global investment firm has engaged us to automate its cash management processes with a unified database driven solution that can replace a lot of excel based processes



that are currently followed. And also a large leading retail chain in Southeast Asia has engaged us to upgrade the Microsoft Dynamics Business Central to optimize and digitize their end-to-end business processes, leading to financial visibility and operational excellence across the enterprise.

So as you can see, these are wins in a variety of functional areas, right from core product engineering to data and automation as well as Microsoft Dynamics Business Central business application. And they are spread across all the continents, coming from U.S., Europe and Asia Pacific, like in a similar manner.

At this point, I'd like to hand it over to Nand for financial highlight. A detailed deep dive into the financials that he best provides. So over to you.

Nand Sardana:

Thank you Nitesh Ji, Good Morning to all.

Since, R Systems follows calendar year, so this is our second quarter, so we call it quarter 2. Revenue for the quarter was INR 432 crores or USD 51.8 million as against INR 416.6 crores or USD 50.2 million last quarter, and INR 406.8 crores, that is USD 49.5 million in the same quarter last year. This is a growth of 6.2% year-on-year and 3.7% quarter-on-quarter. The growth is driven by higher traction to digital product engineering services, coupled with higher billable days.

The gross margin was 35.5% compared to 33.7% last quarter and 34.8% same quarter last year. Gross margin is resultant of improved utilization, higher billable days as offset by increased average salary at our offshore centres.

SG & A expenses increased by INR 1.5 crores. This is mainly due to higher investment in sales and marketing and H1B Visa filings. The adjusted EBITDA was 16.5% compared to 14.4% last quarter and 14.7% in the same quarter last year. The Company has been able to expand sustainable operating margins through operational efficiencies.

The RSU cost under management incentive plan is INR 8 crores this quarter compared to INR 6.5 crores last quarter. EBITDA net of RSU expense is 14.7%. During first half 2024, revenue was INR 848.7 crores or USD 102 million as against INR 811 crores or USD 98.7 million same period last year. Adjusted EBITDA was 15.5% as against 14.1% same period last year. We are committed for profitable growth and have continued our investment in sales engine, new technology and innovation to deliver long-term sustainable growth.

Getting down to depreciation and amortization, the total expense was INR 16.7 crores compared to INR 16.6 crores last quarter. This includes INR 6.3 crores for intangible capitalized on account of Velotio and Scaleworx acquisitions.

Interest expense is INR 2 crores compared to INR 2.8 crores last quarter. Other income were INR 2.1 crores compared to INR 2.3 crores last quarter. This quarter, we had an exchange gain of INR 1.1 crores compared to INR 99 lakh last quarter. Further, the other income comprises of



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interest income of INR 68 lakhs this quarter compared to INR 83 lakhs last quarter. This is primarily due to reduction of corpus post dividend payment.

During the quarter, the average rate for USD and Euro were INR 83.42/- and INR 89.79/-, respectively, as against last year average rate of USD 83.04/- and EUR 90.15/-. These are the 2 main currencies for R Systems. As at the year-end, we have a forward cover of \$ 37.46 million with average rate of INR 84.5/- and Euro cover of 2.3 million with average rate of INR 93.7/-. This has already been marked-to-market at closing date of 30th June.

Our tax expense was INR 21.9 crores this quarter as against INR 8.9 crores last quarter. Increased tax expense is mainly due to tax provision of INR 6.2 crores against dividends received from subsidiary company. The Company would be eligible to offset this upon dividend declaration. Our effective tax rate is close to 27% to 28%. Net profit after tax was INR 24.9 crores or USD 3 million compared to INR 27.5 crores or USD 3.3 million last quarter. Basic EPS for the quarter was INR 2.1/- compared to INR 2.3/- last quarter.

With that, I hand over to Nitesh Ji for summing up comments.

Nitesh Bansal:

Thank you, Nand Ji. So summing up the trends that we are seeing shaping up in H1 that will shape our H2. Broadly speaking, artificial intelligence continues to be talk of the town. But truly leveraging artificial intelligence to generate value requires both expertise in technology as well as understanding of business domain and that will require professional services players, like us, to demonstrate where the real value lies, where can we help customize implement those things. So that's where it will probably grow the need of professional service providers like us.

We still see that process efficiency, automation, cost savings, etc., are remaining dominant themes in the market. So digital transformation offerings such as leveraging cloud, data, AI and automation are very relevant. We are seeing traction in that space.

After the July incident of CrowdStrike, which saw a massive outage across the world and shutdown of operations, a debate or a discussion on cloud security, reliability, etc., has obviously started off in the tech circles. And we are also participating or we are also being asked for similar discussions and where we see that it could lead to opportunities in the areas of disaster recovery or cloud reliability or doing a more vulnerability assessments for our customers.

So overall, we are optimistic of the market sentiment improving in the second half of the calendar year. We are seeing early signs of deal activity in the market. We are seeing traction, which is actually across sectors and geographies. Very clearly, we'll watch out for the elections in the U.S. and kind of developing situation in the Middle East because those could cause some uncertainty. But overall, so far, we are optimistic.

We are consciously increasing our collaboration with partner ecosystems across AWS, Microsoft, Salesforce, Boomi, UiPath as well as increasing our ecosystem with the startup partners, who contribute to us being able to offer some cutting-edge solutions to our customers



and also provide a good playground and a learning path for our own employees working with the startups and vice versa.

So, I think that is it from my end for this earnings call. And I'm ready to take questions.

Moderator: Thank you very much. The first question is from the line of Nikhil from Kizuna Capital. Please go ahead.

Nikhil: Thank you for giving me this opportunity and congratulation on good set of numbers, my first question is like what is the peak margins that we are looking at because we are at a peak utilization historical highs, so what are going to be the other levers for the margins?

Nitesh Bansal: Is there a second question? Yes. No, that's perfectly fine. Since you said first question, I was waiting if there was a second one.

Nikhil: Yes Sir, as we can see our client concentration among largest top 3, top 5 and top 10 is reduced. So have we added more customer base? Sir, that is my second question and our plan was to also gain the wallet share. So how is that going accordingly?

Nitesh Bansal: Right. So Nikhil, first and foremost, thank you so much for participating in the questions. From a peak utilization, yes, of course, this is one of our historic highs in utilization. And I think, we are at almost at desirable level. So, our objective will be to maintain this kind of utilization level, while consciously and certainly making investments in areas where we need to further deepen our capability, our right to win, etc. So that's something that we'll continue to work on.

From a margin perspective, we do have some more levers where whether it is some amount of pyramid rationalization or some amount of better efficiencies, which haven't come in yet, and it will take time to come in, but we do expect that as we are increasing our usage of AI and Co-pilot and bringing more tools into the development process, we will gain some efficiencies.

But, we're not banking them for any kind of margin improvement projections because we are in the growth phase, we are also continuing to invest in our sales and marketing efforts in our partnerships like being out there with our partners for events and other things. So, we hope to sustain our margin levels at reasonably in the high 15s or early 16s, kind of levels. But we will be more focused on growth investments than really trying to use the levers to increase the margins at this point.

Second, on client concentration, there is some fluctuation in the overall contribution from top 1 or top 2, top 3 clients, and that is partly seasonal on the client side as well as our overall revenue has expanded but those clients have not in that proportion, so it's a reflection of that. But from a wallet share perspective, we are working towards expanding wallet share with some of our top clients. Actually, we're working with our top 50. We have seen success in expanding wallet share with some clients, which may not be exactly in the top 5 right now. But there is positive movement in that direction and hopefully, give it another couple of quarters because as we win

more deals, and we are able to staff up for it and those deals start generating revenues, we might see that starting to reflect in our top 10 client contribution in the future quarters.

Was there any other question? I think I answered all the 3, right?

Nikhil: Yes sir, my question again is on the discretionary spend, like how are you seeing the revival of that spend? Like there's a coming election in the U.S. in December, and is there any kind of impact on that and sir post that like this year is going to be okay but next year, are we seeing a 20% plus growth rate post that when the discretionary demand rises?

Nitesh Bansal: Nikhil, discretionary spend, even now we have been a bit cautious. And if we look at in the U.S., most of the companies follow a January to December year, so their budget year is almost coming to a close, we are in August and in November, they will be doing their next year budgeting cycle. So, looking at massive or significant increase in discretionary spend this year is a little unrealistic. What we are seeing is where there were project decisions that were pending that were put on hold or people were unsure and were undecided, some of those have opened up, and those are things that we are capturing. There is obviously, like I said, increased activity. So, looking at the activity, the only thing we can anticipate is that people are preparing for the budgets for next year, and they will probably be ready to go if, let's say, the budgets open up and then they will obviously be wanting to make those projects happen.

So that's our best leading indicator. I do not know during this year, election will be in November. And during that time, people are already at the back end of the budget. So the election itself will not have a bigger positive or negative impact on last quarter's spending. The outcome of the election and what that sets up as the mood or sentiment for the financial outlook for the companies or industries in general, may finally affect what kind of budgets they allocate and which direction they go. And that's something for us to watch.

Moderator: We have the next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Thanks for the opportunity, Congrats on a strong execution, both on revenue as well as on the margin. Nitesh, the first question is, your commentary indicates that the second half would be better even for the industry as well as for R Systems looking at the deal activity momentum. So is it fair to assume the growth momentum which we have witnessed in the Q2 CY '24 has a fair chances to continue, and that will help us to exit Q4 this year at a better rate which will set a platform for industry leading growth aspiration, which we have for CY '25?

Nitesh Bansal: Sandeep, first of all, thanks for joining again. Good talking to you. Look, we are all optimistic and because that's the only way we know how to be and to drive and we've been waiting for the industry to open up and to get some clear signals of growth. Are we seeing some of those green shoots, some of those things happening in the market? Yes. We're definitely seeing it. Do we want that should continue? Absolutely, we want it to continue. We hope it will continue. And if it does, then, yes, I think we should be looking at least some momentum building up.



There are a lot of unknowns, we don't know, and every time I open, I look at the news that scares me on what's happening in the world. But having said that, I'm hopeful, keeping my fingers crossed. There is activity beginning to build up. We hope we'll capitalize on it. And if we do get that momentum over the next 2 or 3 quarters, then absolutely, we will exit strong, and it will give us a good foundation to build towards industry leading growth for the next year.

Sandeep Shah:

Okay. This is helpful. And second Nitesh, in terms of observing and analyzing your execution strategy, what are the key performance parameters you are internally tracking. Maybe in terms of pipeline conversion. If you can share some progress on the same?

Nitesh Bansal:

I can tell you what I'm tracking at a high level, obviously, we look at our strength of the pipeline and more importantly, average size of the deal, because that's something that we want to strategically move towards having a little more sizable deals, more meaningful deals. We obviously look at our conversion rates, what is our win rate for every 10 opportunities we chase, how are we winning and converting a max number of those.

And then we are obviously very worried about, because this is something that has happened in the last 3, 4 quarters, that post winning or post communication that we've been selected, the time it takes to start because a lot of times, the customer after that they start kind of delaying due the lack of funding, budgets, approvals or whatever else goes into the cycle, which has been a big challenge for us, for planning and because every time we win a deal, you have to be ready to kind of staff for it, start for it. And when it doesn't start in a given time, you obviously not only lose revenues, but you've got people sitting on bench waiting.

So those are some of the things that we track very closely from a pipeline conversion, velocity perspective. And then obviously, from an execution side, we have been focused on the right sizing, right staffing, making sure that we have higher utilization and better throughput. So those are some of the most common things we are tracking. We have built our processes around it. We have improved on how we used to track and what we used to do. Are we where we want to be, Perhaps not, it's a journey, and I think we have just kind of begun in the last 2 quarters. So we still have a way to go.

Sandeep Shah:

Okay. Fair enough. And just a few things in terms of new logo addition that has also driven the growth in this quarter. So can you give us progress in terms of both direct channel as well as Blackstone channel because last time we said 10 new accounts have been opened in the Blackstone channel. Any progress to share?

Nitesh Bansal:

So Sandeep, like I said last time, Blackstone channel always does remain an equally vibrant and important channel for us. But it is not the only channel. So overall, the Company has added a significant number of logos. We've added more than 2 dozen logos across the Company. And I think we've also added, if I'm not wrong, 2 new logos from a Blackstone portfolio perspective.

Moderator:

The next question is from Harsh Chaurasia from Vallum Capital.



Harsh Chaurasia:

Thank You for giving this opportunity, So I have 2 questions. On the top line when I see, so there has been a decline on a Q-on-Q basis from last 3 quarters, both for large client and the top 3 clients. And when we see our top clients, this is majorly focused through the telecom and high-tech vertical. And when like listening to the commentary from the larger players on this vertical has not been very much positive. And at the same time, we are talking about account mining and wallet expansion. So are we looking at this particular line of client or like if we are looking, so what are the kind of work which we are looking? Is there anything on this which you are going to tell and are we looking to do a wallet expansion in the tale client?

And my second question is on, when I see the revenue breakup on the IT services and the BPO side. So IT services, we have added roughly INR 10 crores incremental on a Q-on-Q basis. And at the same time, our EBIT level is approximately 5%, incrementally, it is a very margin accretive deal which we have done. So, what quality of work which we have done or what kind of deal led to this? And are we looking to do similar type of deal in coming quarters? And then I see the BPO deals we have added roughly INR 4 crores, and that has significantly grown down to the EBIT level. So, is it onetime or like what is this? Can you elaborate more on this? That's it.

Nitesh Bansal:

So Harsh, let me answer the first part first. I think you're absolutely right that some of our top clients and especially the top 2 or 3 clients do represent the telecom and high-tech sectors, and in telecom and high tech, the general commentary and the sentiment has been weak for the last several quarters. We are still not seeing a significant revival in those areas.

That is obviously affected the growth of the top clients in the same rate or higher than what we are growing as a Company, which is what we would desire. But at least the clients have stayed flattish and that's why it reflects a little bit of downward as a percentage of total revenue kind of a thing.

But having said that, when we are talking about account mining and expanding wallet share, we are not just focused on top 2 or top 5 or top 10. We are actually, we have taken a cross section of 40 accounts across our top 60, leaving aside a few, where we did not think there was a huge potential. So, we are going after some of our top 40 accounts, which are across sectors.

And, we are seeing successes across a few specifically and actually a couple of them are already in top 10 also where with some manufacturing clients where we were present only with one of the service line, where we're doing only integration kind of work, for example, now we are within the last 6 months present with 5 service lines, where we picked up additional cloud or data or AI or testing or other kinds of work as well, and that is the story that we are trying to replicate across a bunch of these top 40 clients.

And like I was saying earlier, when I think Sandeep or Nikhil had asked the question, then some of this work we started off basically 4, 5 months ago around February, March time frame. So, we are beginning to see those wins now as we win and then we staff for it and then we start



getting the revenues, we'll start seeing that impact. So, the impact is usually, there's a 1 to 2quarter lag before we see that impact.

But I think going back to the original intent of your question, are we mining only the top 3 or top 5 or top 10, No, we are mining a larger cross-section of accounts. Our basic formula or basic modus operandi of mining is where we are present with one service offering. Let's go with more than one service offering, where we are doing some tactical work, can we take on more strategic responsibilities and be more relevant to the customer, become more core to the customer.

From a perspective of where has the margin accretion come from, whether in the IT side or digital operations or Knowledge Services, as we used to call it earlier, kind of perspective. Well, a large part of it and what you see even on the IT side has come from our utilization improvement. We had, like I was explaining earlier, some of the challenges of projects not starting, people identified and waiting and waiting on bench, and they would just continue to extend on bench in that manner or there were additional people essentially allocated for customers' needs from time to time based on specialization required and a bunch of those things which caused for a higher number of people to be present than were exactly being utilized.

And we've done a fairly decent exercise, thanks to some of our delivery leaders, where we have put a lot of that under control. We have been able to establish basic operating processes, standard operating processes around how we are going to be ready to staff, how long they are going to wait, how we are going to follow with customers, how we get more exact requirements in place and all those kind of operating disciplines, which though they were there, but not many consistently followed and just by improving and tightening on those, we were able to get a certain amount of improvement in that utilization, which is what has directly resulted in this margin improvement.

There is obviously a slight element of mix change, but it's not significant enough. We have started winning some of AI related work, which comes at a higher price point but it is really not material enough to make a difference on our final EBITDA margin at this point. So, I won't count for that. But most of it is operational levers largely that being utilization.

Nand Sardana:

And just to add, Harsh, on your question of increase in the revenue and segment profit, probably you're referring to segment reporting. Yes, you're right that in Knowledge Services, which is mentioned as BPO, I mean the increase in segment profit of exactly the same amount or a little less than the revenue is because there was a provision of close to INR 2.5 crores which we made in the last quarter, which has been reversed. Otherwise, the margin is in the proportion which are normally reported in Knowledge Services.

Harsh Chaurasia:

Just one more question. We talked about Microsoft Fabric. So, can you speak more on that, like what are the traction we are seeing for Microsoft Fabric deals, like what percentage of deal pipeline is getting built up for Microsoft Fabric for R Systems. Like what is the opportunity size we are looking broadly for Microsoft Fabrics?



Nitesh Bansal: So Microsoft Fabric, as I said earlier, is a combination of all their data, data intelligence, data science and BI related kind of tools and technology. We are working very closely with Microsoft and especially in Asia Pacific on this area where they have recognized us as a key partner and we are working together with them.

We have an active pipeline and I think to define it as a percentage of what our total pipeline is. I don't have those numbers handy, but just to give you a sense, we are talking more than a dozen opportunities in pipe together with Microsoft, where we are jointly going to the customers and providing them a proactive pitch on how they could leverage Fabric. They already had one win in the last quarter and in the current quarter, we are looking at another couple of wins in the same area.

So, will it impact and become a significant revenue percentage itself at an overall global level? Perhaps no. But for our Asia Pacific business, it will become a reasonable percentage of business. So, that's a good value addition for us and from there, we are obviously taking it globally, and we are confident that we'll start seeing the impact of the joint channel led sales effort globally also in the quarters to come.

Harsh Chaurasia: Just one last question, Like this is like not let's do the comparison between Dynamics and Microsoft Fabric. But when we're looking at Dynamics, compared to Dynamics what is the project execution cycle for Microsoft Fabric? And are we looking at the similar margins versus Dynamics or it is much higher than that? And just one more request, it will be very helpful if we can provide a number of clients in our investor presentation.

Nitesh Bansal: When you say a number of clients as in, the total number of clients that we have as a Company?

Harsh Chaurasia: Yes, active clients.

Nitesh Bansal: We'll take that request on board. I know we've had some debate around total number of active clients given that we do have different businesses, different as in, our APAC business has a lot of clients because APAC tends to have a lot smaller clients. So the number actually looks very different. But we'll definitely take that on board. And see if we can start providing that.

Coming back to your original question comparing to Microsoft Dynamics. So, I do not know what your baseline is. But typically, our Dynamics implementation is very time bound, usually 3 to 6 months kind of a project. But then we are also seeing larger ones where the customers have 15 sites, 20 sites, and we're doing all sites together and they may go on for 2 years or 3 years kind of things.

Same way for Fabric depending on what is the spread of the organization, How many locations, how many different business units or different kind of data marts or data structures we are touching, it could become it could be anything from 3 to 6 months to going over 2 years or 3 years kind of a thing. So, it is honestly very dependent on the nature and size of the organization we're working with.

And margin profile-wise, these come at our standard margins. So, I'll not compare it with Dynamics or anything else. This is a global business for us and Fabric business also comes at pretty much our standard margin as Digital Transformation business, right. So, it's not margin dilutive and it's not heavily margin accretive either like or AI type of things.

Moderator: Next question is from Abhishek Pathak from Motilal Oswal.

Abhishek Pathak: Thank You for the opportunity, Sir, my question is regarding one of our key verticals again, which is high-tech. So sir, is it fair to assume that the spends in Gen AI are currently shifting towards hardware and chips because of which we are seeing some weakness in high-tech? And if so, by when do you see these spends again trickle down to let's say, software services or work engineering. And when can we see a meaningful bump up in revenue? Because this seems like an issue of lag rather than slowdown and would love to sort of have your thoughts on that. Thank you.

Nitesh Bansal: Abhishek thanks for joining in. Look, the spend in Gen AI. It's not a question of shifted towards hardware. I think the initial spend has all been towards hardware and some amount of POC and initial prototyping kind of thing. So productive spend on Gen AI on software has really not so far not been out there, but going back to, I think, the primary vein of your question is, that, high-tech has and especially given our business, which is heavily ISV dominated with the core product engineering spend in high-tech industry, how is it kind of coming back and is it coming back or not kind of a thing.

And if we look at from an industry cut perspective, companies that were largely dependent on funding, whether from large private equities, private borrowings or venture capitalists. They had significantly cut these spends and that's where the overall spend in the sector kind of came down.

Larger ISVs or high-tech companies who obviously have enough cash and money they have not cut spending as such, but what they have been doing, given all the sort of uncertainty plus excessive hiring that they have done. They were using all this time to actually carry out leaning of their operations, essentially thinning out the workforce and looking at efficiencies wherever they could gain.

So, we have seen a lot more efficiency-related asks. Our offerings relating to product support, product management, etc., are something that we have been actively taking and talking to them about or shifting their cost base from high-cost countries to lower cost regions and being able to develop those development centres, etc., for them have been the more relevant discussions than actually investing new dollars and building new products.

Now having said that, while I'm no fortune teller, but with my fingers crossed, I hope that and I believe that just like earlier, we were talking that people are beginning to talk about new projects and new programs, and we are seeing some of that traction. Hopefully, the markets also go that way, then Q1 next year or around that time, we should start seeing them willing to spend in building up for the new things.

With my assumption being that this year, bulk of the cost drivers would be done, then maybe they should open up. I personally, am watching out this quarter and seeing if the trend continues. If we continue to see those kind of expectations or those kind of asks from us, and that will further strengthen our belief in that.

Abhishek Pathak:

That's very helpful, Sir. So, just a follow-up. If you could share, what would be sort of a split between the large sort of hyperscalers versus these small to mid private players or ISVs, that's one. And secondly, I think it's pretty clear as to what would drive the hyperscaler sort of spend from here. But is there any sort of positive catalyst in sight for the smaller ISVs to again start spending? Or will it be again subdued for a longer time?

Nitesh Bansal:

Abhishek, I would love to be knowledgeable about it but I don't have any particular insights beyond what I can gather from talking to my customers. And the feel I get is that customers who were like really dependent on funding and did not get it, unfortunately, have either ended up closing shops or getting sold or bought by someone else.

But those who have essentially survived are those who already had revenues on the books who had a running ARR of some sort. They survive the lack of funding. They are tightening their belt, they've obviously come to a point where they can sustain their own operating cash flows and working capital, etc., so, now they should be in a position to spend and be able to start growing from there. And the larger ones anyway, were probably never strapped for cash. They were only becoming more efficient, be more competitive and to let go of extra fat whatever, wherever they had gathered and hopefully, they are closing in on those cycles, so we can grow from there.

The investments, going back to your original point, once they generate enough room for investment, how much of it will go towards Gen AI or enabling AI or AI hardware and those kind of things versus how much will come to software. We are still talking. We are still trying to figure out. But all in all, we are still hopeful we will get to see more software spend as it starts off.

Moderator:

The next question is from the line of Abhinav Chandak from Ratnabali Investment.

Abhinav Chandak:

Thank you so much for the opportunity and congratulations on a good set of numbers. It is really heartening to see that as committed on your last call; finally, operational efficiencies are looking like coming to place. I just have one question to ask to both of you. What are we doing in terms of inorganic acquisition? So, last time when we discussed, the hint which we got was that you are digesting Velotio and then probably at the right time, you would look at something. Any progress on that, sir? And if you could also hint the kind of or the size that we are looking at, in terms of inorganic. If at all, we are?

Nitesh Bansal:

So, short answer, Abhinav, like we said last time, we are constantly in the lookout, we keep our eyes open. We do keep getting a lot of interesting proposition and proposals and especially with Blackstone being the parent company, we have a huge engine that kind of work towards it.



So a short answer is we are constantly looking, we are open., Yes, there was a sense of that we'll digest Velotio and then move forward. Velotio part, I think we are mostly done. Of course, still the formal process of merger, etc., will take some time. But operationally, we are working well together. So, that part is done. So we'll continue to look for and on the size again, we want it to be meaningful, but again, we are not stuck up on a particular size because ultimately, the acquisition needs to make sense. It needs to complement our capabilities and add to our either delivery capability in a vertical or in a capability area, so that we can meaningfully take advantage of it. I mean some of the parts should be larger than just the mathematical or some kind of thing.

So that's why when the right opportunity comes by, we'll certainly try and grab it. But as you know, I mean, these things, they happen when they happen. We keep looking for it.

Abhinav Chandak: Sure. Nand Ji, if you could just highlight, just in case, we happen to acquire. Are we good enough to do it through debt or we would like to raise some equity? How do you intend to fund it? There must be some discussion around it, I'm sure, on the drawing boards. If you could just highlight are we open to diluting equity also for a large ticket acquisition?

Nand Sardana: Abhinav, all these things are solvable. You see all these options are open. I mean we have Blackstone backing. As of now, we cannot divulge these things and we are ourselves working on how we will do it. So, just wait and whatever it is, at appropriate time we'll make announcements.

Moderator: Next question is from Vinay Menon from Monarch Capital.

Vinay Menon: Congratulations on great set of numbers, I just have a few questions. One, sir, you've done hiring in the BPM segment. So, any reason for that? Are we looking to grow it?

Nitesh Bansal: Hiring in BPM segment is largely to fuel our operations. I mean we have been growing in BPM. We've added quite significant numbers over there. So, hiring in BPM continues. There hasn't been any like a senior management hiring or any significant hiring of that nature. It's all to service the demand rather.

Vinay Menon: Okay and there has been some contribution from even India, which you mentioned in the presentation. So, are we looking at like, increasing our presence here because we've always had a very minute presence. Is there any plan for that?

Nitesh Bansal: We are open and while we haven't actively gone after Indian client base, but increasingly client captives of international clients are becoming our buying centres, and we are watching that trend and wherever some of those buying centres are big enough and buying the kind of services that we anyway sell to their parent companies. We are open to engaging in those conversations of that businesses. India itself is becoming a big buying powerhouse for some of the very large enterprises. So, we can't deny that.

Nand Sardana: So, it's just a 0.1% increase. From 1.25% to 1.37% It's not much.



- Vinay Menon:** Any plans to give ACV and TCV like something which we've been speaking about?
- Nitesh Bansal:** I'll let Nand Ji answer that, but the point is we have taken that on board. We are making sure that our internal processes are clean and lined up in a manner that we can do. We can get those numbers out in time and in the right manner. But Nand Ji, your views.
- Nand Sardana:** Sure. I think Vinay, that has been an old ask. So, I think probably we need another 1 or 2 quarters, to get it in final shape for getting it aligned with other companies as well. So, maybe we'll need another 1 or 2 quarters before we start doing that.
- Vinay Menon:** One last question, Has there been any dip in the billing rate this quarter? Because I think we've gone with higher utilization. So, have we sacrificed a bit on the billing rate to get new clients?
- Nitesh Bansal:** No, not so far. Vinay, thankfully, we have managed to keep our billing rates more or less secure but depending on nature of deals and all whatever we used to do earlier, we're operating within the same range.
- Moderator:** We'll take the next question from Abdul Kadir from Ratnabali.
- Abdul Kadir:** Good morning and thank you for the opportunity and congratulations on strong set of numbers, one of my questions have already been taken. Just I'll ask one more question and just pardon me if I'm repeating myself. I just wanted to know your views on the U.S. front, like how is the demand shaping up and with the current news being that there would be a recession in coming times. So, how do you see demand shaping up in U.S. sir?
- Nitesh Bansal:** Abdul, like I said earlier, my current view from leading indicator being many customers asking for more enquiries. , "Can you do this, Can you do that or do a proposal for this Or what would this look like etc.", The initial discussion activities as you would call them is that activity has increased and the only lead I can take from that is that somewhere some of these customers are thinking about and planning to open up some projects as the time comes.
- Now, how that demand will really materialize and shape up in quarters to come. I'm optimistic, but I'm keeping my fingers crossed. We'll watch out through this quarter and then see. But, like I've said earlier also, the early indicators are that there should be some opening up of some kind.
- Moderator:** Next question is from Jagdishvar Toppte from Japan Investment Advisors.
- Jagdishvar Toppte:** Good to see the margin improvement, I have 2 questions, One is with respect to Velotio, there is optionally convertible preference shares, pending acquisition amounting to INR 241 crores. So, when is the due date for the transaction and related question is how do we fund that acquisition and will dividend pay-out be a constrained to see you fund that acquisition.
- Nitesh Bansal:** Nand, you want to take both of these questions?
- Nand Sardana:** So, there are optionally convertible preference shares in Velotio which we need to acquire. So, that process will happen. I mean, we will be doing through merger process, which is yet to be



initiated. The acquisition will be done based on the performance of Velotio. Those are redeemable after another 2 years. So, there is 3 year window for the shareholders of Velotio to stay in the company. So ultimately, kind of the vesting or the final issuance will happen after another 2 years because 1 year has already passed, So, this is your first question. What's the second question?

Jagdishvar Toppte: Sir, funding for that INR241 crores...

Nand Sardana: This could be a stock swap in which pursuant to those preference shares, R Systems shares may be issued. subject to our shareholders' approval in due course of time.

Moderator: Thank you very much. We have 2 more questions. Should we go ahead, sir?

Nand Sardana: Yes, please, quickly.

Moderator: The next question is from Nikhil from Kizuna Capital.

Nikhil: Sir, I just wanted to ask you, like we said last quarter that in another 2-3 quarters after H2, we might break out of the industry growth trend. So, how much break away are we looking at, like 10% more from the industry average or how much?

Nitesh Bansal: Nikhil right now, as you have asked and people have asked. The industry itself, we are all questioning, "How much will it grow, Will it open up and how much will it open up". But if it does open up, we will certainly try to look at how we can run faster than our competition. I don't think at this point saying how much can we run faster than others, it's just going to be just a massive guesswork. So, let's aim to run faster and win the race and once we are winning, it doesn't matter, whether you win by an inch or foot or a meter.

Moderator: We have one last question. The last question is from Sandeep Shah from Equirus Securities.

Sandeep Shah: Based on the discussion, the business started bearing the green shoots. So, is it fair to believe that there is a considerable or a handsome increase in the TCV closure, ACV closure or a pipeline increase versus where we were 6 months back and the second question is with the expectation on impending rate cuts in the U.S., that can trigger about the discretionary spend with some of the telecom clients, with whom we work both on the OEM as well as service provider side because they may be sitting on a huge amount of debt.

Nitesh Bansal: Sandeep, on the second part, your guess may be as good as mine. I think in general, rate cut should improve sentiment on spending and any of these industries, especially telco operators, etc., who are sitting on high debt because of the investments they made in 5G spectrum and other things if they can ease out or open up their wallets, I think it will certainly benefit.

And whether that money comes directly to us or it goes to their Tier 2 suppliers, - who are actually software makers for them who then outsource their work to us even that way. One way or the other, that spending opening up should reflect in better sentiments of the market.



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From TCV, ACV activity from where we were 6 months back or 3 quarters ago, we're clearly seeing a higher activity. I would love to see more higher value conversions before I can feel far more confident. But clearly, the activity rate has gone up.

Moderator: That was the last question. I would now like to hand the conference back to Mr. Nitesh Bansal for any closing comments.

Nitesh Bansal: I think given it's too late, I'll just end by saying I'm thankful for everyone to participate. Your questions obviously, not only help us keep us honest, but also give us insights into what all of you as investors are really looking at. So, we continue to do our best to stay consistent in our reporting, bring whatever best we can bring and we'll take all your suggestions on board and continue to work towards improving our transparency and reporting into the market. But thank you so much for attending. I look forward to seeing you next time.

Moderator: Thank you very much. On behalf of R Systems, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.