"R Systems International Limited

Q2 FY 2025 Earnings Conference Call"

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Notes:
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Moderator: Ladies and gentlemen, good day, and welcome to the R Systems Q2 FY 2025 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. 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, Avirath. I welcome all participants to R Systems Quarter 2, 2025 Earnings Conference Call. Since R Systems follows the calendar year as its financial year, April to June quarter is quarter 2 for us. We have today with us Nitesh Bansal, Managing Director & CEO and Nand Sardana- CFO, R Systems.

We have shared the investor presentation late evening last night as well as uploaded on Company's and stock exchange's websites, hope, all of you have received this. We'll start the call with opening remarks on the performance of the Company by Nitesh, followed by financial overview by Nand. Thereafter, we have a closure statement by Nitesh. Subsequently, we'll 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. Company undertakes no public obligation to update or revise such statements. These statements may undergo revision because of new information, future events or otherwise. Actual results, performance or achievement could differ from those expressed or implied in such forward-looking statements.

Now I'm handing over to Nitesh for his opening comments. Thank you.

Nitesh Bansal: Hi. Good morning, everyone. Thanks, Kumar. Once again, welcome, and thanks for joining us for the earnings call for the second quarter 2025. Always a pleasure interacting with all of you. So, I will start off with and for those who are following the slides, this is Slide number 4 with the financial performance of Q2, 2025.

Very happy to report that we ended second quarter with a revenue of INR 462 Crores or USD 54 million, which is a quarter-on-quarter growth of about 4.4% in Indian Rupee terms and 5.6% in U.S. Dollar terms. The same revenue year-over-year is about 6.9% increase in Rupee terms and 4.2% in U.S. Dollar terms.

We reported an EBITDA of about INR 79.7 crores or USD 9.3 million, which is an year-over-year increase of 11.7%. Our adjusted net profit stood at INR 46.4 crores or USD 5.4 million. So if you look at quarter-on-quarter, the EBITDA as a percentage has grown from 16.5% in the same quarter last year to 17.3% this quarter, which is almost similar to the last quarter, which is

Q1, 17.4% or 17.3% this quarter. This is adjusted EBITDA before considering the RSU costs for RSU(s) granted to the employees.

If we look at the adjusted EBITDA bridge, we had INR 76.8 crores of adjusted EBITDA in Q1. We got another INR 7.9 crores out of our standard operations, lost about INR 2 crores in exchange impact, another INR 2.9 crores because of the increment impact for employee salaries. The increments were given during the quarter, resulting in a total of INR 79.7 crores of adjusted EBITDA.

Moving forward, since this is also half year, providing the H1 numbers, we finished the first half at INR 904.5 crores or USD 105.1 million, which is a year-over-year increase of 6.6% in rupee terms or 3.1% in U.S. dollar terms. The adjusted EBITDA stood at INR 156.6 crores or USD 18.2 million, which is a 19.2% year-over-year increase in rupee terms or 15.3% in U.S. dollar terms.

The adjusted net profit stood at INR 89.8 crores or USD 10.4 million. From a comparison year-over-year perspective, last year H1 was 15.5% EBITDA percentage versus 17.3% in this first half this year. Looking at key balance sheet data, total equity attributable to shareholders stood at INR 692.5 crores, cash and bank balances at INR 203.3 crores and AR and unbilled at INR 427.9 crores.

Looking at the financial trends over the last 8 quarters, except for onetime revenue that we got in Q3 of 2023, if you look at the last few quarters, it has been a steady growth quarter-over-quarter. We have grown both in terms of revenue as well as EBITDA percentage and hitting INR 462 crores and 17.3% EBITDA during this quarter.

As we have talked about in the previous earnings calls as well, we continue to build a positive momentum, giving us the platform to be able to continue to grow as we move forward.

If we look at the margin and EPS analysis, for this quarter, the revenue stood at INR 462 crores as compared to INR 432 crores in the same quarter last year, which was 6.9% growth or INR 442.5 crores in Q1, which is 4.4% growth in rupee terms.

The adjusted EBITDA stood at INR 79.7 crores compared to INR 71.4 crores in the same quarter last year. That's 11.7% growth or in terms of percentage, 17.3% versus 16.5%, which is 74 bps growth year-over-year. Compared to the Q1 numbers of adjusted EBITDA of INR 76.8 crores, this is 3.8% growth in adjusted EBITDA over the last quarter.

From a PAT perspective, our adjusted PAT came to INR 46.4 crores in this quarter compared to INR 30.3 crores in the same quarter last year, which is 53.4% increase year-over-year. For Q1, the PAT stood at INR 43.4 crores, which is 7.1% increase quarter-over-quarter.

That results in our adjusted basic EPS of INR 3.9 compared to INR 2.6 in the same quarter last year, which is an adjusted EPS growth of 53.3%. All these numbers are adjusted because we have excluded the RSU expense as a non-recurring item net of tax.

Margin and EPS analysis on a half year basis, revenue stood at INR 904.5 crores compared to INR 848.7 crores in H1 last year, which is 6.6% growth. Adjusted EBITDA stood at INR 156.6 crores versus INR 131.4 crores last year H1, which is 19.2% growth. Adjusted PAT stood at INR 89.8 crores compared to INR 62.1 crores last year, which is 44.6% growth.

Looking at the operating metrics, our operating metrics actually have remained largely the same from a contribution by geography perspective. Americas or North America remains our largest geography.

We continue to see about 74.8% to 74.9%, so just about 75% of our business coming from North America. We stay bullish on the North America, which is the highest revenue driver for pretty much all services companies, but definitely for us.

Europe continues to contribute between 8.9% to 8.8%, so not much movement. Southeast Asia continues to manage the 12.9% contribution to revenues, and India and others making up 2.3% and 1.1%, respectively.

From a client concentration perspective, our top 10 clients continue to give 24.6%. So just under 25% of revenue with our top client contributing 6.1%. Again, no major movement there. Top 3 clients, 13.1%, it's 10 basis points increase, and top 5 clients giving 17.3%.

Our utilization percentage, though from the graph, it may look slightly down, but we've basically maintained high utilization of 82.6% now, which is essentially 120 basis points lower than what we achieved at the peak of 83.9% was at the peak.

And DSO, which we have normally maintained in between 62 to 64 days, has gone up to 68 days. However, this is not a concern. This is a one-off simply because we rolled out a global ERP solution for the Company during the quarter. And as the first month after go-live, with all the projects confirmations and billings that has to happen on a new system, there was a onetime delay in billing that happened this quarter, and this will get arrested as we go forward.

So operating metrics remain fairly tight, and we are very confident that we continue to operate effectively and leverage our operating efficiencies towards both growth as well as strong margin performance. Looking at some qualitative commentary for building for the future before I hand over to Nand Ji for a detailed financial commentary as well.

In our go-to-market perspective, we have improved our channel partnerships with AWS, Azure and Databricks, including our eligibility for research funding from Microsoft across several countries and competencies. This continues to become a stronger channel for us to drive growth, win more deals and get more sizable deals as well.

We entered a partnership with Mavvrik for overall AI cost governance. As many of you would know that as increased adoption of AI takes place, the cost to operate AI is a major topic and major concern because it escalates very quickly, and Mavvrik is a leader in providing technology

solutions in that space, and we partnered with them to provide services and offerings in that space.

Further, from offerings and positioning perspective, we upgraded our FinOps positioning and launched overall cloud and AI cost governance with Mavvrik.

We have significantly increased our focus on Agentic AI offerings across vertical and horizontal landscapes, which is based on our deep expertise of process areas across domains. From a delivery priorities perspective, we have seen productive deployment of multiple GenAI tools, including Copilot, Cursor and others across significant percentage of our projects that we are delivering today. And we're beginning to see client endorsements and appreciation on the level of efficiencies being delivered.

As you would remember, we have started Mexico operations during the last quarter of last year. Over the course of last 2 quarters, Mexico has been scaling up steadily with now five active clients that are getting services delivered from Mexico and are engaged with Mexico delivery operations.

We did not do any new leadership hirings during the quarter as most of our leadership hirings have actually been done or offers have already been rolled out. And the leaders that were onboarded during Q4 and Q1 have become well assimilated and we can see how they are already contributing significantly towards our growth agenda.

I will probably take a pause over here and hand over to Nand Ji to provide detailed financial analysis before I go into some key wins and maybe wrapping up message.

Nand Sardana: Thank you, Nitesh Ji. Good morning to all. Thank you, everybody for attending the call. I'll give brief analysis of our quarter 2 performance. For those referring to our investor presentation, this is the last page on the slide.

Revenue for the quarter was INR 462 crores or USD 54 million as against INR 442.5 crores or USD 51.1 million last quarter and INR 432 crores or USD 51.8 million in the same quarter last year. Quarter-on-quarter growth of 5.6% in USD terms and 4.4% in rupee terms.

We had all-round growth in all the business units in this quarter, supported by large deal closures and additional billing days. Our long-term investment in data, AI, cloud and automation is helping us in creating differentiator and winning sizable deals.

The gross margin was 36% compared to 36.7% last quarter and 35.5% same quarter last year. We added 190 plus associates over last quarter to support new wins, strong sales funnel along with investment in data and AI. It has impacted our utilization for the quarter and gross margin percentage. We are committed for efficient operations and maintaining the margins.

SG&A expenses increased by INR 1 crores from INR 85.6 crores in last quarter to INR 86.6 crores this quarter. This is mainly due to higher sales and marketing spend. The adjusted EBITDA was 17.3% compared to 17.4% last quarter and 16.5% in the same quarter last year.

The Company has been able to report consistent margins despite investment in new technologies and sales and marketing activities. The RSU costs under management incentive plan is INR 4.9 crores compared to INR 6.2 crores last quarter. The reduction is due to true-up during the quarter. EBITDA net of RSU expense is 16.2% as against 16% last quarter.

Getting down to depreciation and amortization, the total expense was INR 15.8 crores compared to INR 14.6 crores last quarter. This includes INR 6.3 crores for intangible capitalized on account of Velotio and Scaleworx acquisition.

The depreciation expense is higher due implementation of new ERP plus additions during the quarter. Further, this quarter we had a non-recurring income of INR 40.9 crores, mainly on account of profit on sale of land, building and certain other assets located at Company's NOIDA office.

Interest expense is INR 2.1 crores compared to INR 1.5 crores last quarter. Other income was INR 1.4 crores compared to INR 2.3 crores last quarter. This quarter, we had an exchange rate loss of INR 35 lakhs compared to exchange gain of INR 71 lakh last quarter, mainly on mark-to-market of forward covers.

Further, the other income comprised of interest income of INR 97 lakhs this quarter compared to INR 1.1 crores last quarter. During the quarter, the average rate for USD was INR 85.56 and for Euro INR 96.99 as against last quarter average of INR 86.58 for USD and INR 91.06 for Euro. These are the two main currencies for R Systems.

As at quarter end, we have total forward cover of USD 36.75 million with average rate of INR 86.77 and euro cover of 1.64 million with average rate of INR 96.05, which have already been mark-to-market at closing date of June 30, 2025.

Our tax expense was INR 23.3 crores this quarter as against INR 18.1 crores last quarter. Our effective tax rate is around 24% due to capital gain taxation on sale of building. Excluding this, our effective tax rate is around 28%.

Net profit after tax was INR 75.8 crores or USD 8.8 million compared to INR 38.5 crores or USD 4.5 million last quarter. However, after adjusting RSU expense and non-recurring expenses, the net profit after tax for Q2 was INR 46.4 crores or USD 5.4 million as against INR 43.4 crores or INR 5 million in Q1 2025. Adjusted EPS was INR 3.92 in Q2 2025 as against INR 3.66 last quarter and INR 2.56 in Q4 2024.

Getting down to assets side of the balance sheet, the total receivable, including unbilled, at the end of the quarter were INR 428 crores compared to INR 340 crores at the end of December 31, 2024. DSO is 68 days as against 61 days as at December 31, 2024. This is mainly due to timing

reason and start of the global ERP, as Nitesh Ji already explained. It will be normalized in a quarter or so.

Our cash and bank balance, net of short-term borrowing, as at quarter was INR 203 crores compared to INR 196 crores as at December 31, 2024. We have been constantly generating cash from the business.

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

Nitesh Bansal: Thank you. So let me talk about some of the key wins in the quarter, and this is a part which I get really excited about because of the nature of the wins, the kind of projects that our customers are entrusting us with and even the size of those projects, all have been giving us quite a lot of encouragement in terms of how we have built our credentials over time with data, AI, cloud and other things and leading to gaining more customer confidence and momentum in the market.

So some of the key wins that we're highlighting, one, it's a leading AI-driven work management platform that has partnered with us to strengthen its digital ecosystem by leveraging our digital product engineering, data analytics capabilities. So this is an organization which has multiple products in doing work management, whether it's project management, project planning, costing, reporting and a bunch of those things. And these are all platforms that are powered by AI. And we are now actually helping them consolidate, enhance, modernize and even build some of the new tools around them, integrating a lot of AI and data analytics into it.

Second example, a leading Europe-based tech company, which is actually a subsidiary of a very large Fortune 100 organization, which specializes in secure data collaboration with automotive ecosystems. And they have engaged us in their digital transformation journey, where we will be involved in putting together the Azure infrastructure, develop a very simplified platform based on Catena-X standards and integrating AI capabilities into their existing system. And this is in response to a regulatory framework that European Union is going to implement or is implementing around safety of hazardous materials and the whole discard and waste management side of things, but heavily data-driven and AI enabled.

Third is a U.S.-based provider of data-driven educational solutions. It's an Ed-Tech platform focused on health care, which has partnered with us to extend its development capabilities and accelerate product innovation and speed to market.

Fourth, we've got one of the world's leading financial institutions. It's actually one of the global large insurance companies, which has partnered with R Systems to modernize its reporting infrastructure. And we are using generative AI to streamline all the migrations, modernization of reports and accelerating the platform adoption.

And last but not the least, a globally renowned beauty and skin care brand have engaged us to implement Microsoft Dynamics based Business Central and LS Retail Solutions to optimize and digitize its end-to-end business operations with the aim of yielding financial visibility and operational excellence across their enterprise. And we will be responsible for, of course, building that solution, rolling it out across their countries wherever they have operations.

So all of these indicate larger kind of engagements, more ownership, full end-to-end. And each one of them has elements of integrating a lot of data and AI. They are cloud-based and some of them, of course, also have an element of partnership with Azure and AWS and others that we've talked about in the past.

Moving on to the last slide, which is usually the summing up and looking ahead type of statements. Last quarter earnings, I talked about how we've seen large deal momentum build up during Q4 last year and Q1 was very busy, responding to those deals, defending the bids and RFPs and winning a few.

We continued that momentum during Q2 as well. We have seen positive volume growth. As a result of that, we have carried out transitions of a couple of those large deals during the quarter. And hence, that large deal focus and momentum remains very strong and positive for us.

We have seen significant traction in Agentic AI use cases as well as the use of generative AI and SDLC. We were quite early or ahead in the game because we launched our OptimaAI workbench last year in August. And since then, we are adding to it all the evidence of productive deployments and the benefits of bringing those best practices to our clients has started acting as a differentiator, and we see that developing on the Agentic AI side as well.

If I look at the trends that we've seen that are shaping 2025, the AI adoption across sectors has significantly accelerated over the last 6 months. Having started the journey in H1 last year, like I said, we have significant advantage vis-a-vis competition, where we are not only being able to top the AI-first language, but we are actually able to provide our clients the evidence of having done the implementations, the benefits that those implementations have provided and the success stories behind it.

The deeper and more domain-specific Agentic AI use cases are being consumed to significantly change the user experience and cost to operate. And this, we are seeing across sectors and across our clients and our years of rich domain experience coupled with our Agentic AI framework are setting us apart, clearly helping us differentiate.

And despite the cautious discretionary spending which continues because of all the challenges, geopolitical or economic, we are actually seeing very good traction develop on the data platforms and SaaS platform side because data and SaaS platforms continue to bring new features and embed more and more AI into their platforms as they strive to stay ahead of their competition.

And given our focus on the data and AI side, we again are being able to capture that imagination of our clients and be a party to that trend. So overall, quite pleased with what we've managed to

achieve in Q2. As we've said, we are continuing to build the momentum and we continue to take it forward as we go along. And that is my last slide. So I'll pause and open up for Q&A.

Moderator: Thank you very much. The first question is from the line of Vinay Menon from Monarch Capital. Please go ahead.

Vinay Menon: Hi Sir, congratulations on a good set of numbers. Just a few questions from my side. One is that we won six deals this quarter. So what could be the average deal size? And what could be the run rate we could look from these new clients in the next year?

Nitesh Bansal: Thanks Vinay for joining in. Large deals, as we had spoken last time as well, these are typically multimillion dollar deals spread over a couple of years. So the few large deals that we won, typically, we've seen the 2- or 3-year deal engagements come through. So we are looking at clients who will typically make into between USD 2 million to USD 5 million clients a year kind of a thing.

But again, these are deals where there is a committed portion and there is always an uplift that the deals can provide, and some of it will be how much uplift we are able to capture, which we will continue to do. So the upside is quite good. But at the worst case, we are talking about creating some million dollar customers out of these large deals.

Vinay Menon: Okay that helps. And in our annual report, we have mentioned that we did like 120+ AI projects last year. So how has this year been? Like what is the pace of those? Are we seeing decent size of growth in that?

Nitesh Bansal: So Vinay, we have done over 120 AI projects. We have also added significant case studies in terms of deploying AI and SDLC across our customers. We've got probably over 40 or 50 such client case studies, and then we are significantly developing our autonomous agents in the Agentic AI universe.

So I think the expansion on AI is rapid and it's multifold, and it is happening across all the dimensions of AI. So this is going to continue to grow, and as our customers are adopting it more and more, some of it will actually become regular revenue streams, right?

So we have obviously turned the page from moving from earlier what was just POCs to paid POCs or pilots to now actual productive deployments. And I think over the course of the latter part of this year, we'll see a lot of that turn into mainstream revenue. So absolutely, this will be one of the significant drivers of growth for us.

Vinay Menon: Okay. That gives clarity, sir. And just one last question. Is there any update on how discretionary spends are moving? And are we seeing clients like the smaller start-ups who are not spending, are we seeing any traction there, any kind of movement there?

Nitesh Bansal: It has been a continuous guesswork for a lot of people. So I'm not going to look at or try and comment at larger market. I can only comment at the customer set that we're dealing with, which is a fair representation, I would say. And like I said earlier, the clients who are more platform companies today, whether start-ups or more established larger enterprises, companies that are serving as data platforms, SaaS platforms are spending more aggressively because they see a significant immediate benefit of integrating more data pipelines, doing more ML and AI into their platforms.

Some of the smaller companies, which had niche offerings, they continue to stay bullish. But then, of course, every company's situation is different. So we are seeing some companies redo or re-architect their offerings, which again means business for us, and there is a moment of just pause and then restart kind of things that happen. But overall, I think discretionary spend should open up. We hope and we wish that it opens up a lot more than it has opened up now. And we look forward to it.

Vinay Menon: Thank You, I'll get back with some more questions.

Moderator: The next question is from the line of Deep Modi from Equirus.

Sandeep Shah: This is Sandeep Shah, colleague of Deep. Congratulations on a great execution. Sir, just wanted to understand, based on your earlier comment in the last earnings call, you actually anticipated a pickup in the growth and which you walked the talk. Do you believe this growth momentum based on the pipeline and deal wins can even continue in the Q3, and Q4 could be better versus earlier years despite furloughs? Or do you believe Q4 may have some amount of headwinds from furloughs?

Nitesh Bansal: So Sandeep, thanks for the question. I think as I had said last time, we worked consciously and together with our entire team to make sure that we get better at both our operations and forecasting etc.

And last quarter, when we were talking, we talked about actual deal wins, which were coming in and large deals which have naturally due to transition and other things, have a delayed revenue realization. So, there was confidence in building the momentum, which we are seeing now.

And I think, given that this growth is based on some of the solid wins that we talked about and continuing momentum that we see, I think without really doing guidance kind of a thing, we think that we are confident that we'll continue the growth momentum in Q3.

Q4 will always have some seasonal challenges due to furloughs, both in India, Diwali holidays, in U.S., Christmas and New Year, etc. So that will continue. That is a standard, happens every year.

But hopefully, if we have the volume momentum with us, perhaps, it will still be positive. Of course, we will have the furlough impact. But from whatever we are seeing, the pipeline activity,

etc, we have our fingers crossed and hope to continue to build on the momentum that we've started on.

Sandeep Shah: Yes. Sir, on the average size of the deal. So if you have to define if you are measuring that, the average size of deal wins now we have versus few years back when you joined, is there a drastic difference? Is that crossed average $1 million or it's still hovering between $ 0.5 million to $1 million?

Nitesh Bansal: The answer to the first part is that the average size of the deal has definitely meaningfully moved and increased. And it's meaningful because it is almost like 1.5 or 2 time what the average used to be. But the difficulty with averages, Sandeep, is that when the number of deals is very large, the average actually starts getting smaller.

So we have won large number of deals in the past, so the averages kind of get skewed. We are inching closer to that $1 million mark. I won't say that the average has crossed $1 million yet, but we are, from what it used to be in the past of a few hundred thousand dollars to now, it is significantly more.

Sandeep Shah: Okay and just last few things. In terms of the growth, do you believe the growth is broad based even in a direct channel outside Blackstone channel clients? Or this time the growth is more driven through the client addition which we had through Blackstone channel?

Nitesh Bansal: No, it is certainly broad-based, Sandeep. I mean, as I've always maintained, that Blackstone is a very important channel for us because it does give us direct access to a lot of clients. But still the contribution of Blackstone channel on one hand is great because we've got over a dozen clients or actually over 16 clients from Blackstone channel now, but it still is about single-digit percentage of our revenue.

So 90%-plus of our revenue still comes outside the Blackstone channel and the growth that we're talking about and the momentum we are kind of banking on is very broad based. And it's not just broad-based from a PE channel perspective. It's also spread across. Geographically also, it's not only Americas, it's Americas and Europe and APAC, all in proportion, but it is quite broad based.

Sandeep Shah: Okay. And sir, last thing, last time you said, on adjusted EBITDA, we can maintain that margin in QY 2025. While in first half, we are already ahead of that benchmark. So is it fair to assume what we achieved in the first half can be maintained in the second half and that may again be a second year in a row where margin will improve on an adjusted basis Y-o-Y?

Nitesh Bansal: Sandeep, operationally, we are performing strongly. We continue to make investments. And I think as the pace of adoption of AI and these things continue to increase, we will be accelerating our pace of investment as well.

We are committed to maintaining the EBITDA levels that we had said, in high 16s, etc. But we continue to look at the market and we are not going to be shy of making the investments that are needed. So we're keeping ourselves, we're giving ourselves the cushion to invest.

And whatever we are not investing obviously gets reflected back in the overall reported EBITDA. So, we are confident of managing and maintaining the EBITDA levels at high 16s, but anything over 17 is essentially giving us more cushion to invest and we will continue to do that.

Sandeep Shah: Thanks, all the best!

Moderator: The next question is from the line of Varun Kulkarni from InCred AMC.

Varun Kulkarni: Hi, Good Morning Sir, Congratulations on a good set of numbers. So just one question from my side. The Board has approved an INR 2,000 crores loan. So what would be the specific use of proceeds? And do we have a time line, sort of a time line mapped out?

Also the INR 275 crores NCD that was approved or rather approved in the previous month. So what is going to be the use of proceeds of that and also some clarity around the cost of capital. So this is the only question I have right now.

Nitesh Bansal: So, Varun, the INR 2,000 crores approval is a blanket enabling provision, which basically enables us to invest whenever we need specifically for the purpose of acquisition and being able to make an appropriate inorganic move in the market.

As you know, we've always stated that both organic and inorganic growth are the drivers or are part of the strategic agenda that we follow. We constantly continue to look at possible targets in the market. And accordingly and since we were looking for some sizable options as well, having internal preparedness to be able to do a transaction of that kind is the driver to getting that enabling provision in.

The same thing holds good for the NCD approval. It's all basically being ready in the market, whenever there is an appropriate target which we can move forward with, then we should not have any hindrance. As you know, a lot of these things take a lot of time procedurally, etc, to get done. So we don't want to get stuck at that point of time.

Whenever we are in a position that we have zeroed in or we have something, obviously, that's something that we will appropriately present to the Board, take approvals, shareholder approvals, etc. So that will get known. But these are all in being ready in form of being prepared to be able to do that as we look forward.

From a cost of capital perspective, I'll actually let Nand Ji answer the specific question because that's where he would have the exact numbers.

Nand Sardana: Sure. So on the cost, what exactly is your query, Varun?

Varun Kulkarni: No. So simply put, so what would be the average interest cost, in terms of like a percentage? What do you think would be.

Nand Sardana: Sure, we have working capital facilities, the average rate of interest is around 9% and 9.25%. In fact, the packing credit still comes at 1.5% less. So, it will be like 8% - 8.5% is the average working capital cost of capital to us at this moment. The NCD(s) issues, whenever happens, we'll have to negotiate and then get into whatever best we can get.

Varun Kulkarni: Fair enough. And one last question, if I may. So what kind of acquisitions would we be targeting? So primarily in what space would it be? Would it be in for AI or anything else that you have in mind at this point of time? And in which geography, particularly?

Nitesh Bansal: So Varun, I think in the past also, we have said we've laid out our acquisition philosophy, if you may say, pretty clearly. We are a product engineering and digital transformation service company. So that remains our main swim lane, to which we are significantly concentrating on enhancing our cloud data and AI capabilities.

So our primary targets of acquisitions remain in product engineering space, companies focused in that space. And there, North American business with India delivery remains the kind of primary focus. Having said that, niche companies in data space, AI space or cloud space will be very attractive to us. We have strategically looked at Latin American delivery and opened our own center.

So getting a good delivery location, which is out of India, either in Eastern Europe or LatAm, can also be considered and would be welcome. But primarily, America India corridor, a product engineering space, niche capabilities, data, AI, cloud are the kind of targets that we are very interested in.

Varun Kulkarni: Right, sir. And just one last thing. What would be the size? Do you have a rough ballpark estimate of the size of or what would be the size of the target that we look to target?

Nitesh Bansal: I mean, we're not limiting ourselves. We obviously don't want to do something very small unless it's like really niche and just a tuck-in, then those are all special cases. But we do not want to do anything very small because it takes a lot of effort and time etc.

And given our intentions and the backing of Blackstone and everything, we're not afraid of the size. Obviously, we want it to be digestible. So we're not going to do something which is larger than us. But having said that, we are open to doing sizable acquisition if it makes sense.

Varun Kulkarni: Sure, Thanks that’s it from my side and congratulations.

Moderator: The next question is from the line of Rajas from ChrysCapital.

Rajas: Good Morning So, my question is about the line item for CSO hiring expense for this quarterly P&L. Could you please share any status update regarding the same as to has he joined, has the offer been rolled out and by when should one expect some progress there?

Nitesh Bansal: Yes, Rajesh. we had a search out for a Chief Sales Officer and we have identified a candidate, rolled out an offer, negotiating and hoping that the candidate would accept and join sometime in this quarter.

Rajas: Understood Sir, this quarter has seen an increase in head count coupled with a dip in utilization. So when should the pickup start happening in terms of the utilization, the head count that we've added?

Nitesh Bansal: I think while the numbers we're saying is right, but I guess they have to be seen in a different light. The decrease in utilization is two fold.

One is conscious investments in the AI space that we continue to make, which is kind of a couple of basis points of utilization. But more importantly, large deal transitions where you do carry out a long, you have multiple weeks of transition before the actual delivery starts, and that impacts utilization temporarily for the quarter.

So the volume uptick is resulting in revenue growth. There is a dip in utilization due to transition. And I think all of that will start getting reflected. I mean it's already reflected now in terms of, it came into the books in Q2 itself, but obviously, will come in its full force in Q3.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Thanks for giving opportunity, Congratulations on great set of numbers. I mean, 4% growth in this kind of environment is clearly quite commendable. I wanted to understand on the leakage side, sir. Has the leakage come down, let's say, over the last 3 months, last 6 months?

Nitesh Bansal: So Mihir, Has it come down? Yes, because again, it's all comparative, but given the nature of our business, which is some discretionary, project-based, etc., we'll always have some churn. But I think we have been far more steady in the last 2 quarters than we were in, let's say, the 2 quarters prior to that. And we continue to watch our customers closely.

I think some of our account management efforts in deploying dedicated resources, managing the clients has given us early warning signals so as to understand when we are seeing some of those challenges. It's not completely and it will never completely go away because we are obviously based on some discretionary spend. But we probably are getting better at understanding, anticipating and managing it is the way I would put it.

Mihir Manohar: Understood, Over the last call you had mentioned on the GCC side, there were a couple of or half dozen inquiries, which was there on the GCC. So any progress around that, any materialization on the GCC side and has been inquiry pipeline on GCC gone up?

Nitesh Bansal: So the inquiry side, in fact, also because not just inquiries we had formally actually started going after the GCCs both for the setup and scale side of businesses. On that go-to-market, we've been actively working.

So we've seen a lot more traction in that space. There are several GCCs which are interested in not just understanding but adopting a lot of AI tools within their setups to be able to bring the kind of efficiency and scale that we are able to deliver directly to our clients.

So there are a bunch of conversations in that space, and that continues to play out. I think while those were probably not part of the significant wins that we announced or that we kind of highlighted, there have been a couple of very decent wins in the space as well.

And as it continues to grow and become a meaningful part of the revenue, I think you will see may be some more commentary come out on the same. But we are encouraged by the early traction, and I think we continue to see it as a good channel for growth.

Mihir Manohar: Understood. Last question was on the growth during this particular quarter. I mean, is it came from ISV, fintech, health care, I mean, any specific sector or a vertical which contributed more to the growth? Or was it more broad based?

Nitesh Bansal: Well, it was largely broad based. But if I were to reflect back on where the large contribution came from, I think that's reflected partly in my commentary at data and SaaS platform companies whether in health, education, logistics, serving a variety of domains but ultimately they are data platforms or SaaS platforms which have significantly enhanced their service offering by integrating AI into their platforms or they are revamping, re-architecting the platforms to launch it afresh with the new generation architectures, etc.. So those have been probably more significant contributors. Almost all conversations have an element of AI in it, including, like I had told you about the financial services company where we're doing the reporting infrastructure migration.

So it's not really about SaaS platform over there, but it's like really using AI to rebuild their entire reporting infrastructure and do migration of legacy to the new. So broad-based, multi-sectors, but if there was a common thread pattern recognition if you do, it would probably be the data and SaaS platform side of things.

Moderator: The next question is from the line of Deep Modi from Equirus.

Sandeep Shah: Yes. Sandeep again. Sir, I think this time, the growth has been really broad-based, even in the top 10 clients, except for revenue from top 4 and top 5 clients. Is there a client-specific issue because this bucket has, to some extent, second quarter in a row has been declining. So, do you foresee any client-specific issue in your top 10 clients?

Nitesh Bansal: No, not really. In fact, based on your question, I'll probably double click and reanalyze the numbers. But I mean, overall, our top 10 clients are contributing approximately the same dollar number. And, at least top of mind, I don't see any issue with any client-specific issue. It could

just be a little bit of plus 1, minus 1 here or there kind of a thing, but not really, Sandeep. So these clients have stayed fairly solid.

Sandeep Shah: And sir, if you have to measure the growth in the pipeline and TCV may be 1 year or 2 years back, if you had to share quantitative details, not on absolute terms, but as a percentage increase, is it possible to give some color around pipeline growth and the TCV growth may be now versus 1 year back?

Nitesh Bansal: We are obviously putting systems in place to get better at tracking these kind of things. And hopefully, we will be ready. But just to answer your question, on a very very high level, our overall pipeline has probably improved to become maybe 1.25 to 1.4 times bigger than it used to be. We want to, probably once we have new sales officer or whoever else, people that we are adding, try to make it much bigger.

But the most encouraging part of the pipeline always is the average or the kind of deals and the size of the deals that we are going after. I think the number of deals in that 1 million plus ACV category has more than doubled, and that's the most important metric that we are tracking.

Sandeep Shah: Sir, it's good to have deals around data, AI as well, but we were also looking to change the growth profile not just from project-based kind of a business, but also in terms of managing the product platform, retaining the product platform.

So are you tracking even the annuity percentage of revenue in our growth profile has been improving versus what it used to be? And just Nand sir, in terms of increase in the other assets, if you look at the cash flow statement, it is largely because of unbilled revenue, which may normalize going forward?

Nitesh Bansal: So to answer the first part, tracking and building towards the annuity-based revenues or different class of revenues. Yes, we are consciously focused on it, trying to go after winning those multi year commitments from clients where clients will hand over their entire product portfolios to us for long term support and continuing reduction of technical debt, etc.

We've seen some early signs of wins. It's not a percentage large enough for us to kind of track separately. But having said that, the early signs again, it all starts with a few customers entrusting us and then we we're delivering successfully using that as case studies to win more. And that's where I think we are headed.

Definitely, there is conscious awareness within the team that we have to do that. There's a lot more discussion with clients around that area, and we are beginning to see some fruits of that. From an asset perspective, I believe what you're saying is right, but I'll let Nand Ji actually comment on that if there is any other component that he would want to highlight.

Nand Sardana: This is due to increase in unbilled. I think this should get normalized. As Nitesh Ji also said, there is a slight increase in DSO also. So unbilled equally has increased. This should get normalized in a quarter.

Moderator: The next question is from the line of Nikhil from Kizuna Wealth.

Nikhil: Yes, sir. Congratulations on a great set of numbers. Sir, my first question is around our offshore employee growth has been 5.6% for the quarter. So we still have the large deal pipeline and are in process. So are we expecting the same kind of offshore volume growth going ahead in the quarter 3 and quarter 4?

Nitesh Bansal: We continue to build on the pipeline. Of course, the wins will determine exactly what we are able to achieve. But we are very positive and hopeful that we will continue the momentum. I can't say exactly what percentage, but very confident that we should be able to build on the volume growth we've got and continue that track.

Nikhil: Sir, that's great to hear. Now sir, now we are already, for the H1, we are at approximately $ 105 million top line. So, can we expect to close the year around $ 220 million $ 230 million top line?

Nitesh Bansal: Your guess is as good as mine. We will continue to push our teams to do as much as possible. And clearly, like I've always said, with a little bit of tailwind, we can certainly be on that kind of growth trajectory.

Right now, it is not possible for me to say this and because we are obviously currently doing our Q3 forecasting and those kind of things. And secondly, deals have a nature, I mean, there's binary outcomes, right? Either you win or you don't win.

So, while the pipeline is there and the momentum is there, we'll have to continue to win, and we'll have to continue to make sure that those projects start on time and we get that volume and catch up that volume within the year to be able to get those kind of numbers. But fingers crossed, and we should be headed in that direction.

Moderator: The last question for the day is from the line of Miloni from Monarch Networth.

Miloni: Thank you for the opportunity, Sir, what would be the pace of RSU spend going ahead?

Nitesh Bansal: When you say pace of meaning, would the RSU expense go up or go down is what you're asking?

Miloni: Sir, like what would be the run rate? Or like, yes, how would it be moving ahead?

Nitesh Bansal: Nand Ji, do you want to take that question?.

Nand Sardana: So the expenses for this quarter is INR 4.9 crores compared to INR 6.2 crores last quarter. It's mainly due to true-up of RSU expenses. We are giving RSU to senior level guys and the important guys. So, I think you can assume that between INR 5.5 crores to INR 6 crores on an average would be the expense for the next few quarters.

Miloni: Okay. And sir, just one book keeping question. How much was the tax outgo for the land sale that we booked this quarter, for the land sale that we moved this quarter?

Nand Sardana: So it's a long-term capital gain, it's around 20%. And that is the reason, in this quarter, our tax expenses is comparatively less because it was at a lesser rate. Broadly, the tax as of now is close to 27.5% to 28% as per effective tax basis.

Moderator: Ladies and gentlemen, we take that as the last question for the day. And I now hand the conference over to Mr. Nitesh for closing comments.

Nitesh Bansal: Thanks, everyone. I thank you for all the questions. It's been encouraging to hear your comments and forward-looking questions. It gives us more things to prepare. And we look forward to talking to all of you again in the next earnings call.

And in the meantime, if there are any specific questions you want to reach out on as you've done in the past, definitely do that through Bhasker and through Nand Ji, and then we will definitely try and respond. But thank you again. Thanks for joining. Have a good day.

Nand Sardana: Thank you.

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