"R Systems International Limited
Q4 & CY 2024 Earnings Conference Call"

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Notes:
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Moderator: Ladies and gentlemen, good day, and welcome to the R Systems Q4 & CY 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 touchtone phone.

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

Kumar Gaurav: Thank you, Rio. I welcome all participants to R Systems Earning Conference Call. Since R Systems follows Calendar Year as its Financial Year, Quarter 4 is the last quarter. October to December quarter is Quarter 4 for us.

We have today with us Nitesh Bansal – Managing Director & CEO, R Systems and Nand Sardana – CFO, R Systems.

We have shared the investor presentation in evening yesterday. Hope everyone had received the same. 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 will have a closing statement by Nitesh. Subsequently, we will open up for a Q&A session.

Before I hand it 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 statements. These statements may undergo revisions because of new information, future events or otherwise. Actual results, performance, achievements could differ from those expressed or implied in such forward-looking statements.

Now I pass to Nitesh for his opening comments. Thank you. Over to you, Sir.

Nitesh Bansal: Thank you, Kumar. Good Morning Everyone, and Thank You for joining this earnings call.

I will start with the key highlights for the year for those of you who are referring to the presentation starting from Slide No. 4.

So, like Kumar said, this is not only Quarter 4, but also a full-year earnings call for us. So, I will be covering both the quarterly as well as the full-year highlights.

To begin with, I am very happy to report that we closed the year with Rs. 1,741.7 crore or $208 million in revenue, which is about a 4.6% year-on-year growth without counting the one-time fee that we got for a BOT transfer last year. Otherwise, it is a 3.4% growth year-on-year.

We closed the year at Rs. 291 cores of EBITDA, which is about US$34.8 million, which is an EBITDA margin of 16.7%. On a comparison basis, it is an expansion of about 200 basis points or a growth of about 18.7%, excluding the one-time BOT fees.

Throughout the year, not only from a revenue and EBITDA highlight perspective, we also strive to achieve excellence in various areas of our business and we have been very happy to receive rewards for the same. We were recognized as the Best Supplier of the Year by one of our key clients, the Chamberlain Group. And this is across all categories of suppliers for the company. So, as a partner to Chamberlain Group, we are extremely proud to receive that award.

We also were recognized as the Top 10 Leading AWS partners to watch in 2024. We were once again recognized as Top 500 Value Creators by Dun & Bradstreet and we were also recognized as one of the Best Tech Brands for 2024 by the Times Group.

Not only that, we also significantly enhanced our status of partnership and alliances with some of our major partners. With Microsoft, we became a solution partner in three out of the five competency areas. With AWS, we have extended our advanced partner status from what was two to now seven more areas of partnership.

In Salesforce, we moved to the Crest partner status, which gives us access to a lot more of Salesforce capabilities and the ability to pull Salesforce into critical projects as we need. And we also started a new partnership and alliance with ServiceNow.

In addition to this, we also participated in Everest peak metrics assessments, and we were recognized as major contenders across three of their peak metrics, one for software platform engineering services, other specialized for ISV and platforms, and a third one in the healthcare area. So, the year has been obviously extremely busy and rewarding in that sense.

Coming to the financial performance for Q4: We ended the quarter at Rs. 449 million or $53.2 million. From an EBITDA perspective, Rs. 80.1 million or $9.5 million, which is 17.8% of revenues. From a revenue growth and adjusted EBITDA growth perspective, our revenue grew 1.1% quarter-on-quarter, and the EBITDA grew by 0.6%. On a year-on-year basis, revenue grew by 7.8% and EBITDA by 24.6% compared to the same quarter last year.

Our net profit stood at Rs. 39 crore or $4.6 million. The bridge for EBITDA and how this change has happened quarter-on-quarter is largely Rs. 7.1 crore addition due to better utilization and other standard operations. We got about a Rs. 1.3 crore benefit of the rupee depreciation, and we lost about 7.9 crores because of the lower billing days. As you know, Q4 is normally a soft quarter, also has two lower billing days, which typically has an impact about 3% or $1.3 million for the quarterly revenues.

Moving to the full-year performance:

Like I said earlier, we closed the year at Rs. 1,741.7 crore or $208.2 million, and Rs. 291 crore or $34.8 million in adjusted EBITDA, which is about 16.7% of revenues.

Compared to last year, without the one-time BOT fee, which had a 1% impact, we moved from 14.7% to 16.7% of EBITDA on a comparable basis. This is revenue growth of 3.4% year-on-year, 4.6% net of that one-time fee and an EBITDA growth of 18.7% net of the one-time fee. Our net profits stood at Rs. 131.2 crore or $15.7 million.

Some of the balance sheet items, the equity attributable to shareholders stands at Rs. 624.1 crore, cash and bank balances at Rs. 196.1 crore, AR and unbilled at Rs. 339.6 crore, and our DSO stayed stable at 61 days.

From an EBITDA bridge perspective, we got gains largely due to our operational efforts on improving utilization of Rs. 44 crore. Rupee depreciation benefited us by about Rs. 12.6 crore. And other standard operating expenses increase took away about Rs. 11.1 crore from that, resulting in the Rs. 291 crore of reported EBITDA.

Moving on to the financial trend across last eight quarters, we have seen a consistent growth across the last eight quarters with momentum building up over the last three quarters with reasonable volume growth coming in. And we are seeing the positive movement in the market.

Our revenue for the Company crossed Rs. 445 crore this quarter. So, that's a milestone, and we obviously wish to keep that milestone stacking-up higher and higher. Our adjusted EBITDA crossed Rs. 80 crore from Rs. 54.3 crore in the past.

The quality of revenues has continued to improve, as I have said also in the previous earnings calls, with our approach to deeper relationships with clients and winning more deals and very focused on cloud data and AI type of areas, helping customers build their SaaS platforms and doing higher-order platform engineering work with our clients.

Just to provide an EBITDA analysis, there were the one-time fee as well as the non-cash RSU charges which we are adjusting to be able to provide the EBITDA from operations perspective. We look at Quarter 4 of 2024 versus 2023, our revenue stood at Rs. 449 crores versus Rs. 416 crores in the same quarter last year, resulting in an operating EBITDA of Rs. 80 crore versus Rs. 64.3 crores last year, which is a 24.6% growth.

However, because we gave out employee stocks as RSUs, the charge associated with that, which is a non-cash charge of Rs. 7.3 crores, brings down the reported EBITDA to Rs. 72.8 crore, which is 16.2% of revenues.

On an annual basis, we did a revenue of Rs. 1,741.7 crores compared to Rs. 1,684 crores in FY 2023, which is inclusive of the BOT charge. So, this is as reported. And on that basis, our operating EBITDA is Rs. 291 crores compared to Rs. 264 crores as reported. But when adjusted for that one-time fee, the EBITDA for FY 2023 would be Rs. 245 crores as compared to Rs. 291 crores this year, which is an 18.7% improvement or growth. When applying the non-cash RSU charge to it, which is Rs. 29.9 crore or almost Rs. 30 crore, our reported EBITDA stands at Rs. 261.1 crore, which is 15% of revenues.

Overall, we have expanded our operating EBITDA by about 200 basis points. And as I have mentioned in some of the previous earning calls, we have consciously made this effort to grow EBITDA, to give ourselves more room for investments for growth and largely in the sales and marketing areas.

Moving to the operating metrics, there is no major change in our geography splits. U.S. revenues stand close to 74.2%, Europe contributes about 9%, Southeast Asia has expanded slightly by about 50 basis points to 13.3% and the rest of the world at 3.5%.

From a client concentration perspective, when we look at the top 10 clients, our revenue contributions largely remain the same. The 1% impact that you see is because there is a 1% additional revenue, which was the one-time BOT fee, which is included in the FY 2023 numbers in the chart.

Utilization is at its peak at about 82%. We believe, we have taken or we have squeezed all the juice out of the utilization lever. We believe we can maintain utilizations at similar levels. We will make some strategic investments as we go forward in building deeper capabilities on AI and cloud and security, which we continue to do.

But we have set the operating parameters in a manner that we believe we should be able to maintain very close to this level of utilization with a few bps, here or there going into some additional COE investments from time to time.

Our days of sales outstanding has stayed consistent at about 60 or 61 days, 61 days for this quarter, and we continue to maintain that.

In terms of building for the future, we have significantly enhanced our go-to-market posture. We came out with a GCC offering and playbook for mid-size enterprises where we are enabling working in partnership with enterprises to build and scale their GCCs if they have an intention to establish their own GCC in India. And this is an addition or advancement to something that we have been doing for years, where we set up dedicated ODCs for our customers, which houses their development teams, which is working on their R&D platforms and helping them build their products and platforms.

We have also started doing joint go-to markets with some of our key clients creating 360 degree relationships. What that means is that we have gone beyond just being an outsourced product development partner for these customers. We are also partnering with them in professional services and in pre-sales to enable sell their products to their clients because a lot of those products require customizations even during the pre-sales process before they can be bought by the client or implemented by them. And this makes our relationships more sticky and deeper with the client where we are no longer just a part of the product development, but we are also part of their revenue pipelines.

From a delivery priorities perspective, clearly, AI has been the flavor of the day. We had launched Optima AI as our AI workbench middle of the year, which was to enable our employees to start using Generative AI capabilities in their day-to-day work in the software development lifecycle. It is now being spread across more and more of our engagements and both on the engineering side as well as on the managed services side.

Optima AI has also now expanded to start including some of the Agentic AI workflows. And wherever we are building can handle operations, can create a quick ROI for our customers, those Agentic AI use cases have also been now included into Optima AI.

From an offerings and positioning perspective, in the last quarter or so, we actually launched three new offerings to the market. We launched an offering for modernization solutions, which is transforming Monolithic products and platforms to Microservices-based architectures. We launched the Chaos Engineering Integrated DR Model to enhance business continuity and resilience. We also launched a service to migrate the reporting infrastructure from anything, that accelerate Qlik or Tableau or anything, to Power BI.

We have also significantly strengthened our partnerships with Alliance partners, both with solutions that we have launched on their marketplaces, as well as increasing our certifications and raising our status of partnership together with them.

From a leadership expansion perspective, in the last quarter, we added some key leaders to the team. Ashok Chawla joined us as Senior VP of Global Delivery based in Pune. Neeraj Abhyankar joined us to lead our Data and Analytics practice, including AI and Suresh joined us to lead our Salesforce practice.

With this and through the year with the leadership additions we have done, we have actually got nine key leaders added to the overall management bandwidth, increasing both our capability, positioning, and engagements with our clients across the world. That covers our Chief Customer Officer, Chief Marketing Officer, our HR Head, and a CTO for cloud security, along with SVPs of delivery as well as an RMG lead who have all been inducted during the year.

With this, we have created a structure as well as the capability and capacity to be able to take additional business challenges and new kind of opportunities that come through as the market is opening up.

To highlight a few key wins for the quarter, a leading ESG data management platform engaged us to enhance their existing platform by providing expertise in full-stack development, data engineering, digital operations, and to drive innovation and streamline the ESG compliance.

One of the leading financial services companies based in U.S., which specializes in trading and risk management and global payments, has onboarded us for their Salesforce managed services, system enhancements, strategic guidance, along with ensuring security and scalability.

One of the large banks in the Caribbean has mandated us for their digital transformation journey, starting with the developing of a mobile app, integrating APIs, and streamlining the Forex request handling to drive operational efficiency.

We have also engaged with a global leader in simulation and training software provided to several defense organizations across Europe to accelerate their customer project deliveries and bolster the product roadmap for their flagship product. This strategic collaboration will help them realize revenues quicker and fortify their competitive advantage.

We also got engaged by a US-based software product company, which has multiple products, to transform some of its drafting and legal solutions from legacy to SaaS-based solutions. So, again, going back to the Monolithic to SaaS-based or Microservices-based architecture kind of things, which will offer operational efficiencies and improved document quality and accuracy. This is also a project where there is an embedded AI component into it, which actually enables a lot of this natural language processing and document reading and matching and those kind of things.

I think at this point, I will hand over to Mr. Nand Sardana to take you through some of the financial highlights as covered through the press release and provide some more details on the full year P&L. Nandji, over to you.

Nand Sardana: Thank you, Nitesh Ji, Good morning to all. Thank you everybody for attending the call.

I will cover Q4 as well as year. Revenue for the quarter was Rs. 449 crore or $53.2 million as against Rs. 444 crore or $53 million in last quarter. Last year same quarter, it was Rs. 416 crore, or USD 50 million. This is year-on-year growth of 7.8%, quarter-on-quarter growth of 1.1%. The quarter-on-quarter growth is impacted by lower billing days in Q4. The year volume growth is around 3%.

The gross margin was 37.9% compared to 36.3% last quarter and 34% same quarter last year. The improvement in margin is the result of operational efficiencies. SG&A expenses has increased from Rs. 81.7 crore last quarter to Rs. 90.3 crores this quarter. This is due to increased investment in sales engine along with year-end provisions. Adjusted EBITDA is 17.8% compared to 17.9% last quarter. Net profit after tax was Rs. 39 crore or USD $4.6 million.

Now I will cover the yearly numbers:

The revenue for the year was Rs. 1,741.7 crores or USD 208.2 million compared to Rs. 1,684.2 crores or USD 204 million last year. Excluding the impact of BOT fee, the revenue grew at 4.6% year-on-year. The geopolitical uncertainty and inflationary pressures impacted our revenue growth this year. We are making focused effort to add large accounts to have profitable growth.

Getting now to gross margin:

It was at 35.9% in the current year compared to 35.3% last year. The improvement in gross margin is the result of improved efficiency.

Getting down to SG&A:

SG&A expenses have increased by Rs. 4.9 crore, in percentage term, SG&A were about 19.2% this year compared to 19.6% last year. The adjusted EBITDA before RSU cost is Rs. 291 crore or USD 34.8 million, compared to Rs. 264.5 crore or USD 32 million last year.

As a percentage of revenue, our EBITDA was 16.7% compared to 15.7% last year, it was 14.7% excluding one-time BOT fee. The Company has been able to expand 200 basis point EBITDA margins on the back of improved revenue mix and operational efficiencies.

We are committed to upscale our investment in expanding digital competencies along with further strengthening sales, pre-sales, and marketing activities for future growth. However, we are confident of maintaining the adjusted EBITDA margin as well. RSU cost under management incentive plan is Rs. 30 crore, EBITDA net of RSU expenses is 15%.

Coming on to depreciation and amortization:

The total expense was Rs. 65.4 crore compared to Rs. 54.4 crore last year. This includes Rs. 24.9 crore for the current year and Rs. 12.4 crore in last year for intangible capitalized on account of Velotio and ScaleWorx acquisition. Non-recurring costs for the year 2024 was Rs. 2 crore compared to Rs. 11.9 crore last year. This year, non-recurring expenses pertain to the merger of Velotio with R Systems.

The interest expense is Rs. 8.4 crores this year compared to Rs. 9 crore last year. This is mainly due to interest on short-term borrowings and office lease taken and capitalized under Ind AS 116. Other income in 2024 was Rs. 6.2 crore compared to Rs. 11.2 crore last year. This year we had an exchange loss of Rs. 1.1 crore due to depreciation of the rupee compared to the exchange gain of Rs. 2.3 crore last year. Further, the other income comprises of interest income of Rs. 3.7 crore this year compared to Rs. 7.2 crore last year.

The average rate in 2024 was USD 83.67 and EURO 90.52 as against last year USD rate of 82.57 and EURO 89.29. These are the two main currencies for R Systems. At the year-end, we have a total forward USD cover of 40.8 million with average rate of 85.28 and Euro cover of 2.1 million with average rate of 94.38. This has already been marked-to-market as on the closing rate of 31st December.

Our tax expense is Rs. 60.3 crore this year as against Rs. 60 crore last year. Effective consolidated tax rate is 31% as against 30% during last year. Amortization of intangibles like customer contact and non-compete on Velotio and ScaleWorx are not tax deductible. Excluding this, the effective tax rate would be between 27 to 28%.

Net profit after tax was Rs. 131.2 crore or $15.7 million compared to Rs. 140.1 crore or $17 million last year. Basic EPS for the year was Rs. 11.09 compared to Rs. 11.84 last year. EPS is impacted by RSU costs during the year. And last year there was one-time BOT fee.

With that, let me hand over to Niteshji for closing remarks.

Nitesh Bansal: Thank you. So, just in summing up and looking ahead, we clearly see that the deal activity has picked up and there are a number of sizable RFPs that have been out in the Q4, 2024and which we have participated in and they are getting decided and should result in awards during the Q1, 2025.

The focus partnerships with customers, as I talked about 360-degree relationships, as well as improving the status with hyperscalers is beginning to influence both stickiness in existing business, as well as our ability to win new deals. So, these are very heartening changes or positive movements that have taken place.

Some of the trends that I believe are shaping up the coming year, 2025. The Agentic AI as a discipline, as a technology, promises to provide better line of sight to ROI because these are agents that solve small, repetitive operational activities, so they have much lesser adoption curve, they have much lesser cost to operate, and hence have better ROI as compared to more expensive Generative AI.

However, there is, of course, debate going on with DeepSeek which has significantly reduced the cost of carrying out a Generative AI kind of a setup and we believe that such disruptive innovations will keep coming and they will offer more opportunities to put Generative AI use cases in a more viable manner into real-life scenarios.

GCCs has been a major trend that has developed during the year, and a lot of companies are looking at it to set up their own GCCs. And specifically for mid-sized clients who do not have any presence in India, it's a great opportunity to partner with companies like R Systems to help them enable to take advantage of this opportunity.

We have already rolled out our playbook. We are engaging in those RFPs or one-on-one dialogs, and we are seeing a good traction in the market with that. And despite some of the uncertainty because of changing policies with the new U.S. administration, etc., we are actually quite optimistic of carrying the growth momentum into 2025 and being able to take advantage of the same.

So, I will kind of pause over there, not to take away too much time from the Q&A part. I will hand back to Rio for the Q&A portion.

Moderator: Thank you very much. The first question is from Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Yes, thanks for giving me the opportunity. Am I audible?

Nitesh Bansal: Yes, Mihir. Go ahead.

Mihir Manohar: Yes, sure. Congratulations on the overall utilization going up and margin improvement happening over the entire year. Sir, I largely wanted to understand the GCC strategy. You rolled out the GCC playbook. I mean, what exactly are we going to do over here? I mean, you know, what services are... <Inaudible>.

Nitesh Bansal: Sorry, Mihir. I can't hear you anymore.

Moderator: We seem to have lost the line from Mihir. We will move to the next question. Next question is from Nikhil from Kizuna Wealth. Please go ahead.

Nikhil: Thank you for giving me the opportunity and congratulations on great utilization numbers and margin improvement. So, my first question is, can you give us a highlight on how the ACV and TCV has grown both as a qualitative metric and a quantitative manner? And sir, now are you seeing the pipeline is getting really good, so, have you signed any large deals or you are still looking at the smaller deals coming in? And have you signed any new client in ISV verticals <Inaudible>.

Nitesh Bansal: I am sorry, Nikhil, what was the third part of your question?

Nikhil: A new client in ISV vertical or have we grown over wallet share in any kind of new client?

Nitesh Bansal: All right. So, Nikhil, on a qualitative basis, our ACV and TCV have certainly grown. If we look at it from a perspective of number of deals that we signed during the year, which within the year or with the opening deal give us over half a million dollars of revenue, that has grown more than double-digit percentages. Actually, we have over 50% growth in those kind of deals.

While the pipeline is made up of all kinds of deals, because we are not saying no to small deals, so there are plenty of small deals, but the number of larger deals in the pipeline has certainly gone up. And we have also seen that now, we get invited to a lot more RFPs. If I just compare with, let's say, two years ago, the number of RFPs we would respond to were in single digits. Now we are responding to more than double-digit RFPs each quarter which is, I think, is a combined result of both improved positioning, working with hyperscalers and partners, as well as the kind of propositions we are taking to the market.

In terms of client signings, yes, we have signed a number of new ISV customers. The ESG company example that we took, is a platform company which has an ESG platform, and they provide, platform as a service ESG reporting services to their clients.

Similarly, we signed up a health tech platform in the ISV's space, which is specifically focused on behavioral health services, and we are enhancing and modernizing their platform. So, we have signed up a significant number of new ISV clients, some of whom are actually greater than $1 billion companies, which also has been one of the focus areas to move our business towards larger client sizes to get more meaningful wallet share from them.

So, yes, I think on all the three parameters, we have seen the leading indicators move in a positive direction.

Nikhil: That's great to hear and very positive to hear. Sir, now, second that we are focusing on the GCC trend that is catching up. So, sir, how are we supposed to partner with the mid-sized clients over there? And what kind of services are we going to provide? Can you elaborate on that strategy over there on the GCC one?

Nitesh Bansal: I think Mihir was asking a similar question when his line dropped off. So, if he is back online, maybe this answers part of his question as well. So, look, setting up centers for development is nothing new for us. We have always been working with product and platform companies doing their R&D and their extended product development. We set up dedicated teams for them in an ODC format and those are dedicated teams. In that we work only for that client and continue to deliver on that platform for year after year.

GCC is a construct where certain clients believe that they can do more R&D work or they can put more of their IP into development in India Center, if they had ownership of it, So, for us, from an operational perspective, setting up a dedicated ODC, putting a team together, putting the right methodology, tools, delivery capabilities, putting up the delivery pipelines, and all of those things in place is nothing new.

The only thing new is to work with the client on the basis where potentially, down the line, they may want to own a part of that center and call it their own. And that is mostly a contractual construct where after a certain number of years, if they wanted, they could take away a part of that which is core to them, which gives them more confidence to put more work into India. And for us, we believe that it is a win-win proposition because not only we participate in setting it up for them, we benefit from the scale of the operations. And even when they take away, let's say, a part of it which is core to them, they continue to work with us because we are upscale partner for them. And if you look at the GCC trends in India across the 1,700 odd GCCs that exist already, you look at those that have grown successfully over the course of last five or seven years. You will find that they typically use anywhere between 25% to 45% of the total capacity as an extended capacity from partners. So being a part of that play, growing with them, doing more strategic work, and continue to reap the benefits, is the play for us.

From a services perspective, we are offering end-to-end services. When they want to own the company or own the setup that is core to them, we would enable their entity setup and hiring their key leaders, etc., or do an EOR for them, which is all paid services. We will obviously work with our partners for legal and other things behind us and be able to offer a one-stop solution for them.

Nikhil: That's great to hear. Now Sir, how are we looking at the growth for CY 2025? Are we looking at targeting for double-digit, high double-digit growth? Like, can you just provide a quantitative perspective to the growth?

Nitesh Bansal: Historically and now also we haven't provided guidance, but I have always maintained that our ambition is to hit market-leading growth. And with some of the tailwinds, if they happen well within the beginning of the year, then we will certainly look at creating that kind of growth trajectory. Right now, it may be too early to say because we are coming out of a lean year. We have seen the deal activity, and we are very positive about it. But, yeah, all efforts in building up the Company, the capability and our posturing to the market is to target towards a market-leading growth delivery for the year.

Nikhil: Yes sir, that's great to hear. And Sir, are we looking for any kind of acquisitions going forward to enhance our growth?

Nitesh Bansal: We have always been open to acquisition. It is a core part of the thesis that we will grow both organically as well as inorganically. Last year also, we have actively looked at several opportunities. We have our area earmarked where we want to do inorganic acquisitions. If the target is right, with the right kind of valuation, we are absolutely geared up to do that. And we continue to be actively engaged in some of those conversations even now. So, yes, it is on the cards, but acquisition is like, you look at many and then maybe one will happen. So, yes, we are working towards it and when the right opportunity is there, we will certainly make a move.

Nikhil: Okay, sir. That's great too here. and Sir, how will this acquisition be funded?

Nitesh Bansal: We have all the options of being able to fund it. Thanks to being backed by a very large private equity like Blackstone and being part of a Blackstone portfolio gives us immense amount of access to both the ability to scout those acquisitions and value them right, but also in terms of funding, right from using our own funds to borrowing to getting more capital infusion, all sorts of options are open. So, we are not restricted by any.

Nikhil: Okay, sir. That's great to hear. So, I will be join back the queue. Thank you, sir.

Nitesh Bansal: Thank you.

Moderator: Thank you. The next question is from Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Thanks for giving me the opportunity. On the GCC side, are we seeing larger RFPs coming around this particular piece and any meaningful conversations happening around that?

Nitesh Bansal: Yes, it's an opportunity which is kind of growing and we have ourselves seen a few RFPs in the space. Typically, the RFPs in GCC are clearly larger because they come with also a certain commitment of number of years of engagement, etc. So, we have seen that. We are responding to a few and so they are in the works. And like I was mentioning to Nikhil earlier, doing the GCC setups is not new for us, as we have done ODCs for a long time. And we have also, during the results talked about the one-time BOT fee in 2023, etc. So, we have done GCCs in the past as well. So, we have a pedigree and a successful track record of having done them in the past too.

Mihir Manohar: Sure. How would be the realizations in margin for this business?

Nitesh Bansal: So, if I am understanding your question, are you saying, is there a different kind of a margin profile for GCCs versus the others? And the simple answer is larger deals do come with slightly lower margins, which gets made up with the upfront commitments, etc., that they make. But we are not seeing, the total revenue from GCCs to suddenly become so big that it has a material margin impact on the overall company's performance. But deal by deal, even otherwise, right, in our normal business, there are deals which get us a much higher margin than others. But overall, we continue to look at our margin profile as a Company as a whole, and we are quite confident that we can manage that.

Mihir Manohar: My second question was on this productivity benefits, which are getting passed on by different companies. So, are we facing similar kind of pressure from a high-tech client that we are having, either Google or Microsoft or Amazon for that matter? Any thought to pass on productivity benefits around that?

Nitesh Bansal: So far, not. And I think there is a clear distinction to be made because the productivity benefits and expectation of passing on productivity benefits largely, exists in a managed services space where people are doing more support and maintenance work. Bulk of our work happens to be Product Development and product R&D or re-platforming or modernization, which are all projects in nature.

So, they are usually contracted based on what it will take to deliver the project, whether you work on time material or fixed price, but you are making that upfront assessment and putting up a cost for it, So, there is no element of that productivity because year-on-year, you are continuing to do the same work because we are doing new development works.

Now, having said that, we mentioned earlier, we prepared our organization for using Generative AI to bring in whatever tools we can to gain benefits or advantages of productivity where we can. Currently, it's nascent or in early stages and our customers are also not looking for it. But if it truly becomes pervasive and we see significant benefits, we might end up sharing some of that with our clients. But in effect, it should still have a margin improvement impact on us because if we save something and pass part of it to the client, we still gain in terms of margins.

Mihir Manohar: Understood, So, you are not facing the price kind of pressure which is there in managed services space.

Nitesh Bansal: No, not that kind of pressure, clearly.

Mihir Manohar: Understood, sir. And I just broadly wanted to understand that in the last six quarters, we have been trying to get market-leading growth. I mean, after the change in management and change in shareholding, which has been there, any broader thought that any fixes, utilization has gone up pretty well, margins have gone up pretty well. But when should we see the growth, once again, kicking back for us? How should one pan out? Are there incremental fixes that are required from the company perspective? Any capability filling up or is it largely related to market? And if you could throw some color around the top 10 client conversations, what kind of conversations are you having, which potentially can indicate some growth for CY 2025, some bit external color around that, quantitative color, that will be really helpful.

Nitesh Bansal: It is largely market-related because our business is largely project-based and based on discretionary spend and that is a prime reason why we are so dependent on the market sentiment for being able to get that kind of growth. Last full year, we have experienced some amount of churn which happened in the market. We still managed to add enough number of clients and new logos to be able to make up for the churn and still post a certain amount of growth into the system. Also from a management perspective, wherever we have identified gaps or new capabilities that we need to build and add, we have continued to do that. So, from that perspective, we haven't left any glaring hole to be plugged as such. But we will continue to look new opportunities come by and we will continue to look at those. And wherever we need, we will get additional capabilities. Wherever we need, we will invest. As per our plan also, we will invest more in the sales and marketing side to improve the number of feet on the ground and number of people walking the corridors with the clients.

From a top 10 client perspective, we don't look at it as top 10 alone, because if you look at our exposure to top 10 clients, it's really not that big. We don't have a client concentration, neither as a risk, or as an advantage as such, because the total contribution of top 10 clients is hardly 22-23%. We look at top 50 clients where, all of those clients are pretty much at a stage that any of them can grow or most of them can grow and discussions with them have been focused on how we increase the wallet share with them. Some of the 360 partnership discussions and relationships are developing towards those. So, those have been some of the key discussions. Taking over some of their product portfolios. Now that they have seen us, worked with us, they know our capabilities. Maybe they can trust us with a lot more ownership. And those are the kind of discussions shaping up and internally, we are aiming at seeing how we can move many more of those clients to the two-plus and five-plus million-dollar categories so that we can build a deeper book of business with each of them.

Mihir Manohar: Thank you.

Moderator: Thank you. Next question is from Deep Modi from Equirus Securities. Please go ahead.

Deep Modi: Thanks for the opportunity. Congratulations on maintaining healthy margin. So, most of questions already taken. So, what would be the portion of outsource product development for which R Systems is known for versus other offerings in our total revenue?

Nitesh Bansal: We specialize in doing platform builds and development and especially SaaS platforms and vertical SaaS for companies. So, when it comes to product development where we really excel, it is the products that get platformed, have a component of cloud because they need scale and they are SaaS-based, have an integrated data pipeline and data elements because, again, it's SaaS or vertical SaaS and requires a real-life data analytics, etc., integrated into it. And increasingly what we are doing is, where the products need and have the capability to then integrating ML pipes into it. So, that's been our niche. But, you know, most of the times customers want to try us out for things first before getting on to that place. So, it always is like a journey. But we are doing a lot more of these SaaS platforms as we talk. And a lot of them are AI-first platforms that we are working with.

Deep Modi: My last question is, are we seeing any addition in the clients from Blackstone channels?

Nitesh Bansal: So, from Blackstone channel, the client addition has been a consistent thing. Every quarter, we add at least one or two clients from the channel. By the end of Q4, we already have worked with about 11 active clients in Q3. Now we have about 14 active clients. We have totally worked with about 16 clients, two of which we did projects, one-off projects, etc. So, that number continues to increase. And I think, I had mentioned in the last earnings call as well, at any point of time, we have at least a dozen conversations which are also going on. So, our pipeline also remains active with a lot of those Blackstone portfolio companies.

Deep Modi: Okay. Thank you very much and all the best.

Nitesh Bansal: Thank you.

Moderator: Thank you. Next question is from Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Nitesh Ji, I just wanted to understand if I have heard correctly. The Q4 growth has been impacted by close to 3% because of the furlough. So, is it fair to assume most of these furloughs can recoup in the first quarter of calendar year CY 2025 and there could be some additional ramp-ups? So, the start of CY 2025 could be on a good growth momentum. And if we maintain that, achieving a double-digit at least in terms of the growth rate may not be a big task in CY 2025.

Nitesh Bansal: So, Sandeep, first and foremost, let me correct the point. It's not just a furlough impact. It's a lower number of working days compared to Q3. Q1 actually has the same number of working days as Q4. So, Q1, the Calendar Year 2025 has the same number of working days. So, the volume growth will obviously continue or reflect, but it does not add anything because the number of working days doesn't go up.

Having said that, the rest of the extrapolation I will leave to you because I am just continuing to focus on making sure that all the deals that we have participated in, that those decisions come in quickly. And then the clients gear up to start them quickly because, while RFPs are a great leading indicator, but ultimately revenue happens when the rubber hits the road, when we have won and the customer has actually started the engagement. And January has been busy with some of those, and we will obviously look at the outcomes during the quarter.

Sandeep Shah: Okay. Just the follow-up in terms of growth in the top clients in Q4 has been really very strong. If you look at the growth in large clients, two to three clients, four to five clients across buckets, we have hit more than double digits. So, what has led this? And do you believe these are one-time projects or this may continue going forward as well?

Nitesh Bansal: Most of it is still discretionary spend. So, this is project-based spend, which is true. But if you look at the nature of the business, because we are working on their product developments or doing some of the data or AI-related work, they typically tend to continue because it goes from one feature set to another feature set to another feature set unless it was just a one-off migration of legacy platform to new platform, so you can bucket the project into a limited time and just do it, deliver, and move on.

So, I think, there is a bit of both in that, but we believe that the Q4 was a reflection of some of the decisions which were pending through Q2 and Q3. And I kept on giving the commentary that we are waiting for decisions. Some of those decisions came through, which has reflected in that. And we hope that if that is an indicative of their budgets opening up, then we should continue to see that in future as well.

Sandeep Shah: Okay. And just last few things, Nitesh Ji, just wanted to understand your understanding of a demand shaping up in our verticals. If you can give some color in terms of how demand is shaping up across most of our verticals. And Nand Ji, is it fair to assume the fourth quarter adjusted EBITDA margin can continue going forward or you are saying the yearly 16.7 will continue going forward, and one has to take effective tax rate as 28-27% for CY 2025 or 2026 or it can be higher because the amortization of the acquired subsidiary may continue in the coming years as well?

Nitesh Bansal: So, let me quickly give the first part of the answer and I will hand it over to Nandji. So, from a vertical perspective, even in the last year, we saw healthcare, services and manufacturing and some of those verticals give us the resilience or makeup for what we saw, let's say, a little bit of slowdown in the ISV or the tech and the telecom side.

From a leading indicator perspective, we are seeing tech opening up a bit, telco not yet. Other verticals, including healthcare and banking, as well as services, etc., continue to be promising. So, I think the positive impact or what we are looking at is that tech should open up slightly more, and that will give us good tailwinds. And if Telco opens up and starts on a positive note, then, of course nothing like it.

So, I will pause there and let Nandji answer the other part of the question.

Nand Sardana: On the EBITDA front, the yearly EBITDA before RSUs is 16.7%. As Nitesh Ji and I have mentioned that, we are investing in sales and marketing, and that is the primary aim to get into the growth momentum. So, from a model perspective, you can assume around the same i.e. 16.7%. On the effective tax rate, as I said that because of Velotio amortization, it increases by 2% approximate. But from a business point of view, it is 27.5% or 28%, as of now.

Sandeep Shah: Nand Ji, if I look at the difference between full year adjusted margin and Q4, the difference is as big as 110 bps. So, is it fair to assume 16.7 is the worst-case kind of a margin which we can maintain and it could be slightly better because of the strong exit on the adjusted EBITDA in CY 2024?

Nand Sardana: I think 16.7%, as I said, is the endeavor to maintain. Anything addition to it would be a bonus.

Sandeep Shah: Okay. Thanks, and all the best.

Moderator: Thank you. The next question is from Vijay Menon from Monarch Capital. Please go ahead.

Vijay Menon: Hi, I have a few questions. One, you said that in Q4, we had a lower number of days and that impacted our volume growth by 3% to 4%. So, basically I am asking that in Q1 compared to Q4, will we have more days or is it going to be similar to Q4? I just wanted to know that.

Nitesh Bansal: It's the same number of days, Q1 and Q4. Both have exactly the same number of days. So, when you said in Q4, number of days impacted our volume growth, no, that's not correct. We actually had volume growth, but it impacted the revenue because of two lesser number of days versus Q3. But Q1 has the same number of days, so we will not get any uplift of revenue of the same volumes, but whatever new volume growth we get is what will get reflected.

Vijay Menon: Okay. Do we have any targets on what kind of employee addition are we looking at for like CY 2025?

Nitesh Bansal: We have seen positive addition or net employee growth in 2024, which is good. We are looking at employee growth in 2025 as well. We are already hiring quite a bit of people during the quarter. Again, giving guidance in one form or the other, it will kind of amount to the same thing. But, volume growth will be or rather headcount growth will be in line with the revenue growth. We are not looking at building a huge bench. So, whatever revenue growth we are looking at, we will be adding more people. We are at a level where we will have to hire and we continue to hire as we are adding revenue to the Company.

Nand Sardana: In the interest of time, I will request that we restrict our question to one. We are extending the call by another 10-15 minutes. We have to wind up in next 15 minutes.

Vijay Menon: Just two small questions. IT services margins were 11.5% this time, which is higher than our general 10 to 10.5. So, can we expect this momentum to continue? Or were there any one-offs there?

Nitesh Bansal: So, this year 2024 reported margins do not have one-offs. And like Nandji answered in the previous question to Sandeep, from an annual exit perspective, we do expect and want to maintain margins at those levels. And we do not expect surprises to that. But Nandji, I do not know from a net margin perspective if you want to add anything to that.

Nand Sardana: Not really, actually. there is a slight Rs. 2 crore of one-off, which have been taken below EBITDA. Otherwise, it's business as usual.

Vijay Menon: We had a $500 million target in the next three to four years. So, are we still in line with that or are we adjusting that in any way because of the kind of growth we see?

Nitesh Bansal: We are not adjusting that because, that has been sort of the goalpost that we have created for ourselves. And we know that once we pick up momentum, then, we are not limited by how much growth can we accommodate. So, what we are focused on is continuing to develop the momentum and continue to raise it as we go through the quarters. And then, we will get to that in combination of organic, inorganic, all levers put together. We will certainly try to go towards our goal.

Vijay Menon: Thank you so much.

Moderator: Thank you. Next question is from Nitish Rege from ChrysCapital. Please go ahead.

Nitish Rege: Hi, Thank you for the opportunity. My question is on the revenue growth. So, this year, revenue growth has been a challenge. So, in CY 2025 now this year, what kind of visibility do we have? Do you think we can do an early teens kind of dollar growth in CY 2025? Just, you know, as investor, what do we assume considering we only grew 3% in CY 2024? You know, it would be helpful if you could just give a range or even an indication like early teens, mid-teens, high teens, if possible.

Nitesh Bansal: Last year, we know the entire industry had seen the challenge and for almost the entire industry, some of the COVID-induced growth that came in previous years in 2022, 2021, etc., that got eroded. And for all mid-sized players, from our peer category, they saw a challenge from that perspective. And in that environment, we have kept our head down, worked on the core competencies, built the capability and capacity and the partnerships to be able to take advantage of as every opportunity that comes through, and the market opens.

We are obviously, like I talked about earlier through some of the questions, are seeing those leading indicators. We do not provide guidance. So, that's where, saying early teens, mid-teens, high teens, etc., will again be a question of do we give guidance. But we are absolutely clear on our ambition to be in the market-leading growth category. With some amount of whatever help from the opening of the market and the sentiment improving, we believe we should get there. We are working towards it. And hopefully, we will see some of the outcomes.

Nitish Rege: When you say market, how do you exactly define market? There are some companies which are growing 15% plus. There are some companies which are also doing around 5%. So, when we say market, what is our definition for this?

Nitesh Bansal: So, when I say market, I am looking at my client-based market and not doing a peer group from a market perspective because, there are certain companies in our peer group which are much larger than us and do a lot of outsourcing business, etc., which is consolidation deals and those kind of things.

For us, it is largely the verticals that we play in, which is the tech Internet and platforms or ISVs, whichever name you want to call them, the telecom and media, as well as healthcare, which are our primary verticals and that too mostly focused on their tech platform space. And that is what we look at as our primary market and that to a lot of the U.S. clients because U.S. still remains the prime geography for us to target.

And that is where we had seen a significant contraction of spend during the course of last 12months or so, which we believe should open up whatever early signs we have seen look promising. And that's where we are focused.

Nitish Rege: You have been in the system for now around 18 plus months and, you know, there has been considerable amount of new hirings in the last 12 months. So, where do you think, where we can accelerate growth? How can you reduce the dependencies on a robust market?

Nitesh Bansal: Where we can accelerate growth is by being in tune with the market needs or market narratives. Because the market continues to shift. And last year, we saw so much of noise around AI and data and other things. What that clearly means is that and when we look at our customer set and based on the conversations we are having, customers are no longer looking at adding small teams or doing those 1, 2, 5, 10 FTEs type of thing to just enhance a certain capability or add a few people. Because, again, in U.S., also with all the layoffs that happened in the beginning of the year, the amount of talent availability has actually gone up. So, those needs don't come through.

What they are looking for is really differentiated capabilities and doing that platform Development, being able to integrate AI pipelines, being able to work with cloud providers to actually create their SaaS platforms. And that's where, all the effort that we have put in place to have those capabilities, to be in the Everest peak metrics or being identified as a top 10 AWS partner, etc., are all the moves that are to enable exactly that kind of a shift.

So, we have done our bit. We are being recognized. We are seeing that. And that is what we believe should give us the leg up to be able to grow in that space.

Nitish Rege: Okay. And what is the status of M&A? There have been a number of deals in this space in the last two years. And it's very surprising that we haven't been able to close, even one deal after our Velotio acquisition.

Nitesh Bansal: We can't be caught in a FOMO I mean, acquisitions is obviously if you get it right, it's great. When you get it wrong, it does erode a lot of value for the Company. So, being very cautious and making sure that we are doing the right due diligence before we take that step is very important. We are obviously significantly helped by Blackstone as well in doing those evaluations and assessing the right opportunities and right valuations.

So, it's not really a question of we haven't been able to do one. We are confident if we like an asset enough and for the right value, we will not be shy of making an acquisition. But it will happen whenever we have the right asset.

Nitish Rege: Because the Blackstone team is not on the call, if you can just provide some insight into what is their thought process when they look at M&A for us?

Nitesh Bansal: I mean, more than Blackstone's thought process, we have a very clear thesis. We stay true to our swim lane of being a product engineering, platform engineering, and digital services provider. So, we continue to look for the right kind of opportunities in that space, especially if there are companies that come with a certain kind of niche which adds or complements our capability, and we obviously are looking for growth accretive and margin accretive companies so that we don't erode any shareholder value with the acquisition that we make. And then not every parameter stacks up, so they may be slightly here or there. And those are all part of the end due diligence that we do together with Blackstone.

Nitish Rege: Okay. So, I believe that at some point of time, you will have to start giving some organic growth, right? Like investors and management teams are currently in different silos and we assume growth. Do you think in the future you will be looking at guiding on organic growth?

Nitesh Bansal: So giving organic growth, absolutely, yes, that's what we are here for, and that's what we are working towards. Providing guidance for organic growth is something, we haven't done so far and we still do not believe we are kind of ready for that, but this is something that we will take on board and we will continue to assess if we have the confidence to and we feel that it is really necessary to provide guidance, then maybe we will look at it.

So, far, at least our understanding or our internal resolution has been that we are not providing guidance. We are providing as much transparency as we can, and we have also entertained a lot of one-on-one discussions where we do provide answers to a lot more questions. Throughout the last year also we have met investors, and it has been good experience.

So, we are doing our bit to provide every bit of confidence we can. And do let us know if you are looking for any additional inputs or information we can engage. But we are not providing guidance yet.

Nitish Rege: Yeah, not even on the guidance side, but if you could just start sharing the ACV, TCV data, which is shared by other companies that would really be helpful for us <Inaudible>.

Nitesh Bansal: We will take that on board.

Nitish Rege: And just one last question is, I just wanted to understand, on the tax rate side, why is there so much volatility in the tax rate?

Nitesh Bansal: I will pass back to Nandji.

Nand Sardana: Yes, so there is not such volatility in the sense as I explained that our effective tax rate is 27 to 28%. Since, we are providing and amortizing the Velotio non-compete and client acquisition, which is close to Rs. 6 crore per quarter, that kind of adds another 2%. But once the merger and all that happens, more clarity will come. But I think from a model perspective, as I mentioned to the other question, it's 27% to 28%-our effective tax rate.

Nitish Rege: Thank you so much. That's all from my side. Thank you.

Moderator: We will take the last question from Omkar Sawant from Marcellus Investment Managers. Please go ahead.

Omkar Sawant: Hi Nitesh. In terms of the key trends that you said were shaping up in 2025, another theme which is going on is the vendor consolidation, right? The consolidation deeds and looking at our client concentration, it also doesn't seem that we have any skilled relationships. So, how do we ensure that we aren't caught on the wrong side of vendor consolidation in general?

Nitesh Bansal: Hi, Omkar. Thanks for the question. So, like I mentioned earlier, there is the nature of work that we do is platform product development being part of an R&D team. So, if you look at what happens in vendor consolidation deals and what kind of deals typically get consolidated are either BPO or managed services, which are mostly business as usual type of services, run and maintain applications or infrastructure. Those are the most common type of vendor consolidation deals because there is only limited new development involved. There is no IP involved and most of the work is already second Gen or third Gen.

So, the processes have been set, The whole idea is that earlier five people or five companies were doing this work. Now one company is ready to do it and offer me more discounts. So, these second, third, fourth generation deals, which usually are highly margin dilutive, come in with consolidation and they happen.

While we don't have a client concentration risk, and the clients are not that big, but we are still slightly or I would say, largely shielded from a vendor consolidation risk because of the nature of work. Once our teams have engaged on somebody's product development, and we have learned the company's product architecture, we are working with their teams in developing their product and being part of the roadmap, chances that somebody can just come and replace us is difficult. It would require significant amount of effort, investment, transition of knowledge, etc. and it could be disruptive for the clients as well.

Omkar Sawant: We were also getting into the product sustenance part of it, right? How has that evolved?

Nitesh Bansal: So, that dialog is shaping up. When I talked about doing 360-degree relations with our clients and somebody else had asked the question about the nature of conversation with top 10 or top 20 clients. In most cases, our push is towards deepening the relationship by taking ownership of some of the products.

Typically, how that starts and wherever we have seen success in a few cases is clients want to hand over their end-of-life products or products where they have stopped, while they are not end-of-life, but they have stopped doing any fresh feature releases, etc., to put them in sustenance mode and hand them over to us to provide that kind of services. And so those discussions are progressing well, being received well by the clients. As our number of case examples are developing in space, we are seeing better reception and outcomes.

Omkar Sawant: Okay. Thank you so much.

Nand Sardana: So, considering that there are a few more questions, we will host another call, and we will intimate accordingly. But in the meantime, feel free to write to me for any specific query and we will be happy to answer those queries. I think we can close the call.

Nitesh Bansal: Thank you, everybody.

Nand Sardana: Thank you.

Moderator: Sure, thank you very much. On behalf of R Systems, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.