



## R SYSTEMS INTERNATIONAL LIMITED

Corporate Identity Number : L74899DL1993PLC053579

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

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DATE: AUGUST 09, 2023

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

**SUB: SUBMISSION OF TRANSCRIPT OF THE INVESTORS/ ANALYSTS CALL FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2023**

This has reference to our letters dated July 29, 2023 and August 02, 2023 regarding Investors/ Analysts call of R Systems International Limited (“the Company”) held on Wednesday, August 02, 2023.

In this regard, pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Investors/ Analysts call held on August 02, 2023 on the financial results for the quarter and six months ended on June 30, 2023.

This is for your information and records.

Thanking you,

Yours faithfully,

Thanking You,  
For **R Systems International Limited**

Bhasker Dubey  
(Company Secretary & Compliance Officer)



“R Systems International Limited  
Q2 FY ‘23 Earnings Conference Call”

August 02, 2023



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

**MR. NAND SARDANA – CHIEF FINANCIAL OFFICER**

**MR. KUMAR GAURAV – VICE PRESIDENT, FINANCE  
AND ACCOUNTS**

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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 Please note that no unpublished price sensitive information was shared/ discussed during or in pursuance to this Earnings Call.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' Q2 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Kumar Gaurav:** Thank you, Gabe. I welcome all participants to R Systems Quarter 2 2023 Earnings Conference Call. We have today with us Mr. Nitesh Bansal, Managing Director and CEO; Mr. Nand Sardana, CFO, R Systems; Mr. Nitesh has recently joined R Systems as Managing Director and CEO. We have shared the presentation with the investor earlier today. Hope all of you have received that. We will start this call with opening remarks on the performance of the company by Mr. Nitesh followed by financial overview by Mr. Nand. Thereafter we'll have a closure statement by Mr. 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 contains certain forward-looking statements that involve risks and uncertainties. The company undertakes no public obligation to update or revise any such statements. These statements may undertake revision because of new and future information or otherwise. Actual results, performance, achievement could differ from those expressed or implied in such forward-looking statements.

With this, I'm handing over to Mr. Nitesh for his opening comment. Thank you. Over to you, sir.

**Nitesh Bansal:** Thank you, Kumar, and good morning, everyone. Thank you for joining the call. Like Kumar said, I've recently joined as CEO and Managing Director for R Systems. And I wanted to start the call with doing a little bit of context setting of the space in which R System plays. And assuming that all of you have received the presentation that was sent out, if you are referring to it, this is part of Slide number 3. The Engineering Services Market roughly is divided into 4 sectors. The mechanical engineering, which involves the design of physical products, including aircrafts, medical devices and those kind of things.

There's embedded engineering, which is related to the design and development of embedded systems, which are like different systems inside our mobile devices and wearables, etc. Software product engineering, which is really doing the design and development of software products that we use like software that sits on our desktops and other things. And digital engineering which relates to the world of IoT and AR/ VR and artificial intelligence or the industry 4.0 kind of things. And R Systems actually works in the 3 out of the 4 segments, except for mechanical engineering, we work in embedded, software product engineering and digital engineering spaces.

And if you look at the general outlook of how the industry is shaping up and this is based on third-party reports, the overall industry, global outsourcing spend in the engineering services



market, it's slated to cross almost \$450 billion to \$500 billion by 2025. And of this, the 3 segments that we play in, which is the embedded, software products and digital engineering, will probably have close to 50% of that market share. And the good news is that 50% is actually growing at double-digit CAGR as compared to the mechanical engineering space, which is going at a low single digit CAGR.

So all in all, we're playing in a very large segment of the overall engineering services market, and we are in the space, which is slated to grow at a high pace.

If we move forward, again, carrying forward the context, there are certain demand and supply side trends, which are shaping the market. And some of them include stuff like embedded software platforms and digital engineering, which will become a key growth driver. And we are already working in that space. Some good example would be we're working with a media broadcasting software provider, and helping them to create the mixing of live feeds from video and audio sources, the way you see live television details or live broadcasters of sports programming with commentators from our side.

There is industry 4.0, the 5G, the customer experience and the servitization side of ecosystem this is again, a demand-side driver and we are very well placed to take advantage of it. For example, we are already working with an affordable hotel chain in North America, revamping their customer experience through their mobile phones.

Also, one of the demand side trends is that APAC and Europe will continue to grow in demand with APAC probably growing slightly higher or faster than Europe. And given our revenue in Europe and APAC, we are well poised to take advantage of that trend over there. We recently started working with a large utility provider in Central Europe, helping them digitize their entire customer experience and customer onboarding process.

So all in all, the demand/ supply trend shaping the industry are also helping us take advantage of those and kind of move forward.

So given that context, quickly jumping on to Slide number 5 with the key highlights of our financial performance. We reported a revenue of INR 4,067.8 million or \$49.51 million for the quarter ended of Q2 in June '23. This was a year-on-year revenue growth of 8.48% and an EBITDA growth of 22.2%. This translates into net profit of INR144.25 million or \$1.76 million. The earnings per share translates to INR 1.22. This is before non-recurring expenses and one-time tax expenses. So net-net, the company is growing well, and I'm sure Nand ji will cover a little more when he goes into the details of the financial highlights.

If you look at it from an H1 perspective, we reported revenue of INR 8,108.51 million which translates to \$98.67 million, which is a reported revenue growth of 12.92% and a net profit of INR502.6 million or \$6.12 million. The EPS translates to INR4.25 per share.

Moving forward, if I look at the key highlights that these results, we have had a resilient revenue growth despite some macroeconomic environment changes where we are seeing customers go



through and the spend decision or delay new initiatives. But despite that trend, we have seen a good pipeline, a good traction in the pipeline, good conversion with 14 key new accounts opened during H1 of 2023.

We served 50 customers with revenues of over \$1 million on a run rate basis. H1 EBITDA margins obviously have shown improvement, which is a result of efficient operations. And we have continued to build deeper capabilities and new technologies including Cloud, AI and DevOps that will continue to be in high demand across our customer set. We've also carried out a strategic acquisition of the Velotio, which is a product engineering company and digital solutions provider, working with enterprises across the globe in the areas of Cloud, DevOps, Data Engineering and Generative AI and this has also helped us expand our India delivery drivers to Pune, which is a hub of product engineering talent. So beyond NOIDA, we now also have a delivery hub in Pune.

I think with this, I will hand it over to Nand ji to give a deep dive on some of the financial performance and the analysis.

**Nand Sardana:**

Thank you, Nitesh ji. Good morning to all. Thank you, everybody, for attending the call. The presentation gives details of both Q2 as well as H1 2023. Revenue for the quarter was INR406.7 crores or \$49.5 million with quarter-on-quarter increase of 0.7% and year-on-year increase of 8.5%. Revenue for H1 was INR810.8 crores or \$98.7 million as against INR708 crores in H1 last year. This is a growth of 12.9%. To some extent, our performance has been impacted by global headwinds, we have some of the customers witnessing the softness in their businesses. The Company added 14 new logos plus good potential for cross-sell or upsell.

Just want to highlight that these numbers do not include Velotio numbers, which was acquired on 3<sup>rd</sup> July 2023 and will be consolidated effective 1<sup>st</sup> July that is in quarter 3. Getting down to Q2 gross margins, it was 34.8% compared to 33.6% last quarter. The margins have improved on the back of better price realisation and efficient operations.

Getting down to SG&A expense line, SG&A expenses have increased negligibly by INR18 lakhs quarter-on-quarter. In percentage the SG&As were 20.1% this quarter compared to 20.2% last quarter. We have been able to sweat the SG&A to improve margins.

EBITDA in this quarter was INR60 crores or \$7.3 million compared to INR54.3 crores or \$6.6 million last quarter and INR49.1 crores or \$6.4 million in the same quarter last year. As a percentage of revenue, EBITDA was 14.7% in this quarter compared to 13.5% last quarter and 13.1% in the same quarter last year. EBITDA for H1 was INR114.3 crores or \$13.9 million compared to INR90.7 crores or \$11.9 million last year. As a percentage of revenue, EBITDA was 14.1% in H1 compared to 12.6% in H1 last year. R Systems has expanded EBITDA margin about 150 basis points from 12.61% in H1 2022 to 14.1% in H1 '23 despite the challenging business environment through efficient operations. We continue to focus on technology and digital services.



During Q2, the company has incurred certain non-recurring expenses relating to recruitment fee for hiring of new CEO, along with onetime joining fee. Other income in this quarter was INR4.4 crores compared to INR5.2 crores last quarter. Other income mainly consists of interest income and net exchange gains and losses. Interest income for the quarter was INR2.7 crores. The exchange gains during the quarter was INR1.4 crores, mainly due to mark-to-market on outstanding forward cover.

Last quarter interest income was INR2.3 crores and exchange gain was INR2.6 crores. Since the company has now utilized significant corpus for acquisition of Velotio, it will impact our interest income from Q3 onwards. At the end of quarter, we had outstanding forward cover of \$33.1 million with average rate of 83.4 and Euro forward cover of 2.2 million with average rate of INR91.4 crores. This has already been mark-to-market as on 30<sup>th</sup> June.

Now moving to tax expenses. Our Q2 tax expense was INR31.1 crores as against INR12 crores last quarter. This quarter taxes spend includes INR20 crores for provision for tax on dividend received from U.S. subsidiary. Out of INR20 crores, the company shall be able to reverse INR12 crores based on dividend declared to shareholders in next 1 year. Our effective tax rate during the quarter, excluding this onetime expense of INR20 crores is 24.2% compared to 25% last quarter.

Net profit after tax for the quarter was INR14.4 crores or \$1.8 million compared to INR35.8 crores or \$4.4 million last quarter. Net profit after tax for H1 '23 was INR50.3 crores or \$6.1 million compared to INR61.5 crores or \$8.1 million last H1. This is after considering non-recurring expense of INR7 crores and provision for tax of INR20 crores i.e. dividend received from U.S. subsidiary. EPS for the quarter is 1.22 and for H1 is 4.25. Adjusted EPS before non-recurring and onetime expense is INR3.30 for Q2 and INR6.33 for H1 2023.

Getting down to asset side on the balance sheet. DSO for the quarter was 56 days compared to 54 days for quarter 4 2022. We are seeing some AR challenges with few customers who are dependent on funding in last few quarters and have made conservative provision. Our cash balance were INR381 crores at the end of the quarter compared to INR271 crores at the end of December quarter. We have been constantly generating cash from the business to support growth and expansion. Subsequent to the quarter end, the company has paid INR264 crores for the acquisition of Velotio, which will impact our cash balances going forward. However, we have sufficient cash to manage routine operations.

Our shareholder funds were INR595 crores at the end of the quarter compared to INR545 crores at the end of December quarter. On the basis of geographical distribution based on customer location, North America contributed 72.7%, Europe 10.8%; Southeast Asia 13.3% and the Rest of the World, 3.2%. Our client concentration, top 10 customers contributed 24.7% with the largest one contributing 7.1%.

I'd tried to cover highlights of the financial numbers. With that, let me hand over to Nitesh ji for closing and summing up.



**Nitesh Bansal:**

Thank you, Nand ji. In summing up, all I would like to say is that H1 '23 performance has been in line with the industry. We've delivered revenue growth and margin improvement in a challenging global environment. And I think that speaks of the efficient management being driven as a company. We have been compensating on building deeper partnerships with customers while rapidly growing our competencies in growth areas.

So we are using competencies and relevance of our core differentiators, which is resonating well with the market. And we are continuing to develop new success stories during H1 '23 and continuing the same in H2 '23. So sharing a few of the success stories which are developing are as follows: AWS have selected us as a partner for their upcoming generative AI platform release and we are one of the set of partners that they're working with.

For a client in APAC, we are implementing Microsoft Business Central, helping them become more responsive to their customers. For a customer in association membership space we've built an AI model to help them map buying patterns and help them upsell and cross-sell products and services for a management health care providers in mental health space. For one of our customer in Europe, we are building a patient management system to help improve patient and physician interaction. And then, of course, the integration of the Velotio, which is going to further accelerate our growth with added capabilities and great potential to cross-sell, will obviously be a developing story for H2.

So with that, I would end the presentation and open for Q&A.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal, an individual investor.

**Rahul Agarwal:**

Good Moring Sir, thank you for giving me the opportunity, I just wanted to know the 5-year vision of the company going forward? So if you could just please help us understand in terms of like what would be your top line and margins going forward? That is my first question.

**Nitesh Bansal:**

So Rahul, thanks for the question. So our 5-year vision as a company is to concentrate and get deeper with our customers in the space of engineering services to become one of the respected engineering service provider in all the vertical segments that we operate. To be able to provide a 5-year view of revenue and margin is honestly very difficult. And we normally don't provide a forward guidance. And even if we did, 5 year would be extremely difficult. But clearly, we will continue to grow with the industry trend at the rate better than the industry average, and that is probably something that any of us can calculate.

**Rahul Agarwal:**

Okay. just one more follow-up question. As recently, we have just concluded the acquisition of Velotio, so is there any further inorganic plans will the company have in the future?

**Nitesh Bansal:**

Rahul, as a company, we are obviously focusing on organic growth, but also inorganic opportunities as they come by. We will be looking at inorganic opportunities wherever they are in line with our strategy and allows us to deepen our capability either in a vertical or in a competency space.



- Rahul Agarwal:** Okay. So, sir, like just on that, like how do we then fund this inorganic growth? How would we try to do this?
- Nitesh Bansal:** I would defer that to Nand ji. I think that question about how would we fund our investment.
- Nand Sardana:** Sure. So Rahul, the funding can happen through various means. It could be equity participation in the form of rights issue, preferential issue and some kind of a loan. I think let the target be found. As Nitesh ji said, we want to grow. So I think funding and all that should not be a problem, with Blackstone backing.
- Moderator:** The next question is from the line of Abhishek Nagraj from Allswell.
- Abhishek Nagraj:** Hi Good Morning, thank you for the opportunity, just wanted to check and understand things, can you just throw some light on the SG&A rationalization that you were talking about? Like what are the steps taken? <<Inaudible>> -- just want to understand what was the operational things that happened there?
- Nitesh Bansal:** Nand ji, do you want to throw light on that?
- Nand Sardana:** Sure. Abhishek, this is a matter of growth. You see, the company has grown at a high speed in the last 2-3 years. If you see in the last 3 years we have almost grown from \$ 115 million to now close to \$ 200 million. SG&A do not increase in that proportion. Our SG&A, used to be like 25% of our revenue has now come down in the range of 20% to 21%, all the rationalisation is happening. Having said that, as Nitesh Ji said, we have to grow. We have to invest in sales & marketing, but some kind of natural sweating and rationalization happens when you grow. So all these things will help us in improving our efficiency.
- Abhishek Nagraj:** Sure. The other question I had was that a waterfall that you can provide from the stand-alone numbers to the consolidated numbers and what entities <<Inaudible>> where are we seeing the reduction in margins, etc., from a standalone basis to the consolidated basis?
- Nand Sardana:** So, Abhishek, at a high level, our stand-alone business consists of the deliveries from Noida, that is for digital product engineering and KPO business. At a high level for understanding point of view, I can tell you that this is close to 50% of our business. So 50% of business comes from standalone and the balance 50% comes from overseas subsidiaries. At a high level, close to 30 million comes from Europe, close to 40 million comes from U.S. and close to 30 million from Southeast Asia. So margins at standalone level are much better because these are offshore revenues. Margin are comparatively lesser at on-site as well as in APAC. So that's a broad break up, if you have any specific questions, you can write an e-mail to me, and I'll respond to you.
- Moderator:** The next question is from the line of Rahul Sharma, an individual investor.
- Rahul Sharma:** Hi, Good Morning to the management, As we can see that the company has recently concluded big transactions with Blackstone and acquisition of the Velotio. Also, I saw that the company





has received a dividend from subsidiary. So do company here has any plan to pass this benefits or reward to shareholders through dividend or buyback or bonus issue in near future?

**Nitesh Bansal:** Nand ji, do you want to take that?

**Nand Sardana:** Sure. Thank you, Mr. Rahul. So let me explain to you. For the purpose of the acquisition of the Velotio, our subsidiary at U.S. had surplus cash. So we transferred \$ 7 million from U.S. to holding company in India in the form of dividend. And we have to pay tax on that, and that's the non-recurring items and the tax expenditure which I had explained in my brief.

So, if we give dividend from India company to our shareholders, the tax expense will reduce. Normally in India, tax rate is approx. 35%. The tax expense will reduce to 15% if we do that. So that's a technical part of it. To your question, the plan for dividend or buyback, the company keeps on evaluating these options. The last dividend was given in June 2022. So it's almost a year. So I think that this will be evaluated at appropriate time in the Board meeting. But as of now, we have to balance between growth and shareholder rewards, but these points are to be discussed at the Board meeting and we will consider that.

**Moderator:** The next question is from the line of Abdul Kadir from Ratnabali.

**Abhinav:** This is Abhinav here and not Abdul. So my question is on this Velotio acquisition. I wanted to understand what kind of traction you have seen there? What kind of sustainable EBITDA margins you see there? Because the EBITDA margins reported on the exchanges for the Velotio is northwards of 34%. So can you just highlight what would be the sustainable EBITDA margin? And post integration of Velotio, where do you see R Systems' consolidated margins to reach over the next couple of years?

**Nitesh Bansal:** I think again, Nand ji, it's in your area.

**Nand Sardana:** So Abhinav ji, Velotio is having a revenue run rate of \$ 15 million, with close to 30% EBITDA. And as I said that the transaction is completed on 3<sup>rd</sup> July. So at a high level, we will be consolidating, I mean, assuming the stable state of mind we'll be having \$ 7.5 million of revenue in the H2 that is between July to December with close to \$ 2.3 million of EBITDA. So their EBITDA margin is close to 30% as against 14.5% or around 14.1% for R Systems. But please note that Velotio is purely doing offshore work, whereas R Systems business is spread across the geographies, having on-site component as well.

So to answer your question, at a high level, I feel that Velotio acquisition will be accretive in EBITDA percentages from 0.6% to 0.8% depending upon final number. So that will be accretive. I mean \$7.5 million for the next 6 months on a run rate basis, the \$ 2.3 million should be added to R Systems number for the H2.

**Abhinav:** Okay. Now a follow-up on R Systems itself. What would be the sustainable growth rate that we should factor in our models for R Systems in terms of organic growth for next couple of years in terms of top line as well as EBITDA margins?



**Nand Sardana:** Okay. Let me explain to you. In the last two years, 2020 was a challenging year. 2021 i.e. during COVID, there was a lot of growth, I mean the IT industry has boomed, as everybody knows, we grew close to 31% in 2021 and 2022. Now as you would see that the IT companies are having a bit of challenges because of the U.S. economic situation and all that.

So it is little hard to give a guidance how we will perform. But if you notice, in the first half, we have grown close to 11%- 12% year-on-year, quarterly we have grown 8% and in H1, we have grown 12%. So we are hopeful of reasonable growth in line with the industry standard, but I will not like to give you any guidance on that. Of course, the Velotio acquisition will definitely add to our number.

**Abhinav:** Okay. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Mihir Manohar from Carmelian Asset Management. Please go ahead.

**Mihir Manohar:** Hi, sir. Thanks for giving me the opportunity and congratulations to Mr. Nitesh Bansal on joining R Systems. I had a question on the GTM strategy. And after you're joining in, do you think any changes required in the GTM strategy part of the piece? And also if you can throw some light on some of the rationalization.

What are the steps that you are exactly taking on the rationalization on the SGA front, that would be helpful? What kind of impact are you expecting, let's say, from the steps both on the GTM side and even on the operational delivery side. So just wanted to understand any impact that you're expecting on that? If you can throw some numbers around that? That will be really helpful.

My second question was just on the Blackstone portfolio. Given the fact historically, we have seen for any IT companies whenever Blackstone is present, it gets a benefit from the Blackstone portfolios, which are there. So just wanted to get an understanding. I mean, are you looking at synergies from the Blackstone portfolio companies? That was the second question.

And just was a third question on the Velotio part of the piece. Sir, just wanted to get an understanding around some of the identified synergies on the Velotio, any cross-sell upsell that would really be helpful? So I just wanted to better understand around these three things?

**Nitesh Bansal:** Thanks, Mihir. Thanks for your wishes. From a retail strategy perspective, though these are early days and we are going to be firming up our strategy over the coming months. But broadly speaking, like I already said, from the market segment that we are serving, we'll continue to remain focused on that market segment, which is the embedded engineering, the software product engineering and the digital services. So from a macro perspective, there's no change.

How we attack the macro, the company has been doing a great job of slowly and steadily building the domain flows across various verticals. So we are going to be deepening that, where we will go more deep in certain verticals, where we have seen a lot of traction and we've got



good capabilities. And also, like I said, we'll continue to invest in competencies which are in high demand, which include artificial intelligence, which includes DevOps, which include a lot of Cloud technologies and stuff.

So, you will see the company taking a much more aggressive posture or more outward posture on some of these verticals and competencies, which is the way that we will plan accordingly in the market for ourselves. This is what the GTM portion of the strategy of the sales would look like.

From a SG&A rationalization perspective, I think Nand ji has already answered that there is really no significant reduction that we've done, in fact the rationalization is a result of expansion of business of the company, where in percentage terms, it has rationalized and come down. As we go forward, we'll continue to invest in building those markets for us. So there will be addition of headcount and new hiring that will take place in line with company growth.

So, it may not increase our expense in terms of percentages, but the net amount will increase. And that increase will happen in line with our strategy. So you will see some more vertical focused people with more capability or a particular competence base sales and marketing people coming into play to help us develop those markets for ourselves.

From a Blackstone portfolio perspective, we have got absolutely to the right point. We are excited about being part of Blackstone portfolio. We are already seeing the benefits of it because we do get connected with a lot of other Blackstone portfolio companies, where we are able to then cross-sell our services, where we are able to understand their needs better and be able to build some of our solutions and services for them. We had already won at least two accounts, which are also Blackstone portfolio companies and we are continuing to work on that angle to increase our growth into Blackstone portfolio companies.

From a Velotio perspective, like I mentioned, Velotio has good vertical competencies, both in tech storage and media space, which are synergetic with us because we also operate in those spaces, and it gives us more depth. Likewise, they have got good competencies in cloud and DevOps, which again are being very much in line with our strategy and provide the depth and expertise, both in the vertical and competence systems. So, we will see a lot more of cross-sell and up-sell in those areas happening across our customers. And we believe that, we are well placed to realize those synergies. I hope that answers all three of the questions, Mihir.

**Mihir Manohar:** Sure, sir. That's really helpful. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

**Anand Mundra:** Hi, good morning, sir. Just wanted to check, this dividend, which you have paid taxes on, what was the need of calling the capital if there was no intention of giving back it to the shareholders? So there is an unnecessary tax output on the company?



**Nand Sardana:** Mr. Anand, I did not say, there is no intention. You see at R Systems, our group consists of holding company based in India and it has subsidiaries overseas like in USA, Eastern Europe and APAC. There was a surplus cash lying in USA. So when we wanted to acquire Velotio, the surplus cash was taken out from USA subsidiary and brought into India by way of dividend. Now what I'm saying is that, when you get any dividend income in India, it is subject to the marginal rate of tax, which is 35%. However, if R Systems declares dividend in next 12 months or so, then it can claim exemption for 20% part of it. .

**Anand Mundra:** So if R Systems declares dividend, 20% of the tax or out of 35%, only 15%, you need to pay, 20% would be reversed?

**Nand Sardana:** We need to pay only 15%. 20% will get exempted.

**Anand Mundra:** Okay. Thanks for this. One more question, sir. Generally, EBITDA margins of IT companies are slightly higher than 13%- 14%, in which we operate in. Any guidance on that for whether it will come back to 20% or if it can come to industry standards?

**Nand Sardana:** We are conscious of this. There is a plan to improve, but it will take time. As R Systems, we are distributed across the globe. In fact, sometimes I say that the kind of distribution across the geography R Systems have, our business volume can take on USD 400 million of revenue and that's the reason I mentioned the SG&A sweating and all that. When we grow and become a bigger company, a lot of SG&A sweating will happen, and that will help improve upon the EBITDA margin. It will take some time.

**Nitesh Bansal:** Anand ji, I would just add one more point again. I think we should not look at it as a generic IT services company and compare with IT services margins because the engineering services do work slightly differently. And the margin, while size will help us expand our margins definitely. But if you look at our peer group, with similar type companies, we are fairly comparable today also.

**Anand Mundra:** Okay. Thanks sir. Thanks for this.

**Moderator:** Thank you. The next question is from the line of Suresh Patel, an individual investor. Please go ahead.

**Suresh Patel:** Hi. Thanks for the call. Good morning, everybody. I just want to understand from the risks perspective, what are the critical major risks we are seeing in our business to give them a critical one? And what are the mitigation plans for the same?

**Nitesh Bansal:** Suresh, thanks for the question. From a risk perspective, major risk that we see is potentially the headwinds or the market sentiments, especially given that a lot of software companies, who we work for and companies who create software whether CRM software or accounting software or others, a lot of them are dependent on funding, whether they are being catalyst-funded, private equity funded or funded through family offices.



And that funding scenario becoming a little unclear, does create challenges with their ability to spend or expand on their product roadmaps. And that translates into a demand risk for us. And that to us is the biggest risk. However, what helps us is the fact that, our client concentration is fairly wide. It's not like we are heavily dependent on any single or a few number of clients in this case. So it helps us even about.

The way we are mitigating that risk is we are obviously working towards deepening our position in digital and AI and those kind of things, which tend to give us larger size of revenue, longer time of engagement, etc., but also constantly positioning ourselves for longer duration contracts. So again, these are all work in progress but will take time to shape. But it's something that we are conscious of and working on and we kind of see this as an ongoing thing for the time being.

**Suresh Patel:** Thanks for the information. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Nagraj from Allswell. Please go ahead.

**Abhishek Nagraj:** What is the FTE employee count across regions and if you are tracking this, what is the revenue percentage, that we're tracking as compared to our peers set?

**Nitesh Bansal:** Nand ji, do you want to take that?

**Nand Sardana:** What is the question, can you repeat?

**Abhishek Nagraj:** What is the number of FTE employees, we currently have across regions? And how are you tracking as compared to our peers, sir?

**Nand Sardana:** Sure. As of now, we have close to 3,900 employees and close to 500+ SG&A staff. So close to 4,450.

**Abhishek Nagraj:** Do we have a split across regions? And...

**Nand Sardana:** Yes, We have this across the regions, I can explain to you a high level. So we have three businesses. The first is the digital and product engineering business. This business comprises of Noida delivery, where we have close to 2,000 employees, then it is Eastern Europe, where we have close to 400 employees. And then US, where we have close to 200 employees, US and Canada are put together.

So digital and product engineering, we have close to 2,800 to 2,850 employees. Then we have a KPO business, where we have close to 850 employees. And APAC region, we do two businesses, one is the Business solution and second is the Consulting business. Put together in that business, there are close to 450 employees. In addition, there are, the SG&A staffs, so 4,450 is the approximate number across the geographies.

**Abhishek Nagraj:** Understood. And in terms of revenue per seat, how are we tracking as compared to our peers, sir?



- Nand Sardana:** We are well in the range of industry standards, there are three businesses. So we have to look at from that as well. Our NOIDA business is comparable to any IT company, engineering company, which Nitesh ji explained, the offshore margins are in comparison with the companies like BirlaSoft and GlobalLogic and all, which are the peers. So the revenue per FTE more or less in the same range as compared to peers. And again, then the KPO business is more technical helpdesk, revenue cycle management etc. Again, the revenue per FTEs is comparatively lesser, but the cost is also lesser there. And then APAC business is based on rates in that region.
- Abhishek Nagraj:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Gokul Maheshpuri from Oriza Capital. Please go ahead.
- Gokul Maheshpuri:** Yes. Thank you. You highlighted the risk in the business in terms of ability to get funding for your clients. Could you highlight any risk which you see to any of the business verticals on account of changes in technologies, especially in terms of AI, how -- specifically any comment on the KPO business, where you see an impact because of changes in technology, where we get impacted?
- Nitesh Bansal:** Thanks for the question, Gokul. The short answer is we've seen changes, but we're not seeing it impacting us, for the simple reason that, whether it is the product engineering business or KPO business, we have always been very focused on automation and AI and a lot of work that we do even on the KPO front is actually built out of carrying out automation for the customer while managing the business process or the knowledge process system. So the fundamental value proposition that we offer to our clients is that we bring automation first. We implement the automation for them, we implement the AI, wherever that is useful or needed. And then we carry out the remaining part of the process manually and hence taking care of the entire knowledge process holistically.
- So yes, we are seeing a lot of AI adoption. We are actively on the forefront of bringing it to our clients. And hence, as it is part of our proposition it does not adversely affect us, it's actually a good thing for us.
- Gokul Maheshpuri:** Okay. So you're saying that this is a net add to us in terms of what the opportunity comes on account of AI?
- Nitesh Bansal:** I'm sorry, I didn't understand the question. Say that again?
- Gokul Maheshpuri:** So it's a net addition to us in terms of the technology, which comes under AI. This would be a net add for us in terms of more opportunities for doing more services and work for our clients?
- Nitesh Bansal:** Absolutely. if your question was that it is not cannibalizing our business. Yes, you're right. It's not cannibalizing our business. It is either our business as usual or net new business coming to us because customers see that we do so much AI or we have so much capability in automation and AI that brings us newer AI and automation-related businesses.



- Gokul Maheshpuri:** Okay. My second question that you mentioned about the market size being quite large. But the addressable segments of what we cater to, what would be the growth rate for the industry, for the specific business segments where we are present in?
- Nitesh Bansal:** So broadly speaking, while all the three segments that we are presenting are growing at different way, but they are all double-digit growth rate between 12% to 18%.
- Gokul Maheshpuri:** Okay. Right. And while I understand that you've not mentioned about guidance, but as a more broader trajectory, would you be aiming to be outgrowing the industry growth rates?
- Nitesh Bansal:** That would certainly be the desire. But like I said, desires will lead to our planning and our effort of what we will do. Outcomes is something that will be a combination of various factors. And that's why didn't want to provide any forward-looking guidance. But absolutely, all efforts would be to not just match but outgrow or grow faster than the industry standard.
- Gokul Maheshwari:** Great, sir. Thank you so much and all the best.
- Nitesh Bansal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Agam Shah, an Individual Investor. Please go ahead.
- Agam Shah:** So most of my questions are answered. Just a quick confirmation. So in the town hall, you just said of a vision of became a \$1 billion company by next five years to seven years. So are we sticking to that in terms of process and all?
- Nitesh Bansal:** This is our vision definitely. We run with this vision because it helps us point to a true north and draw our entire strategy and focus the energy of the company towards it. So absolutely, we will work towards that vision. However, I would certainly caution that, visions are usually lofty, but we would like to achieve or get as close to them as possible.
- Agam Shah:** Okay, okay. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Mihir Manohar from Carmelian Asset Management. Please go ahead.
- Mihir Manohar:** Yes, hi, sir. Thanks for giving the follow-up. Sir, just wanted to get an understanding of the OPD business, which is there what kind of split is there in the OPD business? I mean how much will be coming from CRM OPDs or supply chain OPDs or finance OPDs. If you can just throw some understanding what exactly space are you working in the OPD part of the piece that will be really helpful. And also just wanted to get an understanding on the end user industries. I don't know what kind of business, what percentage of business is coming from the BFSI, manufacturing or healthcare vertical. Just wanted to get an understand around that.
- Nitesh Bansal:** So Mihir, the answer to both parts of your question is the same because we are an engineering services company, we're doing product engineering and digital work. Most of the work we are



doing is OPD, right? So then if we are working for finance, we are working for fintech OPD, we are working for healthtech, or we are working for auto ISVs or supply chain ISVs, . So accordingly, it's mostly OPD work in that space. I can give you the sectors we work at, but I don't think we calculate or split that way currently and would not we have the numbers handy to be able to provide that.

What we work, where our focus is that cover fintech and healthtech, which are two large sectors. We have a big focus on telecom and media. We have a big focus on manufacturing, supply chain IoT and also travel transportation as well as education. So those are some of the big sectors that we are presenting. And obviously, like I said earlier, we are going to deepen our focus on a few of those based on how we've seen the market traction and our capability developed and try to grow in those sectors.

**Mihir Manohar:** Sure. Just one follow-up to this. I mean we are seeing increasing OPD trend, especially outsourcing happening from India. So I think I just wanted to get a sense what is the kind of differentiation that we are offering. I mean I understand that broadly, that would be the -- that there is data differentiation, but still just a little better understanding so is there any different edge or differentiation in the OPD side of the piece versus competition?

**Nitesh Bansal:** So while most of our competition has over the time diluted focus from product engineering to generalise IT services. At R Systems we have maintained that focus on product engineering and basically the OPD type of work for the longest amount of time. What that has done is, it has given us a deeper understanding of product engineering of the space, which covers a lot of discipline into how we do the product roadmap, product ownership and how you drive DevOps in a product environment kind of thing, which clearly become a differentiator because our buyers are typically product owners or CTOs and our people actually speak their language. We don't speak generalised language of IT, we speak the language of the product. And that becomes a differentiator when we are interacting with the buyers.

**Mihir Manohar:** Sure. That's it for my side. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nitesh for closing comments. Thank you, and over to you, sir.

**Nitesh Bansal:** Thank you so much. I'm truly thankful for everyone to attend the conference. Your questions obviously are fairly insightful and continue to encourage us. And we hope to come back and be able to build on the success stories that we shared today and continue sharing them on a going-forward basis. So thank you again for attending and all the best for the day.

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