"R Systems International Limited

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Notes:

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Moderator: Ladies and gentlemen, good morning, and welcome to the R Systems Q4 CY 2025 Earnings Conference Call. As a reminder, all participant lines will remain 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 the operator by pressing "*" then "**0**" on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Kumar for opening remarks. Thank you, and over to you, sir.

Kumar Gaurav: Thank you, Ryan. I welcome all participants to R Systems Quarter 4 and year 2025 earnings conference call. Since R Systems follows calendar year as its financial year, October to December quarter is quarter 4 for us. We have today with us Nitesh Bansal, Managing Director and CEO, R Systems; Nand Sardana, CFO, R Systems. We have shared the investor presentation earlier today as well as uploaded on the company and Stock Exchange websites. Hope all of you have received that.

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

Before I hand over, let me read out the customary disclaimer statement on behalf of the company. Investors are cautioned that this presentation contains certain forward-looking statements that involve risks and uncertainties. The company undertakes no obligation publicly to update or revise any such statements. These statements may undertake revision because of new information, future events or otherwise. Actual results, performance, achievement could differ from those expressed or implied in such forward-looking statements.

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

Nitesh Bansal: Thank you, Kumar, and good morning, everyone. Thanks for joining the earnings call. It's always a pleasure to interact, and I do look forward to these calls every quarter. So, I'll be starting at Slide number 4 for those of you who have the presentation and are referring to it and talking about the financial performance for Q4 2025, that's the quarter ended December 2025.

We reported a revenue of INR 555.1 crores or $62.5 million in Q4. This is a year-over-year growth of 23.6% or a quarter-over-quarter growth of 11.3%. The adjusted EBITDA stood at INR 101.7 crores or $11.5 million, which is 18.3% in percentage terms. This represents a year-over-year growth of 27% and a quarter-over-quarter growth of 20.5% in adjusted EBITDA. The adjusted net profit corresponding to this is INR 60.4 crores or $6.8 million, which is 10.9%, which again is a year-over-year growth of 27.4% and quarter-on-quarter of 39.2%.

The adjusted basic EPS on this net profit basis is INR 5.1 per share, which is again a year-over-year growth of 27.3% and quarter-over-quarter of 39.2%, basically reflecting the net profit growth. The reason we're calling it adjusted is, it's adjusted for RSU expenses and some non-recurring and exceptional items net of tax essentially.

If you look at the 8-quarter chart, the 8-quarter trend, basically, over the last 8 quarters from Q1 2024 to Q4 2025, we've gone from INR 416.6 crores to INR 555.1 crores in revenue or INR 60 crores to INR 101 crores in EBITDA. And I think it's a milestone of crossing INR 100 crores in EBITDA anyway. And in percentage terms as well, we've gone from about 14.4% to 18.3% EBITDA.

If you look at the bridge, how the EBITDA quarter-over-quarter from Q3 to Q4 has been made, we have obviously gained through the volume growth as well as some help from rupee depreciation. But then we have also lost based on lower billing days in Q4, some amount of loss on standard operations relating to salaries and other increments and some additional AR provisions that have been made. And that's how we've gone from INR 84.4 crores to INR 101.7 crores in EBITDA.

Moving on, looking at the full year performance for CY 2025 because we are a calendar year company, so this is also our full year. We closed the year at a total revenue of INR 1,958.2 crores or $224.8 million, which is a year-over-year growth of 12.4%. The adjusted EBITDA stood at INR 342.7 crores or $39.3 million, which is 17.5% of revenue as adjusted EBITDA and year-over-year growth of 17.8%.

The net profit stood at INR 193.6 crores or $22.2 million, which is 9.9% of revenue and year-over-year growth of 24.6%. And the full year EPS stood at INR 16.4 per share, which is a year-over-year growth of 24.5%. If we look at a 5-year trend going from CY 2021 to CY 2025, we've basically come from being INR 1,155.6 crores to INR 1,958.2 crores in revenue, grown from about 14% to 17.5% in EBITDA, which basically translates to INR 161.5 crores to about INR 342.7 crores in EBITDA.

The bridge, if we look at just vis-a-vis CY 2024, there has been EBITDA contribution through volumes, through rupee depreciation, but then we've lost some amount because of standard operations, which is salaries, wage hikes, etc., and the AR provisions, taking us from INR 291 crores to INR 342.7 crores in overall EBITDA in absolute terms.

If we look at some of the other key balance sheet data items. Equity attributable to shareholders stood at INR 791.6 crores. Cash and bank balances stood at INR 272.6 crores. AR and unbilled stood at INR 526.8 crores and our average DSO for the billed DSO is about 56 days, which is, more or less, consistent as we have continued to see it quarter-over-quarter.

Going over to Slide number 6. For those of you who are referring to the presentation, this is just a quick side-by-side comparison of margins and EPS analysis, Q4 2024 versus Q4 2025. Our revenue has gone from INR 449 crores to INR 555.1 crores, 23.6% growth. EBITDA has gone from INR 80.1 crores to INR 101.7 crores, which is 27% growth, reflecting a 49 basis points increase in EBITDA percentage. Net profit has gone from INR 47.4 crores to INR 60.4 crores, which is again 27.4% growth, reflecting a 32 basis points increase in net profit and EPS has gone from INR 4 to INR 5.1 per share, which is a 27.3% growth in adjusted basic EPS.

If you look at on an annual basis, we've gone from INR 1,741.7 crores to INR 1,958.2 crores, which is 12.4% growth in revenue, INR 291 crores to INR 342.7 crores in adjusted EBITDA, which is a 17.8% growth year-over-year or 79 basis points growth. Net profit has gone from INR 155.4 crores to INR 193.6 crores, which is a 24.6% growth or 96 basis points growth in net profit and adjusted basic EPS has gone from INR 13.1 to INR 16.4 per share, which is a 24.5% growth in EPS. This adjusted net profit, adjusted basic EPS excludes RSU expenses and non-recurring and exceptional items net of tax.

Quickly looking at some of the operating metrics, while we have continued to report revenue by geography, it remains largely the same. The mix remains the same, except that post Novigo acquisition, we do have a little bit of Middle East and Africa, which has been added to the portfolio. And since the acquisition only happened or closed middle of the quarter, hence, it's a very miniscule impact. But broadly speaking, bulk of our revenue still comes from Americas, about 73% of revenue, 17% from APAC, 9% from Europe and 1% from Middle East and Africa.

From a client concentration perspective, our top 10 clients have grown from 22.7% to 25.2%, while the company has also grown 12.4%, as we've seen. That means that we have been able to grow some of our top 10 clients, meaningfully expanding our footprint with them. Our top 5 clients have shown similar growth of about 2%.

Our top 3 clients have grown as well, and the top client has also shown a small amount of growth from 5.6% to 6.2%. So overall, healthy performance across top 10, but broadly speaking, also across top 50 clients that we have continued to put focus on and continue to grow with.

Our utilization is currently at about 80.6% or just below 81%. This is at our desirable level of utilization. We had talked about it earlier when we had hit about 83.5% to 84% that it was way too high and that we will be consciously making investments, especially in the form of effort towards building our AI platforms and building the whole service offering around AI and data and cloud. So, we've been consistently doing that and managing the utilization effectively making those investments.

This is a level of utilization that we'll try and continue to maintain because it gives us both the flexibility of rapid growth or staffing when we need as well as enough investments to build for the new things that we want to build for. Our DSO remains pretty much constant, 56 - 57 days or thereabouts, which is billed plus unbilled about 74 days, which has also been largely similar across the quarter. So, no major change over there.

We've had some key wins. I mean, we always report some key wins, but the 5 key wins that we are reporting this time are very diverse, all 5 are different kind of wins. Obviously, as you would have noticed over the last 2 or 3 quarters, the element of AI-led wins has continued to go up. We are seeing more and more wins happen because of the differentiation we bring through our OptimaAI platform and the AI introduction in the solution and the offering.

The first one we're talking about is a global SaaS platform, which serves a subscription-driven business. This is actually in the marketing and SaaS marketing space of platform subscriptions

and platform marketing, where they have asked us to modernize their core platform to accelerate customer onboarding, enabling the company to advance its transformation from just a SaaS solution to a fully AI-powered platform. So, this allows them to provide intent and advanced notifications and a bunch of those value-added features to their customers in real time using AI.

The second one is where we are working with a children's entertainment company who makes games, toys and various forms of engagement for children to modernize their entire B2B e-commerce system. Salesforce is the prime platform, and we are essentially involved in end-to-end transformation of sales processes, streamlining order management, building robust data foundations and overall elevating the customer experience.

Moving on in the telecommunications sector, a leading Tier 1 telecom provider in Europe has asked us to create their cloud-native readiness and elevate security capabilities. As you know, security is becoming a very important domain. And this obviously cuts across core engineering, cloud as well as enhancing operational agility and future-ready digital infrastructure.

With our newly expanded capabilities in Middle East, we've actually won a deal with a Saudi mining company, where we are implementing a next-generation data platform. And this is a data platform that actually is on one of the latest technologies, bringing together multiple storage processing, analytics, governance and a lot of real-time insights and those kind of elements, which will enable smarter decision-making and also create the kind of a semantic layer on which then AI modelling can be done and a lot of advanced features can be built.

And then last but not the least, a leading food service distributor in Singapore has partnered with us to implement Microsoft Dynamics 365 Business Central. This will allow them to streamline and digitize their end-to-end business operations and improve their financial visibility, tighter process controls and enhance operational excellence across the enterprise.

Moving on, something that we have been working on and there has been a lot of questions around it that we haven't been reporting any additional indicators or parameters. We are reporting a trailing 12 months ACV booking number for the last 4 quarters. And this is for bookings excluding any renewals. So, this is just either net new or existing new, “NN plus EN” type of bookings. And we are in the process of basically making sure that we are able to, kind of, do this consistently across. But these are the numbers, basically on an average between $74 million to $75 million. Last quarter, about $76.5 million of ACV on a trailing 12-month basis was booked.

Coming to awards and recognitions, this has been a very important part of also what we do, working with partners and getting recognized by the partners in various forms and shapes. Last full year has been a great year of both growth in terms of numbers as well as growth in terms of partnerships, capabilities and winning accolades.

So on a partnership front, we have achieved the competence status with AWS on all 6 of their competencies, Lambda Delivery, Redshift, Cloud Formation, API Gateway, E2C for Windows Server and Database Migrations as well as being the specialist certified partner, Solution Partner

for all 5 competence areas with Microsoft, which includes Digital and App Innovation, Data and AI with Azure, Infrastructure, Security and Biz apps.

Not only that, we were also rated as a leader in the Everest Group software product engineering services for mid-market metrics. So, this is basically our swim lane. We are a software product engineering, platform engineering service provider for the mid-market, and we have been rated as a leader in that space by Everest Group. We had also made a separate press release about it. I'm sure that would have been noticed.

Apart from that, we were also rated as Major Contenders by Everest Group in their ISV and Internet-specific PEAK Matrix as well as health care provider digital services PEAK Matrix. We also won few awards, including, of course, getting recertified as Great Places to Work, but one of the Best Tech Brands of 2025 and Jombay's WOW Workplace Award for 2025.

And we have not just renewed all our certifications, but we have also gained the HITRUST certification, which is an extremely coveted and a bit difficult certification to get for providing services to health care providers and health care players in the U.S.

With this, I would invite Nand Ji to talk through the financials, and then I'll take up the last 2 slides.

Nand Sardana: Thank you, Nitesh Ji. Good morning to all. Thank you everybody for attending the call. Those who are referring to presentation, these are Q4 and year 2025 numbers and the last 2 slides of the presentation.

The revenue for the quarter was INR 555.1 crores or $62.5 million as against INR 498.6 crores, i.e. $57.2 million last quarter and INR 449 crores or $53.2 million in the same quarter last year. This is year-on-year growth of 23.6%. The gross margin was 38.9% compared to 35.5% last quarter and 37.9% same quarter last year. The improvement in margin is a result of volume growth.

SG&A expenses has increased from INR 92.8 crores in quarter 3 to INR 114.3 crores this quarter. This is due to conservative AR provision, year-end provisions and increased investment in sales. Adjusted EBITDA is 18.3% compared to 16.9% last quarter. Net profit after tax was INR 36.4 crores or $4.1 million, which is impacted by increased costs due to past services costs post notification of new Labour Code.

Now let me touch upon the yearly numbers. Revenue for the year was INR 1,958.2 crores or $224.8 million compared to INR 1,741.7 crores or $208.2 million last year. The revenue grew 12.4% year-on-year. Getting now to gross margin, it was 36.9% in this year compared to 35.9% last year. The improvement is the result of volume growth with disciplined execution.

SG&A expenses have increased by INR 45 crores. In percentage terms, the SG&A were about 19.3% this year compared to 19.2% last year. The adjusted EBITDA before RSU cost is

INR 342.7 crores or $39.3 million compared to INR 291 crores or $34.8 million last year. As a percentage of revenue, EBITDA was 17.5% compared to 16.7% last year.

Our performance in CY 2025 reflects strengthening in the quality of our revenue driven by discipline in execution, sustained operational rigor as supported by rupee depreciation. RSU cost under management incentive plan is INR 25.2 crores. EBITDA net of RSU expense is 16.2%.

Coming to depreciation. The total expense was INR 66.4 crores compared to INR 65.4 crores last year. This includes INR 24.9 crores for intangible capitalized on account of Velotio and ScaleWorx acquisition and INR 1.9 crores for intangible capitalized on account of newly acquired Novigo. Non-recurring income for the year was INR 14.5 crores, that is $1.7 million compared to non-recurring expense of INR 2 crores last year. This year, non-recurring income includes sale of building of INR 43 crores as offset by exceptional expense due to notification of Labor Code, INR 24.9 crores, among other items.

Interest expense is INR 14.1 crores this year compared to INR 8.4 crores last year. This is mainly due to interest on short-term borrowings; office lease capitalized under Ind AS 116 and interest on debenture taken for Novigo acquisition. Other income in 2025 was INR 3.7 crores compared to INR 6.2 crores last year. This year, we had an exchange loss of INR 3.4 crores compared to exchange loss of INR 1 crores last year. Further, the other income comprised of interest income of INR 4.5 crores this year compared to INR 3.7 crores last year.

During the year, the average rate for USD was 87.11 and Euro was 98.41 as against last year average rate of USD of 83.67 and Euro of 90.52. These are the two main currencies for us. As at year-end, we have total forward cover of $42.8 million with average rate of 89.16 and Euro cover of around 400,000 with average rate of 98.67. These all have been mark-to-market as per the closing rate of 31st December.

The tax expense was INR 68.9 crores this year as against INR 60.3 crores last year. Effective tax percentage is 27% as against 31% during last year. This year, we moved to new regime having 25% marginal rate. However, due to amortization of intangibles like customer contract and non-compete on Velotio and ScaleWorx acquisition and permanent differences, which are not tax deductible, the effective tax comes to around 27%.

Profit after tax was INR 186 crores or $21.4 million compared to INR 131.2 crores or $15.7 million last year. Adjusted profit after tax, that is RSU expense, non-recurring exceptional item, net of tax are INR 194 crores or $22.2 million as against INR 155 crores or $18.6 million last year. That is 24.6% year-on-year increase. Basic EPS for the year was INR 15.7 compared to INR 11.1 last year. Adjusted EPS was INR 16.4 as against INR 13.1 last year. That is 24.5% year-on-year increase.

With that, let me hand over to Nitesh Ji for remaining slides.

Nitesh Bansal: Thank you. So, after talking about the numbers, let me talk about the markets a little bit. And one important thing that I wanted to really bring out is last full year, everybody has been talking

about AI and how AI is impacting business and how we are leveraging AI. And as we have talked about in the last few calls as well that we have been very actively leveraging AI in both delivering our services to the customers as well as positioning ourselves differentiating and winning new business. And hence, we have been very AI forward in that sense.

What we have seen, while last year was probably the year of experimentation, this year is going to be a lot more focused on actual implementations. And what we are seeing is that there are probably 4 segments in the market, which are actively offering or bringing out or becoming active markets for us to go after, of which 2 have been our prime markets forever. And those are basically what we call the pre-ChatGPT software and SaaS vendors. These are the traditional product and platform tech companies that we have been servicing. And the kind of needs that they have is they now want to build AI on the edges or they want to integrate AI acquisitions into their core or they want to create platformization with data lake or build AI agents on top, etc., because their products were built in the past.

They were not AI-native products, but now they want to integrate AI. And this has been core to us. We have been building AI capabilities and integrating them on their platforms. So, this business is going to be our mainstay and we'll continue. This is about $120 billion TAM growing at 7% to 9% CAGR.

Then there were the vertical SaaS companies, which is our specialty. We work with a lot of vertical SaaS companies who want to create deep industry moats by specialized data models by creating rich integration ecosystems and fine-tune data models to offer more context-sensitive AI outcomes. We are building those vertical AI products from scratch for some of these domains, for some of these vertical SaaS companies, whether it's in legal, health care, retail, logistics, you name it, right? So, this remains our mainstay.

However, there are newer areas opening up or markets opening up because of AI and because it's a level playing field. So, one of the new ones is, of course, companies that didn't exist before the AI era. So, these are the AI-native product companies who are the start-ups or scale-up companies today and they want to build new AI-native products with complete audio/video integration or agentic support or automated platforms or processes, etc.

And we are using our OptimaAI accelerators and agent frameworks to accelerate those initially building prototypes and then getting into those multi-agent orchestration, etc, build-out. So that's definitely a new market, new TAM that's opening up for us.

Second one is a legacy TAM, but which was not open to us earlier, which is the large enterprises, which are enterprises which worked largely based on their systems of records, and that was really their main investment. And those are opening to us because AI has created the level playing field, and they want either integrations with their SAP, Salesforce, ERPs, etc, in a very AI manner.

They want to leverage that data, which is locked inside those systems of records. And they also have a lot of technical debt, a lot of old legacy systems which need to be modernized, which is

very difficult to modernize earlier, but now with AI, it's become faster. So that's a net new TAM that also gets opened up now, which we can run after.

And then we use AI in all the 3 kinds of offerings, right? We build AI features and use cases. We use AI in building those features and use cases through our OptimaAI engine as well as we use Agentic AI and build Agentic AI for business. So that's how we have been playing in the market and solidifying our position.

I'm coming towards my last slide, just summing up, looking ahead type of things. From a revenue perspective, like I said earlier, right, while 2025 was the year of experimentation, 2026 is going to be the year where companies will start embedding AI into their productive use cases. When they do that, as they do that, we believe we'll see larger-sized AI projects. We'll see more productive AI projects. Productive meaning projects that go into production, and that will definitely influence our pipeline.

Second, with the Novigo acquisition and its enterprise playbook, we believe it will help us accelerate the agentic implementations, especially going beyond tech companies to the enterprises, which has been the basic reason why we acquired Novigo, and we definitely see that playing out.

Some of the trends that we believe will continue to shape 2026. Of course, AI remains the main discussion point. But companies that have been on this journey, on this bandwagon for some time, they are realizing tools fatigue because they have bought and tried multiple tools and hence, the discussion is moving squarely into the service provider's arena to talk about outcomes, right? Because just by using tools, buying tools, they're not seeing how the promise of AI will be fulfilled, hence, they need expert support from people like us.

Modernization and tech debt reduction will continue to become topics of interest as well as accelerating engineering velocity. And these are the 2 vectors that will, we believe, continue to show promise. So, companies like us who can help customers modernize or reduce tech debt or actually deliver an increased or accelerated engineering velocity will tend to gain.

GCCs continue to be very active ecosystem. They are rapidly trying to adopt AI because they want to become the AI Centre of Excellence for their enterprises. And they know they cannot do all by themselves, hence, require expertise and enablement from partners like us. So, all in all, we believe that it's going to be an exciting year ahead and with a lot of AI-led discussions and programs that will come to fore, and that will help us play to our benefits and play to our differentiation.

That is it from my side. I think at this point, we'll open up for Q&A.

Moderator: We take the question from the line of Anmol Garg from DAM Capital Advisors.

Anmol Garg: Congratulations on good set of numbers. I have a couple of questions. Firstly, good to see that we have started to report ACV. But in that, just wanted to understand how much percentage approximate would be the renewals for us so that we can make sense from this as well?

Nitesh Bansal: So, Anmol, like I said, it does not have any renewals. We have removed renewals or rather we don't capture renewals in the same manner. So, this is all new wins, whether with new clients or existing clients.

Anmol Garg: Yes. Sir, I'm asking that in our total order book or in our general business, because it's a short-cycle deal business, so how much would be a typical renewed every year versus the net new?

Nitesh Bansal: It's very difficult to say, Anmol. These are not numbers that have been historically captured. We have talked about it many times before also that while we do not get long-term contracts, but our business is very sticky because we are doing product and platform development for clients.

And when clients start working with us on a particular platform, they will continue the team, and they will continue to have some more additions to the teams, etc., from time to time till the product is obviously, in the build cycle or getting refreshed or new. So those will all go in as renewals and will not reflect over here because that's just ongoing business for us, right? And this is what we end up either opening new logos or selling new deals.

Anmol Garg: Understood. Secondly, good to see margin inch up in this quarter. So, as Novigo gets further fully integrated into our business, how much synergy benefit on the margins can we expect going forward? And within that, if you can also indicate for this quarter, how much was the incremental revenue of Novigo?

Nitesh Bansal: So, from a margin perspective, when we had put out the announcement for Novigo, right, we had talked about that Novigo is a better operating margin, better EBITDA than R Systems stand-alone. So, to that effect, we do expect that they will have a bump up effect on our margin, right? And we'll have to see how the year plays out.

But typically, as a combined company, we had said that we'll see probably between 90 basis points to 1% increase, right, in the overall EBITDA of the company. And this is something we had put out when we did the acquisition. So, we stay over there.

Same way, I think for the revenue question also, while as a policy, we've always maintained that post-acquisition, we don't count the revenue separately because we start working in an integrated manner from day one. But if you look back at what we had already shared at the time of acquisition, Novigo is approximately INR 264 crores type of revenue company. So, you can obviously do the math.

Anmol Garg: Okay. So, this quarter would be a full quarter integration of Novigo?

Nitesh Bansal: Novigo deal got through or basically get closed only middle of November, 2025.

Anmol Garg: Okay. And one last question from my end. So, in one of the deals, we have highlighted a win with global SaaS platform to modernize their core platform. So just wanted to understand is it a larger ISV and is it a net new client for us?

Nitesh Bansal: So, while this one happens to be a net new client and a new deal, of course, so whatever deal wins we report are always new deals. Sometimes they can be with existing clients with an entirely new deal. And yes, I mean, they are a very successful marketing SaaS company.

Typically, SaaS companies, these are not one of those enterprise level multi billion-dollar kind of companies. Typical successful SaaS companies will be a few hundred million dollars of ARR, and this one will probably be in a similar range.

Moderator: We take the next question from the line of Sandeep Shah from Equirus Securities Private Limited.

Sandeep Shah: Congrats to the management for a third consecutive quarter of a good show, especially on the organic growth as well as margins. Sir, the first question, as you also highlighted in your initial remarks, last 2 weeks, a lot of announcements coming from the AI-centric platform vendors or the software vendors.

So, what we understand, the AI-centric software vendors can actually be a risk on the software development life cycle. So, my question is, A. they can be a direct competitor to us. Second, they can be a competitor to our customers who are a SaaS player. So, in this scenario, you believe the risk on the growth has gone up or the opportunity size has gone up?

Nitesh Bansal: Sandeep, the answer is actually it's more opportunity than risk, but there is obviously risk which cannot be denied. Because what happens if you look at especially because recent announcement was by Anthropic, so if we just take them as an example, right, or any company like that, they'll release models and those models will promise that they can automate a certain nature of work entirely by itself.

However, the reality is usually slightly different. While the model will bring a lot of core competence, but somebody will have to actually put that model to work in an enterprise context, in a business context, right? So, for us, it will look like that the total quantum of work has reduced but it actually gives rise to a new kind of work because this is now an AI integration work, which is obviously a little more premium.

It requires implementation and integration of a different nature, plus it requires an ongoing AI Ops, ML Ops type of a discipline to be put in place because it's not that AI once implemented is never going to go off the rails, right? The biggest fear that any enterprise has in utilizing AI in a productive manner is we don't know when it goes off the rails, right? So, somebody needs to continue to monitor it. Somebody needs to put the guardrails and continue to refine it, right?

So, it's a very different kind of engagement. It requires a human in the loop to be successful. So, what happens is the nature of work shifts. And the more of these models come out, the more

companies want to implement it and that's why I was talking about this net new TAM of just new AI models getting implemented and AI-native use cases coming into play, right. So definitely, traditional work shrinks, but a new kind of work stands up. So that's the way I look at it.

Sandeep Shah: Okay. Sir, do we track a matrix where percentage of revenue for us coming through AI-led offerings or OptimaAI usage?

Nitesh Bansal: We track OptimaAI usage internally because that's our adoption metric. And we are currently tracking almost 40% of our work getting done using OptimaAI, even if it is for validation, even if it is for testing or whatever else, almost 80% of our people use OptimaAI internally. And we are beginning to track AI-based revenues as well, which is revenues which are coming from directly delivering AI use cases or where we are using AI to deliver the work, right.

And that currently is trending towards about 27%, 28%, getting up to 30% of our work. So, it's a fairly fast-growing significant percentage that we are seeing. And we are quite bullish on that this number will continue to increase because AI is not going away.

Sandeep Shah: Okay. This is helpful. And good to see a slide on the annual contract value, excluding renewals. So, if I look at the Q4 LTM ACV is roughly 34% of the revenue in CY 2025, which could have been 20%, 25% a year earlier, which could be at the end of CY 2024. So, does this matrix give the confidence that the organic growth could be better entering CY 2026 versus CY 2025? And second, the Q4 matrix on ACV includes Novigo or doesn't include Novigo?

Nitesh Bansal: So, one, it does not include Novigo because like I said, Novigo was just last few weeks and we don't have that data yet or at least it's not tracked robustly. On the first part on the analysis, Sandeep, you are much ahead of us or me in calculating those things. And I would come back to you and understand a bit of that calculation. But broadly speaking, if just by general correlation, good ACV wins means we have good work to deliver in upcoming quarters. I mean I'll just keep it as simple as that.

Moderator: We take the next question from the line of Vinay Ravindranath Menon from Monarch Capital.

Vinay Menon: Congratulations on a great set of numbers. A couple of questions from my side. So last year in our annual report, we had mentioned that we had done about 120-plus AI projects like in our total. So, this year, what would that number be if we have it with us?

Nitesh Bansal: Actually, number of projects, we stopped counting Vinay, for a simple reason that now it was literally every project has some AI going in there. So, we actually like earlier, Sandeep was asking, we've actually started looking at actual revenue percentage in terms of how much revenue is getting influenced by it. We'll obviously get more robust in that metric. But right now, like I was saying, anywhere between 28% to 30% of our revenue is either directly delivering AI mandates or using AI to deliver our mandates.

Vinay Menon: Okay. And another thing, just to understand that you must have obviously read all the reports which is coming out last few weeks. So, a lot has been said about like a lot of routine work being taken off. So just to understand that because we do mostly discretionary work, so is it a lesser threat to us compared to a larger player because we work with a leaner team. So, does that give us a benefit over the larger players here?

Nitesh Bansal: It does. With due caution, I would certainly say, yes, it does. And I think it was one of the discussion topics during our last earnings call as well, where the work we do is discretionary and new build in nature or advanced feature enhancements, etc., in nature. It is not routine. It is not really either business service or maintenance of code or those kind of things which is what will obviously get significantly impacted both positively from a business perspective that things will happen faster and automatically. But from a service provider perspective, it would not require as many people to do that.

And what we are seeing is that it actually opens up new opportunities for us because where companies are working with large service providers who've got hundreds of people doing that, they want somebody else as a challenger to come in and see if it can be done in an agentic manner or in a totally AI-first manner with significantly lesser number of people. And we are seeing those. We are actually actively in consultation or in bid cycles for a few of those.

Vinay Menon: And last question from my side is that obviously, we had employee addition because of Novigo acquisition. But for this year going ahead, are we looking at kind of optimizing productivity because of AI and maybe looking at a higher revenue per employee kind of number for 2026?

Nitesh Bansal: See, directionally, Vinay, that eventually may happen, but it will take time to reflect. Our people addition this year is not just because of Novigo, if you're looking at the people addition numbers, like I said, Novigo numbers have just come in. We have actually had organic growth, which required people to be added, and we have actually grown in our total head count, right, throughout the year.

And we don't see that really, significantly, like reducing because like I said, we don't have business which will get taken over by AI in a manner that have to reduce workforce. Just that for every new project, if earlier I needed 10 people, now I may need only 6, right? But it is still an addition, right? So, I will add. And hopefully, as people begin to see the differentiated delivery, which is happening in some cases already, and we would like that we are able to differentiate both our delivery and billing to our customers.

But look, this whole change in revenue productivity, etc, is going to take time to reflect because it is a constant tussle with the customer, right? Customer wants productivity to themselves, and we want to take benefit of productivity to ourselves. And then we have to be able to find a path where we get some, they get some and we are all happy.

Moderator: We take the next question from the line of Sonal from Prescient Capital.

Sonal: Just wanted to understand the AI productivity part a little bit more. Sir, assuming, let's say, if a project that you were doing for a client used to take 100 hours, this 100 being a rounded number, the same task based on your projections or current estimate with the use of AI tools and some bit of automation imposing, is there a ballpark estimate on what is the time that you take now or plan or think would take in the next 1 year for the same project. Just trying to understand manhours perspective?

Nitesh Bansal: Yes. I mean just as you used 100 hour as a ballpark or as a benchmark. So, whatever used to take 100, what will it take now? See, the thing is we have been obviously doing many of these across the year, last year. And because we have our platform OptimaAI, we also gather statistics as we work through.

So, through different life cycle stages of the software development, we are seeing different levels of productivity. And so, it could be anywhere between 25% to 40% in the early stages, which is from requirements all the way to project assignments and all comes to maybe about 20% in build, 20%-25%, but goes up to 40% - 45% in testing. If we were doing the end-to-end life cycle, expecting about 30% productivity, 30% - 35% is what we would definitely kind of go in with.

So, in your estimate from 100, it will probably be 65, maybe 70 hours, right? So that's the kind of productivity gain. Now how much of it we keep or pass on? We obviously engage in a different manner with these kind of projects. And the people are also trained differently and hence, they are build on a different kind of a rate basis. Even if it is time & material, most of the times, we do it as fixed price or we try to do it as fixed price.

Sonal: I was about to ask because most of these would then end up being fixed price because they are productivity-led. So, is there like a ballpark on directionally your fixed price projects are moving up and hence your margins are moving up? And should we see that going further in next year or year after that?

Nitesh Bansal: So, answer to first part is my fixed price moving up. It is moving up directionally. Is it noticeable enough to make a reporting change? Not yet, but maybe in future and newer models are evolving as well where customers will say, may be not fixed price, but time & material with a premium or with a tool usage cost, etc. So, models are still evolving.

To your second part of question, will it continue to grow margins, help margins? Look, quality of my revenue is improving, right. However, there is a significant amount of investment needed to continue to sustain this. The amount of investment that we have made in training, in tools, in building our own, whatever hiring or renting and then buying your GPU servers, making people trained and building our own platform, etc., that all has to come out of the margins, right?

So right now, as I've said in previous quarters also, we are deploying all of that as investments and continuing to build that capability, hire the right kind of talent, put all the trainings in place. And so that we sustain our margins, we are able to give may be minor growth only and we don't dip on margins while we are making all these investments. And it's very important because this is a time when everybody is running the race, we have to stay ahead and make those investments.

Sonal: Understand that. Sir, also trying to get a sense on these 4 quadrants that you mentioned on the AI-native journey. You've been fairly strong on software products build-out as a service to your clients on the technology side. These companies typically fall in the vertical software companies' domain, if I may just generalize it this way or from these 4 boxes where are we heavy in terms of our revenue share, if I may just try to understand that.

Nitesh Bansal: Actually, these 4 boxes are currently built or divided based on where they are in their AI adoption or where they are in their AI curve. But broadly speaking, if you say the 3 boxes are purely tech and the last box is enterprise. I mean those are more vertical companies.

The other 3 are tech companies where the vertical SaaS, you can classify as vertical or platform basically, because they are vertical SaaS companies. Otherwise, they are product and platform companies. But we hadn't thought of it that way. We were looking at market from an AI adoption, AI, who's there in that AI curve, AI journey.

Sonal: It helps bridging the 2 from a revenue mix by and the features for practical reasons.

Moderator: We take the next question from the line of Nikhil from Kizuna Wealth.

Nikhil: Congratulation on good set of numbers. Sir, one thing in the investor presentation, where you have mentioned is the trends shaping in 2026. The tools fatigue is giving more rise to outcome discussion. So, are we seeing the early trend or early adoption from the seat-based to outcome-based billings? Or how is it going to impact our billing rates going forward?

Nitesh Bansal: So, let me clarify. When I say tools fatigue raising, giving rise to outcome discussions, I'm not referring to pricing mechanisms. What I'm referring to is for our clients companies, a lot of those who had bought those tools, and I think Vinay or Sandeep had asked that question saying what happens when a lot of these tool companies or tech companies are coming out with newer products on AI, right?

A lot of our customers have bought those products and they thought that they'll just use the tool and it will do the job, right? So, they have tried using the tools, they bought more tools, they spend more money, trained more people. And that's the tool fatigue, which is setting in. And hence, now they're coming to us saying, look, these tools don't give us the outcomes. Can you do something different so that we get the outcomes? Outcome meaning the benefit of AI, right.

Now the pricing or the commercial mechanism may be entirely different, right. They will engage with us for building something, for automating something or for running a business process or doing a net new tech setup, that can change many things. But this particular statement here is about clients feeling that the tools don't deliver the outcomes. We need people and experts from companies like R Systems and others to help us drive those outcomes.

Nikhil: So, sir, can you just give us your outlook on the pricing and the commercial side of this outcome based pricing that is going on? And is the trend picking up right now based on the outcome based

pricing? And basically, what impact would that have on our billing rates? I would just like to understand that because this can have a deflationary impact on the pricing.

Nitesh Bansal: I don't think so. I mean, see, simple thing is customers have always shied away from outcome based pricing. So, they don't want outcome-based pricing. In fact, to the extent possible because most customers have budgeting processes and they have capital request that somebody has to sign up to saying how much you're going to spend. The biggest problem they face with outcome-based pricing is they don't know what is the size of the project or capital that they are putting in, hence, what to write in the capital request.

Now having said that, let's assume and currently, I'm not seeing too much of outcome-based pricing enthusiasts in my client set. But when it does, personally, my calculation or my understanding does not point to outcome-based pricing being a reason for any sort of deflation or lesser earning on the part of service provider because obviously, service providers like us would want to maximize our revenues as well and where we go towards outcome-based is because it helps us maximize the revenues.

So, Nikhil, I'm in the camp that, one, there are very few customers today who want outcome-based or who will go towards it. More and more customers want certainty. So, they want certainty of output. Some sort of commitment or assurance from service providers like us that we will be able to deliver those benefits or those, if you call it, efficiencies back to them. And for that, they're willing to pay a certain price, right, either fixed price and material or a combination or some sort of a reward fee, etc, at the end. But pure outcome-based is very difficult right now.

Moderator: We take the next question from the line of Sandeep Shah from Equirus Securities Private Limited.

Sandeep Shah: Sir, on the margin, we have done excellently well in the last 2 years. And if I look at the adjusted EBITDA margin in the Q4 has been at 18.3% versus full year at 17.5%. So, is it fair to assume if currency stays where it is, this next year margin could be flat or even better than what we have done in the full year of CY 2025 because Q4 margin is higher than CY 2025 margin by 80 bps?

Nitesh Bansal: Sandeep, if the currency remains where it is and does not give us a negative surprise, we hope to definitely be able to keep it flat, right. And then depending on the investments that we're making and how soon we are able to monetize some of those, we'll either stay flat or slightly upe. Our aim was to remain in that high 16s and 17s. Now with Novigo acquisition, we have a slight bump up over there, which is why we think now 17 is something will certainly be possible.

Sandeep Shah: Okay. And just a question. Any update on a Chief Sales Officer, which we were looking out earlier?

Nitesh Bansal: Yes, we have been active in that space. And without saying too much, hopefully, some update sometime soon. We have been very close to getting somebody on board. For some reason, it didn't work out last quarter with somebody, but then we are active on that place.

Sandeep Shah: Okay. And last question to Nand, Sir, if I look at the cash flow statement, the organic capex being as big as INR 44 crores versus last 2 years being INR 22 crores to INR 20 crores per annum in the last 2 years. So, what has led to this bigger capex in CY 2025?

Nand Sardana: So, Sandeep, we have grown this year. We have added people. And also, as you know, we have set up the experience centre. We have acquired new facility in Pune and Chennai. So, all these put together have led to that.

Sandeep Shah: Okay. And sir, how to model this on an organic basis in the coming years?

Nand Sardana: How to model means?

Sandeep Shah: So, this looks like slightly expansionary capex rather than maintenance capex. So, my sense is in CY 2026, we can come back to maintenance capex as well.

Nand Sardana: Well, that will depend how much we grow. So, I think it's a good problem to have. We like to grow further.

Moderator: We take the next question from the line of Deepak Malhotra from CapGrow Capital Advisors.

Deepak Malhotra: First of all, congratulations on good results and thank you for accommodating me. I think you rightly picked up that AI is the focal point of discussion, and that's what we have done all along on the call. You mentioned about the tool base fatigue entering in the arena and AI use of earlier being just a productivity tool now is undergoing a significant change. And now my question is you referred to that basically, the role of companies like yours will be changing.

So, what I want to understand, what is that what AI cannot easily replicate in terms of your advisory role or your domain specific expertise or what kind of transformation you could really undertake when you're undertaking these projects. So how really, we are really going to create that opportunity and that value there?

Nitesh Bansal: Thank you for that question. And while there can be a fairly long answer to this, but you already touched upon the key points over there. And there are 3 fundamental things that I would point to.

Number one is AI as a tool needs to be made enterprise-ready, which basically means enterprises would require its particular guardrails, acceptable use policies, security frameworks, compliances, all of those things to be set up for them to feel safe in using a tool, I mean, which is what they have been doing for ages for anything that is brought in, how is the data residency, who's got access to what, what is accessing cloud versus what's on-prem, etc. So, there is one expertise in being able to do that, set it right for purpose.

Second important thing is that we all know that AI requires data to be fed to AI in order for results to come out. And we also know that data is almost never clean and never ready for AI. So, you put more dirty data into AI, you introduce more noise, you'll get more hallucination. And almost 70% to 80% of all AI that we do or anybody does is data-centric.

So, whether it is preprocessing, postprocessing, developing a domain-specific language or creating a linguistic form or whatever else, right. There's a whole lot of work that happens in that space, which is data science, machine learning and GenAI like variety of discipline. So that's the second one where also some amount of domain expertise may come in. Sometimes it may not be required.

Third very important thing is, which I was mentioning earlier in some of the responses, that when you start using AI and start moving it to scale, there is a significant chance that we go off rails because as AI consumes more and let's say, there is some unsupervised learning happening over there, there is a data or model evolution happening taking place, there would be new false positives, new hallucinations getting induced, which need to be constantly corrected, data needs to be corrected, the inferences need to be corrected, new guardrails need to be set up, etc. And that entire discipline comes in.

So essentially, we know this because we do this for a living, because we do this across over 100 customers, etc. For any client company to set it up by themselves, well, nothing is impossible in this world. All sorts of knowledge is available and expertise is available, but that's where they're looking for someone who's got a proven track record, having done this, being there, and that's where we come into play. So that's like short answer to a question that, of course, we can go into a lot of detail, but I hope that helps.

Deepak Malhotra: Yes. Just to follow up further on the billing rates. I mean the whole model so far has been built on when you have a predictable billing rate, you are driving the efficiency gains, and that's what you're getting paid for. And you're doing the normal, I mean for a layman like me, whether it is your application maintenance, testing, supporting, as you mentioned, your integration work or whatever routine development work you are undertaking. But then at some stage, if it's going to compete with basically the business model itself, then how does it really going to affect the revenues as such in terms of the billing rates?

Nitesh Bansal: Deepak, I wouldn't say it's competing with business model. It's like in our world of tech services, broadly speaking, or platform product engineering services, there have been new service constructs that come to life every now and then. At some point of time, everything used to be built from scratch using basic Java or .NET or whatever language, C, C++, etc. Then came obviously APIs and then came the fabric and then came cloud and people are using lots of prebuilt stuff to now assembled stuff. And those are all new constructs as we play into them and we evolve the models accordingly.

Same way for AI, where AI tools make the work easier, it actually creates a different kind of an engagement where the people are required to carry out that work are differently trained. We call them AI Ninjas, people who are really and with ambidextrous, they're able to use all sorts of tools and they are kind of assembling things very quickly. They have a knack for understanding where, what kind of guardrails would be needed. And they are leveraging tools to deliver, right. So, there is a value of the tool.

Now if it's my OptimaAI tool, then there is a value that tool is bringing. If a client has a tool or they're buying a third-party tool, if somebody is buying a Devin, which is commercially available agents to do this work, we also use Devin where our customers have bought them. They are paying for that, right? So, it's a combination of tools plus people and people who are differently capable, differentiated capabilities of the people to finally carry out the work. So, it is a different engagement model. And as we all do, we have to evolve and shift towards those kind of models.

Deepak Malhotra: Okay. One final question I have with regards to your marketing and sales function. You already mentioned that I mean you are going to strengthen your team there. How much advantage so far, we are taking of the Blackstone ecosystem? And does it reflect in any of the like top 5 new wins you mentioned about or otherwise, if you would like to throw some light on that.

Nitesh Bansal: Deepak, Blackstone has been a fairly attractive ecosystem for us because we do get access to a lot of portfolio companies. But like I've observed many times in the past, mentioned this, we get access because, yes, we are part of the portfolio. But then beyond that, we have to do the entire sales cycle. Anybody will only buy when they have a need and we can uniquely serve the need and it all matches.

What has actually helped us more is by selling into that ecosystem, we have learned how to sell into private equities in general. And hence, now we have over a dozen private equities whose PortCos we serve. And this is becoming a significant part of our business, reflecting almost close to 20% of our revenues now coming from private equity PortCos. And we'll continue to grow on that.

The 5 wins we talked about, actually, none of them are Blackstone PortCos in this list. But every quarter, we have at least 1 or 2 new PortCo wins that we add to our roster, either within Blackstone or other private equities, but it's a constant addition.

Moderator: Ladies and gentlemen, we take that as the last question and conclude the question-and-answer session. I now hand the conference over to Mr. Nitesh Bansal for his closing comments.

Nitesh Bansal: Well, thank you, Ryan, and thank you everyone, for joining and asking those questions, both encouraging as well as providing insights into what you're looking at and looking for. But like I said earlier, I enjoy being in these calls and look forward to seeing you again next time. Thank you so much.

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