# R Systems International Limited
# Q4 & CY'2023 Earnings Conference Call"

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**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 Please note that no unpublished price sensitive information was shared/ discussed during or in pursuance to this Earnings Call.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.

**Moderator:** Ladies and gentlemen, good day and welcome to the R Systems Q4 & CY'2023 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 call, please signal an operator by pressing '*' then '0' on your touchtone 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 Rayo, I welcome all the participants to R Systems Q4 & CY'23 Earning Conference Call.

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 earlier today. Hope all of you have received that.

we will start the call with "Opening Remarks on the Performance of the Company by Nitesh" and it is 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 over, let me read out the customary disclaimer statement on behalf of the company. Investors are cautioned that this presentation contain certain forward-looking statements that involve risk and uncertainty. The company undertakes no obligation publicly to update or revise any such statement. This statement may undergo 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.

With this, I am handing over to Nitesh sir for his opening comments. Thank you. Over to you, sir.

**Nitesh Bansal:** Thank you, Kumar, and good afternoon to everyone joining the call and good morning to those who are joining from western region.

I am really happy to be on the call and to be talking about our Q4 & CY'23 results.

The agenda that will be covering the "Key Highlights, Operating Metrics and the Financial Results" followed by Some Commentary on Building for the Future and Outlook summing up and looking ahead for the next year.

Assuming all of you have received the Presentation, and if you're referring to it, then I am on Slide #4, the “Key Highlights”.

Very happy to highlight that the company has crossed Rs. 1,600 crore in the annual revenue run rate, it's about $200 million in annual revenue run rate in 2023. We have also crossed Rs. 240 crores in EBITDA, which is 14.7% EBITDA for the year, which would otherwise be 15.7%, including the one-time fee that we received in the previous quarter.

We're also happy to report Rs.145 crores adjusted PAT with a year-on-year growth of 4.2%.

The company has also earned the “Certification of a Great Place to Work” at all the countries that we have full time workforce. It is a great testament of what we do as our people practice and also stands us at par with a lot of industry peers, has great places to work, has become an industry standard certification.

Moving on to the next Slide #5, “Key Highlights” for Q4 of 2023:

Our revenue stood at Rs.4,163 million or US$50 million, which is a year-on-year revenue growth of 4.2% with a year-on-year EBITDA growth of 7.7%. Our net profit stood at Rs.459 million with an earning per share of Rs.3.88 per share. Comparative EBITDA compared to Q4 last year from 14.9%, we have grown to 15.4%. Compared to the last quarter where we reported 18.8% EBITDA, net of the one-time BOT fee would have been 15.2%, has gone to 15.4%.

What we have shown on the slide also is provided an EBITDA bridge. From Q3 to Q4, because of the one-time fee that we received in Q3 which had an impact of about Rs.193 million and then the lower working days which have an impact of Rs.66 million. Through our normal operations, we made an additional Rs.43 million in EBITDA. The adjusted EPS before non-recurring and one-time tax reversals would stand at Rs.3.01 per share.

Moving to the FY'2023 or CY'23 Results, since we follow a calendar year, the revenue stood at Rs. 16,845 million or $204 million, with a year on year revenue growth of 11.1% and year-on-year EBITDA growth of 27%. Our net profits rose to Rs.1,401 million or $17 million and earnings per share stands at Rs.11.84 per share adjusted for non-recurring and tax provisions, etc., it would be Rs.12.30 per share. So, if I look at the EBITDA comparison from '21, all the way to '23, We have gone from 14% to 15.7% in EBITDA and from Rs.11,566 million to Rs.16,845 million in revenues.

Some of the “Key Balance Sheet Items”:

The equity attributable to shareholders stood at Rs.6,114 million or $73.5 million, and the cash balances of the company, net of short-term borrowings stood at Rs.1,338 million or $16.1 million.

I will hand it over to Mr. Nand Sardana to take you through Detailed Financial Performance and Contribution Analysis, which is the next Slide #7.

**Nand Sardana:** Thank you, Nitesh ji. Good evening to all. Thank you everybody for attending the call.

The presentation gives both Q4 and Year 2023 number. I will quickly cover Q4 and then move on to yearly numbers.

As Nitesh ji said, revenue for the quarter was Rs.416.3 crores or $50 million as against Rs.457.3 crores or USD55.3 million in Q3. Excluding one-time BOT fee, the Q3 revenue was Rs.438 crores or $53 million which is a decline of 5% quarter-on-quarter growth.

The gross margin was 34%, which was lesser by 160 basis points compared to the same quarter last year. This is mainly due to the impact of lesser billable days and average salary increases, net of rupee depreciation.

SG&A expenses were reduced in absolute terms due to reversal of provisions for bad and doubtful debt, along with true-up of provisions. resultant EBITDA was 15.4% compared to 15.2% last quarter net of BOT fees. Net profit after tax was Rs.45.9 crores or $5.5 million.

Now I will give a detailed “Overview” of Yearly numbers:

Revenue for the year was record Rs.1,684.5 crores or $204 million compared to Rs.1,515.8 crores or $193.2 million last year. Excluding the impact of BOT fee, the revenue grew at 10% year-on-year. Macroeconomic situation has impacted the revenue growth over the years.

Our present sales pipeline is encouraging. We are making focused efforts to add large accounts to have profitable growth.

Getting down to “Gross Margins”:

It was 34.5% in the current year excluding BOT fee compared to 35.1% last year, a reduction of 60 basis points. Reduction in gross margin is mainly due to the impact of increase in average salaries, net of improved utilization and rupee depreciation.

Getting down to SG&A expense line, SG&A expenses have increased by Rs.5.5 crores, in percentage terms were about 20% this year compared to 21.4% last year.

EBITDA net of BOT fee was Rs.245.2 crores or $29.7 million compared to Rs.208.3 crores or $26.5 million last year. As a percentage of revenues, EBITDA was 14.7% in 2022 compared to 13.7% last year.

The company has been able to expand the sustainable margin through efficient operation and cost optimization. Also, we are committed for improving margins in the coming quarters.

Getting down to Depreciation, the total expense was Rs.54.4 crores compared to Rs.35 crores last year. The increase is primarily due to amortization of intangible assets on acquisition of Velotio and Scaleworx.

Non-recurring cost for the year was Rs.11.2 crores, which is USD 1.4 million, which represent expenses with respect to acquisition of Velotio and Scaleworx, charges paid to NOIDA Authority, recruitment fee for the hiring of new CEO and one-time joining fee.

Interest expenses is Rs.9 crores in 2023 compared to Rs.4.9 crores last year. Increase is mainly due to interest on short-term borrowing and an office lease taken last year, which is capitalized under Ind AS 116.

Other income in 2023 was Rs.11.2 crores compared to Rs.1.7 crores last year. This year we had an exchange gain of Rs.2.3 crores compared to exchange loss of Rs.7.9 crores last year. Further, the other income comprises the interest income of Rs.7.2 crores this year compared to Rs.4.6 crore last year.

During the year 2023, the average rate for USD and Euro were Rs.82.57 and Rs.89.29, respectively as against last year average rate for USD and Euro of Rs.78.47 and Rs.82.56, respectively. These are the two main currencies for R Systems.

At year end, we have a total forward cover of $39.15 million with average rate of 84.1 and Euro cover of 2.7 million with average rate of 93.38. This has already been mark-to-market as at closing rate of 31st December.

Our tax expense was Rs.60 crores this year as against tax of Rs.30.5 crores last year. Effective consolidated tax for 2020 is 30% as against 17.9% during last year. Our effective tax rate has increased due to a one-time tax provision for dividend received from a subsidiary company plus amortization of intangible assets and Velotio acquisition which is not eligible for tax benefit. Excluding these, normalized effective tax remains 25%, approximately.

Net profit after tax was Rs.140.1 crores or $17 million compared to Rs.139.7 crores or $17.8 million last year.

EPS for the year was Rs.11.84, compared to Rs.11.81 last year. However, after adjusting the BOT fee and non-recurring onetime tax the adjusted EPS is Rs.12.3.

Getting down to the asset side in the Balance Sheet, on last eight quarters trend, revenue has grown at compounded quarterly growth rate of 2.4%. However, last quarter was an aberration. The quality of revenue has improved with large deal sizes and newer technologies deals. Further, we have consistently expanded the EBITDA margins.

On the operation metrics, revenue by geography has been consistent with 74% revenue from North America, 13% from Southeast Asia, and 10% from Europe. Top 10 customers contribute 24% and top customers contributing about 7%.

We have been working to improve utilization to expand our margins. Last quarter reported blended utilization is 79.1% as against 78.7% last quarter. Our day sales outstanding including unbilled is around 60 days. It is higher in this quarter due to timing reasons.

With this, let me hand over to Nitesh ji for closing remarks.

**Nitesh Bansal:** Thank you, Nand ji.

Just for reference sake, I will be referring to Slide #11. This is about the transformation in strategy and the business that we have been undertaking as of the last three months and reference to which I had also made in the previous investor call. So, the things that we have been working on that have taken shape is, we have aligned our go-to-markets more sharply with sales and delivery organization reorganized on vertical lines to create a sharper focus on target industries where we have developed differentiated capabilities over the years.

We have also increased our investments in sales across North America and Europe regions to put more feet on the ground, to have more targeted go-to-market offerings.

On the partnership angle, we have put dedicated focus on developing partnerships with ecosystem players such as hyper scalers, meaning mostly AWS, Azure, GCP etc., automation and AI technology providers and also global enterprise software providers. This will further enhance the value of our offerings to our customers.

In terms of the offerings and positioning itself, Cloud and DevOps. CoE has been built to focus on cloud migrations and optimization solutions, data and AI CoE is building AI and generative AI solutions, and we have recently launched a partnership together with the AI Department of IIT Delhi, to have an academia relationship and partnership together for being able to leverage the best-in-class research and talent from IIT Delhi.

We have also revamped our corporate website, which was launched in December, which serves as the gateway for our global customers to understand our service offerings and reach out to us from an inbound perspective.

We have also made some additions and enhancements to our leadership team where we have hired a Chief Customer Officer, who's been on boarded with clear responsibilities towards growing existing business and developing deeper relationships with channel sales and partnerships. This is in line with what we said during the previous investor call that we are putting a sharper focus on farming existing customers and deepening our positioning and expanding the share of wallet with the existing clients.

We have also added some client partners and engagement leaders for our top customers to focus on the forming aspects.

Moving ahead, lastly, summing up, Looking at the market trends and what we see happening, we believe that the market headwinds may remain for the first two quarters of CY'24, but we are entering '24 with a strong pipeline and with a maturing GTM motion. So, our GTM motion is obviously getting well-entrenched within the organization and also offering us higher opportunities.

What we want to do is to be more relevant for our clients or hence looking at sharper offerings, focus farming and cross-selling efforts.

And in terms of new logo opening, we're looking at opening larger customers with larger deal sizes, and we are seeing some early green shoots of that beginning to take place.

What we believe are the trends that will shape 2024 for our customers. Costs will remain our strategic focus for us. That opens new opportunities for cost-led value propositions and we are already working with our few customers in those aspects.

We believe that the software component of both products and services will continue to increase with greater movement towards end-to-end customer journey and platform plays. This plays swiftly in our sweet spot because we enable our customers to develop those platforms to build those customer journeys and to have products more digital as they launch those.

AI and specifically generative AI will remain the talk of the town. It's pretty was the top discussed item for a large part of the last year. We already have an AI CoE that we have been nurturing over some time. We have seen green shoots of customer engagements in those spaces. Customers asking us to build AI-based applications, integrate AI into their products, and we have enhanced that with our partnership with IIT Delhi.

And we also believe that the prolonged war in Ukraine and Middle East will further deepen the talent focus towards India and LATAM. And this is highly relevant for a lot of tech companies who have their own offices or captive centers in variety of places, who are looking at moving those centers to India or LATAM, largely to India, where we believe that we would also benefit from such a move.

That really is it in terms of what we wanted to share today. Actually we do have also some awards and recognitions to talk about. Like I already said, we have been recognized as a Great Place to Work, across all the countries we operate. R Systems was also profiled in the Business Connect, international magazine in the month of December. Dun & Bradstreet honored us as India's Top 500 Value Creators in 2023. We were also recognized by Marksmen as one of the Most Preferred Workplaces in IT and IT-Enabled Services for the year 2023-24, which obviously talks a lot about our employer brand.

Our subsidiary Velotio was awarded the 2023 Clutch Global Award for Product Engineering, Cloud and DevOps as well as Data Engineering Services. And they were also awarded a champion award for being Top-Rated Leader based on Client Satisfaction and High Quality Service Ratings.

So, with that, I would hand it over back to the operator for opening the Q&A.

**Moderator:** Sure, Thank You very much. We will now begin with the question-and-answer session.

The first question is from the line of Abhinav Chandak from Ratnabali Investment. Please go ahead.

**Abhinav Chandak:** Thank you for the opportunity and congratulation to Nitesh ji, Nand ji and the entire team for the okay set of numbers. So, I have a couple of questions. One question is around the growth that we have shown. So, if I break your numbers and if I exclude Velotio, the organic growth that we have shown is probably that we have degrown. So, just wanted some thoughts and some color on what exactly is happening there? Even if I look at the QoQ numbers, excluding the one-time BOT fee, we reported revenues of Rs.437 crores last quarter, this quarter the revenue was Rs.416 crores. So, what exactly has gone wrong there? Have we discontinued some business, have we lost a customer, what exactly is happening there? I wanted some focus on what exactly is happening on our top line and what exactly are we doing about it? The second part of the question is the progress that we are doing on our M&A front, so it's been almost now 1 - 1.5 years since there was a change in management. And apart from Velotio, not much progress has been made on that front. So, if you could throw some light, what are the kind of assets that we are looking at, what is the size of the asset that we are looking at, it would be of great help? And if you could also give some guidance on your numbers, say next year as well as mid-term, where exactly you see R Systems in, say, three years from now?

**Nitesh Bansal:** Thanks Abhinav for your question. Let me try and answer those questions one-by-one in the sequence as you asked. So, looking at our quarter-on-quarter going from Rs.437 crores to Rs.416 crores, part of the business that which we transferred as part of BOT, obviously is a business that goes away, right, as well as Q4 traditionally is a quarter with lesser number of working days with furloughs in the US. So, it traditionally does bring a dent in revenue, typically in that Q4. Apart from that, some customers/ projects naturally coming to an end or shifting out. Those are business cycles that we see pretty much every quarter. So, there isn't really a specific reason that we would attribute. But a combination of the BOT transfer as well as the smaller number of working days is largely responsible for the decline. On a year-on-year basis, minus Velotio, I don't think we have degrown, we have largely remained flat, and that again is owing to largely macroeconomic cycles as we have seen a lot of customers have had delayed decision-making, the customers themselves have had their projects shut down or stopped and which are pending decisions, which we have also seen reflected across the industry. So, it's not something that we are singularly experiencing that. Having said that, we have had a robust pipeline through the year. We have made-up for whatever were project closures that naturally came to an end because they were discretionary project spend, we have made-up for those with our new wins. We have seen that pipeline buildup over the time, as I think the customers also expect that this thing should bottom out. And that way we believe that we have a robust pipeline to enter the new year.

**Abhinav Chandak:** So, sir, if I understand correctly the numbers which I gave, Rs.437 crores, those were excluding the BOT projects. So, the 4% sequential quarter-on-quarter decline in revenue, you are saying is primarily attributable to customers or the projects coming to an end, because BOT is something which I had excluded already. So, is that correct that the 4.5%, 5% decline in sequential quarter-on-quarter revenue is mainly because certain projects came to an end? If that is the case, sir, by when do we see revenues going back to normal, when do we see growth in this company, I understand, we have a very healthy pipeline, but when will the growth come back?

**Nand Sardana:** Abhinav ji, so excluding one-time BOT fee, we are at $53 million. So, there is a reduction of close to 2.7 million or so. So, that's close to 5%. You are right. So, there are two big things which has happened in Q4 which were not there in Q3. The BOT customer who gave us $2.3 million in cash, had revenue of close to 1.3 million in Q3. Now, Q4 has two lesser number of days and furloughs, as you know and a lot of people take leave. The impact of that is more than a million dollar. So, I mean we feel that broadly the reduction in revenue is the impact of mainly these two reasons. Excluding that, some projects have been reduced, but we have got some new projects also. If you exclude the impact of these two, we are almost flat. So, we hear you, this has not been that great.

**Abhinav Chandak:** If you could guide something on medium term to next year, how do you see revenue growths and all?

**Nitesh Bansal:** So, let me answer the second question that you had, which was around that. You said that it's been one 1- 1.5 years to the change in management, etc., I just want to be very clear that the change in management actually took place end of May of 2023, so it's basically seven months or seven and a half to that change. It does seem like a longer time, but in reality, it's basically been two full quarters. And during that time, we carried out the acquisition of Velotio which has been a great acquisition both from revenue and margin accretive perspective. And to integrate a company into the operations and also to set a little bit of focus and new strategy in place, has taken us this kind of time which is very natural because you can't do these things in a shorter time. So, we are obviously open and looking for newer opportunities to acquire, but to answer your question, we have taken the time to integrate Velotio to make them part of R Systems to start operating as one. Otherwise, we would have run the risk of losing the value of that acquisition. And we're still in that process because integrations don't happen in three to six months. While we have set the foundation, the actual integration of people working together as one, forgetting the boundaries that existed, will probably take another two to three quarters before it completely settles in. To the point of guidance, as we have, I think said even in the past, we do not provide guidance for mid-term or long term. However, what I would definitely want to restate or reemphasize is that, we are going after larger customers and larger deals, we are looking at some of that strategy beginning to bear fruit. We are also looking at, like I said earlier, a robust pipeline. And since January is when most of the customers return back to start working with the new budgets and other things, with the new budget, we are looking at in Q1 we will start getting the outcomes or results of a lot of those motions because customers would be in a position to make those decisions, and that will start shaping up the quarter and the year for us. We are quite confident in moving forward and that our strategies are going to play out for us. But rest, I think we will have to continue to stay with the market.

**Moderator:** Next question is from the line of Harsh Chaurasia from Vallum Capital. Please go ahead.

**Harsh Chaurasia:** So, I have two questions. So, in the closing statement, you mentioned like R Systems mainly focusing on increasing the wallet size of the large clients. But if I see in this quarter, the large clients share of the revenue has declined from 7% to 6%. So, can you give some sense on this number? And my second question is from the geographical breakup side. If I just compared to your other peers, the European continent has seen significant growth for major IT companies. But for R Systems, it's around 11% growth and it's a very low base. Can you provide some sense on this?

**Nitesh Bansal:** Thanks, Harsh. I think on the first question on forming and increasing wallet size, that is what we are beginning to do now and what that means is that where we have clients who are currently not in our top-10 or top 20, by doing more focused approach and selling efforts to them, we should be able to grow the wallet size with them to get them probably to a revenue size, which is currently with our top-10, top-20 kind of customers, and hence the mix of both our clients in that revenue bracket as well as their overall contribution can change. Now, while we have started that exercise and we're seeing some early successes, it does not change what our top clients have been giving us and along with, the companies trajectory of growth over the years, these clients have continued to grow along with us and the percentage contribution has largely kind of remained the same. So, our top clients still remain the top clients and gives about the similar size of revenue. While we are looking at actively cultivating a lot of the next 20 or next 30 customers to become larger, that's what I meant by saying farming and building on wallet size. From a geographical split perspective, point is absolutely valid. A lot of our peers do make a larger percentage from European operations, but then again, the nature of work and services that they do versus us may or may not be comparable. However, we also want to grow our revenue from all geographies that we're working in and hopefully can grow Europe faster than the rest. But that's something we have undertaken as part of our go-to-market strategy and something that I mentioned earlier is that we are investing in growing sales both across North America and Europe, and we will obviously continue to watch that, nurture that and try and grow that.

**Moderator:** The next question is from Ritesh Gandhi from Discovery Capital. Please go ahead.

**Ritesh Gandhi:** Historically, a lot of the Blackstone portfolio companies have been excellent, it's sort of cross-selling to the other portfolio companies. Is this initiative which we are pursuing aggressively and how should we be thinking about that?

**Nitesh Bansal:** Thanks, Ritesh. Yes, you're right that one of the value propositions of being a Blackstone portfolio company is the ability to cross-sell across the portfolio companies. We have basically been part of the portfolio companies for like I said earlier only two quarters. But the good news is that within those two quarters, we have seen a good traction with a lot of portfolio companies. We have actually managed to add several new customers or logos from within the Blackstone portfolio companies as well. So, that is true and we see that strategy playing out for us and -

**Ritesh Gandhi:** And the order sizes we expect to increase over time from these logos which we have?

**Nitesh Bansal:** Absolutely, like with any of our customers where they're sizeable customers, we do believe typical to the industry itself that we should be able to gain a meaningful entry and then be able to expand on those credentials.

**Ritesh Gandhi:** Given you guys have just been at the wheel for about six months or so, just wanted to get your own hands on any positive surprises, any actually negative surprises, and is there any change in strategy compared to what the organization was doing earlier?

**Nitesh Bansal:** So, that can be a fairly long answer, but I will try to keep it concise. So, yes, you're right, it's been six months. So, I've had the privilege to look at the company with a fresh pair of eyes. I've had quite a few positive surprises in terms of both the nature of work that the company does for its customers, very high-quality work with significantly good customer satisfaction and customers being very happy with the kind of both talent capability and attention that the company is able to provide. Also have had positive surprises in terms of finding out how well the company has managed to retain the customers for a longer time, as well as retain the employees for a longer duration, which as we know during COVID was a big challenge for a lot of companies. I think the negative surprise front largely has been the macroeconomic climate where a lot of us have obviously, since the beginning of '23, been looking out at two quarters and then another two quarters kind of a thing. And with the kind of tech layoffs that have happened across United States and Europe, which have continued unabated through Q4 and unfortunately even through January this year, that has been a negative surprise beyond control, but that macroeconomic landscape has certainly been a bit of a negative surprise. But none of this changes the thesis for us or the fundamental strategy. We are a software product engineering company and digital services company, and we continue to stay on that path. We believe we have developed micro niches with certain industry verticals over time and that's what we are trying to deepen and go further into and we believe that strategy will play out favorably for us.

**Ritesh Gandhi:** The other question was with regards to any changes in strategy from what the company was pursuing earlier and how we're looking at things now with the new management in place?

**Nitesh Bansal:** I thought I'd answered part of it. So, we stay focused on the same verticals, the offerings we make. From a change of strategy, I would not call it change of strategy because it sounds really ominous. But it is sharpening our ways of how we approach our clients with more focused offerings, building more focus into cloud, data AI, which have become extremely important for being able to do product engineering work because these days everybody wants products on cloud, SaaS products and those kind of things. So, in a way, the strategy is further sharpening the focus, deepening our capabilities, improving our right to win. And from a go-to-market perspective like I already mentioned, we have verticalized the sales force as well as our delivery organization which actually allows us to do this and to capture that additional right to win. Similarly, the sales force is also looking at larger value clients, larger deals, which again I won't call it a massive strategy shift, but it's a move in the direction to become closer to or darer to the customers and to have larger size customers to build sustainability in our revenue base.

**Moderator:** The next question is from the line of Ashok Vedi, who's an individual investor. Please go ahead.

**Ashok Vedi:** Sir, I have a question regarding the largest client percentage revenue. If you see quarter wise, it is like declining, earlier it was in Q4 '22 and Q1'23, the largest client revenue was higher as compared to the last two quarters.

**Nand Sardana:** So, the largest client number in Q3 was 6.5%. It's a small aberration. And if you see on year basis, it was 6.7% in 2022. So, on year basis, it has gone down to 6.6% which is almost flat.

**Ashok Vedi:** And my second question was, have we lost any major client or any addition of any major client in top three or top five or top 10 or what is the ratio if you lost or any addition?

**Nitesh Bansal:** So, Ashok, during the year, we do have a natural attrition of a few clients as the discretionary spend either naturally comes to a close because the project closed and they did not have another one to work with or some who would essentially have their own projects, etc., coming to an end or achieving whatever product launch that they wanted to achieve. So, that happens through the year and we keep on adding new clients. Definitely like every year, we have added a significant number of customers. We believe that some of them will eventually get into our top 20 and top 10 customers, but the customers added during the year itself would not get into the top 20 or top ten within the same year. So, I think we will be building on them and as we kind of grow with them, we might see that our top ten or top 20 customer mix will start kind of getting influenced or changed.

**Nand Sardana:** I just want to add here. The BOT customer was one of the top five customers, for which we got a BOT fee and the contract ended on September 15th.

**Moderator:** Next question is from Nitin Reggae from Chrys Capital. Please go ahead.

**Nitin Reggae:** So, just wanted to ask about the three-to-five-year outlook for the company. Do you think we can double our revenues, let's say, in the next four years?

**Nitesh Bansal:** Nitin, we wish, we had that kind of mirror and also we do not provide forward looking guidance. But having said that, look, we do have a fairly strong belief that the industry as such is poised to grow. There have been these macroeconomic headwinds that everybody has gotten impacted with, but hopefully it has bottomed out, that we should be seeing the upturn coming in. And we do expect that we would be able to grow at least slightly higher than the market normal across the industry. So, I don't think I would provide anything beyond that at this moment.

**Nitin Reggae:** But we must be having some internal targets, right, which we have set, especially because of our size right now? So, I think you did answer that right because you expect to grow faster than the industry, but any number on that?

**Nitesh Bansal:** Internally, of course, you know we set targets and goals which we try to achieve which are ambitious in nature, and obviously continue to look at the market conditions and try to capture as much as possible. I think beyond that anything would actually become a forward looking statement in that sense.

**Nitin Reggae:** And where will we see our margins settle, can we get to a 17%, 18% EBITDA margin?

**Nitesh Bansal:** We have been working on operational efficiencies and margin improvements consistently over the last couple of quarters. We are seeing positive impacts of that. But in parallel, we would also, like I said, are making investments towards improving our sales and go-to-market motions and are building the kind of competencies that we believe are needed in today's world to be competitive. We believe that we will be able to sustain our margins for sure and whatever other expansions that we are able to get will of course get reflected in our results.

**Nitin Reggae:** Just a suggestion rather than a question. Request you to please show the depreciation and amortization of goodwill separately in our press releases, so investors can assess our operating profitability a little more accurately.

**Nand Sardana:** So, Nitin, goodwill is not amortized, but I think probably you are referring to the customer contract and non-compete which we have paid for the Velotio acquisition. Yes, we can start showing that separately so that you can make an assessment. we can do that going forward, not a problem.

**Moderator:** The next question is from Harsh Chaurasia from Vallum Capital. Please go ahead.

**Harsh Chaurasia:** So, just wanted to know, you mentioned that you are seeing some green shoots in the deal pipeline. So, what would be the timeline where we can expect the deal getting converted to the revenue?

**Nitesh Bansal:** So, Harsh, our typical deal conversions at least historically, without the kind of headwinds that the markets have seen, used to be anywhere between two to three months or three to four months cycles. We have seen those cycles extend beyond three to four months in the past couple of quarters. But typically, assuming it takes around that time to convert those deals and then of course as you deploy the teams and start delivering, we should start seeing those revenues getting reflected. Now, having said that, I just want to be careful, should you read it as saying that if we have deals in pipeline today, they take so much time to convert and then you get to Q2 and those things. Please remember deals, we have had pipeline working for us in Q3 and Q4 will come through in Q1 and that's where the decision-making timeline does play a role, but it's not something that is the start of a clean slate.

**Harsh Chaurasia:** In the current deal pipeline, what would be the contribution from the Blackstone portfolio companies, like, is there any demand you are seeing from the portfolio companies?

**Nitesh Bansal:** So, I don't think I would be able to give you a percentage, but I can definitely tell you that there are a significant number of leads/ opportunities that we are actively pursuing in the Blackstone portfolio companies, and this is spread across both North America and Europe. And yes, I mean the pipeline is very dynamic. But going back to a question from Ritesh that we have seen good traction develop and we are seeing some of those deals actually come to fruition as well.

**Harsh Chaurasia:** And this rough estimate, what will be the deal size from the Blackstone leads you are seeing?

**Nitesh Bansal:** Harsh, I think that would be very difficult for me to answer.

**Harsh Chaurasia:** One last suggestion. Can you provide the verticals of your revenue in the presentation, it will be very helpful for us to get a better perspective for the company?

**Nitesh Bansal:** So, that's something, Harsh, that we will definitely try and see if that's something that we are able to bring in.

**Harsh Chaurasia:** Yes, both from the verticals side as well as the capability side like the software product engineering and the digital services.

**Nitesh Bansal:** Yes, broadly, like I said, most of our revenue is software product engineering and currently digital services get embedded into the product work that we do. But like I said, as we mature in our ways of working and embed this deeply, we will definitely try to see how we can bring that into our investor presentations.

**Moderator:** Next question is from Ravi Anand from InCred Asset Management. Please go ahead.

**Ravi Anand:** This is just furthering the last question. Can you please elaborate on the type of partnership we have with the tech companies, as in at what stage of the value chain do exactly come in -- is it at their product development stage or implementation stage or maintenance or at cloud stage? Just wanted to understand the quality of the services we are integrated with our partner. This is number 1. The second is currently we have 7% to 8% of BPO services, balance 93% in IT services. Now, in this 93% IT services, how much is the mix of product engineering and how much is the mix of traditional IT services?

**Nitesh Bansal:** Thanks, Ravi. Coming to the first part of your question in terms of when we work with tech companies, what stage we engage in. Being a software product development company, a majority of our engagement actually happens in the design, build phases which is either the customer already has a product design or we collaboratively help and contribute to the design.

But mostly, the build part of the product which is where they need scale and capacity and capability, which is where our teams work together with them to launch those products, release new features, help them take it to the market in terms of the product releases itself. In a certain percentage of our customers, we also continue to manage and maintain their products. We provide them product portfolio management as we call it where we provide them support for ongoing technical debt reduction or new feature enhancements, and even to some extent product changes when there are either issues or bugs or customer requests that come in. Just to add to it, though you've not asked for it, we also provide product professional services, which basically means where our clients products require integrations at the time of implementation. Some of our clients do work with us to become their professional services arm, to help them accelerate their own revenues by deploying those products faster. As to the cloud part of it, in today's world, many of these engagements are cloud-first engagements. So, a lot of this product design or development actually happens in a cloud-native format or cloud-native environment. We also have engagements with the customers where they would migrate their on- premise products to cloud and make them cloud-native and in all forms of those engagements. Coming to the second part of your question on the IT services side, how much is product engineering versus traditional? Almost the entire work that we do and I won't put a percentage because, whether it's 98% or 99% or 97%, perhaps that's where we would draw a cut, but in my guess 98% to 99% of our business is all product engineering and not traditional IT. What that means is, we are not doing infrastructure support or we're not doing ERP implementation or we're not doing a bunch of those enterprise, kind of traditional IT support kind of work for our customers. Our customers come to us for doing product engineering work, handle their products, enhance them, build them, release new features and even manage and do professional services like I described earlier.

**Ravi Anand:** Can you also please elaborate on the BPS services – is it voice or is it a BPM? And what is the vertical we are catering to, and would it be a sustainable margin in this vertical because the margin has been going up and down.

**Nitesh Bansal:** Well, let me first provide you kind of a sense of the BPO business as you call it. We obviously do not call it BPO, it is Knowledge Services and why we call it Knowledge Services is because what we're doing is we are taking a certain problem of the clients business and using a lot of automation to first automate the clients business process in that space and then in many cases where they still requires a human in the loop, we actually take ownership of it and run the process for them. And it is actually much closer to digital operations than really BPO in that sense. The kind of verticals we are catering over there prominently are healthcare, and manufacturing where we provide very specialized services, where we have built automations and tools that enable us to actually carry out those functions. Almost, I would say a very negligible part of our business is voice, and in many cases it is outbound voice coupled with a very large number of the actual automation and process work. So, voice is really negligible. Sometimes just as a necessary part of the thing. Some of this work is actually extremely high quality work requires not typical what you would call BPO talent that actually requires deep technical talent to carry out. On margins, I don't think we have seen a lot of up and down there, Nand Ji, you can through some light on that.

**Nand Sardana:** There is not much up and down. These are good margins because in this, comparatively the cost, as I said is lesser, rates are also lesser but margins are as good as in our product engineering.

**Ravi Anand:** If we strip off the BPO margin, I am looking at the EBIT margin. So, the IT services margins are somewhere around 10%. So, we assume that they should improve going ahead. So, any sustainable margin in the IT services segment you would want to guide going ahead?

**Nand Sardana:** So, probably you are referring to the segment reporting part, is that correct?

**Ravi Anand:** Yes.

**Nand Sardana** I think, the way it is prepared as per Indian GAAP is not the ideal way to look at this. Let's talk about gross margin. Our overall gross margin is close to 34% - 35%. The offshore margins are approximate 40% and other than the offshore margin are approximate 27%- 28%. BPO or Knowledge Service margins are higher than 40%. That is the real way to look at from a US GAAP and gross margin front.

**Ravi Anand:** And what would be the offshoring mix ex of BPO at the company level?

**Nand Sardana:** BPO is part of off shore business with approximate USD 18- 19 million revenue which is close to 9%- 10% of total business.

**Moderator:** There are no further questions. So, I would now like to hand the conference back to Mr. Nitesh for any closing comments.

**Nitesh Bansal:** Well, I just want to thank everyone for joining the call and asking all insightful questions because your questions keep us honest and also give us ideas for how to improve on both our reporting and transparency for time to come and look forward to continuing to engage on these calls going forward to. So, thank you so much for your time and thanks for all the questions.

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