R SYSTEMS INTERNATIONAL LIMITED

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[CMMI Level 5, PCMM Level 5, ISO 9001:2015 & ISO 27001:2013 Company]
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REF: SECT/11/2024/17 DATE: NOVEMBER 14, 2024

To, The Managing Director **National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051 NSE Symbol – RSYSTEMS	To, The General Manager **BSE Limited** P.J. Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code - 532735

Dear Sir/ Madam,

SUB: SUBMISSION OF TRANSCRIPT OF THE INVESTORS/ ANALYSTS CALL FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2024

This has reference to regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Investors/ Analysts call held on Friday, November 08, 2024 on the financial results for the quarter and nine months ended on September 30, 2024.

Further, please note that the Transcript of the Investors/ Analysts call held on Friday, November 08, 2024 is being made available on the website of the Company at the following link:

https://www.rsystems.com/investors-analysts-call/

This is for your information and records.

Thanking you,

Yours faithfully,

For **R Systems International Limited**

BHASKER DUBEY
Digitally signed by BHASKER DUBEY
Date: 2024.11.14 16:14:51 +05'30'

Bhasker Dubey
(Company Secretary & Compliance Officer)

"R Systems International Limited
Q3 FY 2024 Earnings Conference Call"
November 08, 2024

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

MR. NAND SARDANA – CHIEF FINANCIAL OFFICER

MR. KUMAR GAURAV–VICE PRESIDENT (FINANCE & ACCOUNTS)

Notes:

1. Please note that no unpublished price sensitive information was shared/ discussed during or in pursuance to this Earnings Call.
2. This transcript has been edited for readability purpose and may contain errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.

Moderator: Ladies and gentlemen, good day, and welcome to the R Systems Q3 FY 2024 Earnings Conference Call.

As a reminder, all participant lines will be in 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 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: Thank you, Sejal. I welcome all participants to R Systems Quarter 3 2024 earnings conference call. Since, R Systems follows the calendar year as its financial year, July to September quarter is Q3 for us. We have today with us Nitesh Bansal, Managing Director and CEO, R Systems and Nand Sardana, CFO, R Systems.

We have shared the investor presentation earlier today as well as uploaded on company's and stock exchanges website. I hope all of you have received that. We will start the call with opening remarks on the performance of the company by Nitesh, followed by financial overview by Nand. Thereafter, we will have a closing statement by Nitesh. Subsequently, we will open up for a Q&A session.

Before I hand over, let me read out the customary disclaimer statement on behalf of the Company. Investors are cautioned that this presentation 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 revisions because of new information, future events or otherwise. Actual results, performance, achievements could differ from those expressed or implied in such forward-looking statements.

Now I am handing over to Niteshji for his opening comments. Thank you. over to you, sir.

Nitesh Bansal: Thank you, Kumar, and good morning, and welcome to our earnings call for Q3. Thanks for joining in. This is Nitesh Bansal. For those of you, who received our slides, I will be mentioning the slide number just for you to refer to them. The broad topics on the agenda that I'm going to cover is the key highlights of the financial performance, the trends, our operating metrics, some of the comments on how we're building for the future, referring to some key wins, and providing little bit of summary of what we are seeing ahead in the market.

So moving to Slide 4, if you're referring to the presentation, the key highlights for Q3. We ended Q3 with a revenue of INR 4,441 million. This is approximately $53 million. This is a revenue growth in INR terms quarter-on-quarter, 2.8% and year-on-year, 1.4%.

We closed at an EBITDA of 17.9%, which totals to INR 796 million or $9.5 million, which is a quarter-on-quarter growth of 11.5% in INR terms and year-on-year of 19.5%. Our net profit stood at INR 398 million, which is approximately $4.8 million.

If you look at the EBITDA growth quarter-on-quarter, it has been a result of a few parameters, which is given as an EBITDA bridge. So, we gained on a higher number of billing days in Q3, about INR 2.7 crores, or about 0.5%Improved utilization, which has been a conscious effort that's been going on in the organization for the last 3 quarters, gave us an additional INR 2.3 crores or another 0.5%. Tightening our operating metrics and ways of working has resulted in another INR 2.3 crores or another 0.5%. We got a rupee depreciation benefit of about INR 90 lakhs or 0.1%, resulting in the overall EBITDA of INR 796 million.

Moving to the performance for 3 quarters or year-to-date Jan to September 2024, we finished at INR 12,928 million or $155 million, which is a year-on-year growth of about 1.9%, and year-on-year adjusted EBITDA growth of 5.4% at 16.3% EBITDA or INR 2,110 million. The equity attributable to shareholders remains at INR 6,607 million, cash and bank balances of INR 2,598 million, AR and unbilled at INR 3,192 million, which results in the DSO of 59 days.

Just a quick note to observe for an adjusted EBITDA comparative from Q3 or 3 quarters, same 3 quarters last year, we had a one-time transaction in Q3 last year, which resulted in an additional BOT transfer fee of $2.3 million, which has been adjusted. So, Jan to Sept 2023 stood at 14.5%, but added $2.3 million, resulted in 15.8% for the same 3 quarters last year.

Moving on to the next slide, which is Slide 6, financial trends. We have continued to grow quarter-on-quarter for the last 3 quarters to 4 quarters in a row and ending at INR 4,441 million and at EBITDA of 17.9%. So, the company has crossed a quarterly run rate of INR 440 crores in revenues and INR 75 crores in EBITDA terms.

Our quality of revenue has also continued to improve consistently as we have continued to focus on high-value business, winning deals, focused on cloud, data and AI, which is giving us more sticky business and giving us better value clients.

On the operating metrics, which is Slide 7, our revenue mix by geography. While North America continues to be our largest geography, contributing 74.1%, it's a 1% drop from the last quarter. Southeast Asia has done much better and gone from 12.9% to 14.2%, which is also largely reflective of how the economies in these regions have performed, where North America and Europe had been slow, but Southeast Asia had been doing well. So, it is sort of reflected in our business mix as well.

Europe remains relatively around the same, 8.3% to 8.1% and rest of the world from 3.7% to 3.6%. But broadly speaking, no material change to the mix of revenue. North America continues to lead. Southeast Asia and Europe are still significant contributors.

From a client concentration perspective, our top client contribution came down from 5.2% to 5%. But this is largely because this is a telecom customer, and large telco companies have been curtailing a lot of spend in the recent quarters. But we expected it to reverse back as the telco spend comes back, and we are already seeing signs of that.

Our top 3 clients contributed 10.3% compared to 10.5% last quarter, not a major change. Top 5 clients improved slightly from 14.1% to 14.8%, thus signifying continued focus on both account management as well as improving the revenue mix. Top 10 clients also grew slightly from 21.9% to 22.5% of revenue. Our utilization continued to improve, which has resulted in the EBITDA growth, as we talked about. And the DSO has continued to be kept in check at 59 days as we ended quarter 3.

Moving to Slide 8, building for the future, talking about some of the qualitative terms. Our go-to-market, which has been a focus since the beginning of the year, we have been deepening our engagements with customers with more value-added initiatives. We've strengthened our partnership with hyperscalers; Azure, AWS, as well as with all other partners that we work with, including Boomi, Salesforce, UiPath and others. This is giving us more long-term sustainable revenue through business solutions and solving clients' critical business problems.

Our delivery footprint has also expanded. One of the major steps that we took in the quarter was to open a new delivery centre in Mexico, for which we've created an entity in Mexico. And we are starting our delivery operations from this quarter, which will serve the purpose of nearshore staffing, resourcing and project delivery for mostly our North American customers who require work to be done in the same time zone from a cost-effective location.

From an offerings and positioning perspective, we launched OptimaAI, which is a GenAI suite for enterprises. This is a suite that we rolled out internally for all our developers and engineers as well, which allows them to leverage the power of Generative AI in the software development lifecycle and also becomes a repository for all the AI use cases that we work on, and hence, creating a lot of reusable components that can be leveraged to deliver to our customers.

We also launched a couple of offerings that are widely applicable and finding a lot of acceptance. One was around migration from any reporting tools to Power BI, and second was around Chaos Engineering with an integrated disaster recovery model to enhance our business continuity and resilience. And there are more such solutions in the work, so we'll continue to release and launch more of these value-added offerings to the market, improving both our positioning as well as deepening our wallet share with the customers.

Talking about leadership. While people, of course, remain our most valuable assets and as we have truly started operating like a global enterprise, we have been augmenting some management bandwidth in spaces where we felt that we had a white space or needed to bring in the leadership. We inducted Satyadeep Mishra as our Chief Human Resources Officer. He is based out of India and is now globally responsible for HR. Srikara Rao joined as a Chief

Technology Officer for Cloud and Security Services based in the US and Shardul Sangal has joined us as Senior VP of Global Delivery.

Talking about some key wins that we've had in the last quarter. We started working with a product company in Europe, which is engaged in developing financial software and providing services to mostly financial institutions. We are currently carrying out a total revamp and reengineering of their financial services platform, from legacy technologies to more cloud-based and SaaS-based technologies and enhanced user experience.

With another US-based cloud platform provider for utilities industry, we are streamlining their product development and sustenance services, offering full life cycle of development and sustenance service offerings to implement transformative and cloud-based solutions.

For another company in the financial decision support systems provisioning, who provide systems for financial decision support, we are currently managing and optimizing their IT support and Salesforce environment and enabling their cloud operations.

For a large independent digital wealth management platform, we are providing them quality assurance, development services, critical fix and fill and operational efficiency-related services that have come onboard last quarter.

And for a Canada-based global leader in transportation and shipping of coal, oil and other energy materials, we are modernizing their operations by upgrading their reporting capabilities, giving them real-time capabilities to look at KPIs and reports to drive their efficiency and bring innovation in global logistics.

So these are the snapshots of a few notable wins of third quarter. There are, of course, many others, but these are just sort of examples of how leading through data, AI and cloud, we are building deeper connect and winning better deals.

At this point, I will hand it over to Mr. Nand Sardana for a detailed overview of the financial metrics. Nand Ji, over to you.

Nand Sardana: Thank you, Nitesh ji. Good morning to all. Thank you, everybody, for attending this call. The presentation gives detail of quarter 3 performance, which is our third quarter as we follow calendar year. Revenue for the quarter was INR 444 crores or $53 million as against INR 432 crores or $51.8 million in last quarter. It was INR 457.3 crores, that is $55.3 million in the same quarter last year.

Q3 '23 was benefited by a onetime BOT fee of $2.3 million from a Knowledge Service customer. Excluding this one-time fee, year-on-year growth is 1.4% and quarter-on-quarter growth is 2.8%. The growth is driven by higher traction to digital product engineering and digital operation services.

The gross margin was 36.3% compared to 35.5% last quarter and 35.6%, excluding that onetime BOT fee same quarter last year. Gross margin is mainly resultant of improved utilization. SG&A expenses decreased by INR 37 lakh, this is mainly due to H-1B visa filing, which falls in quarter 2. The adjusted EBITDA was 17.9% compared to 16.5% last quarter and 15.2%, excluding that onetime fee in the same quarter last year.

The company has been able to expand sustainable operating margins through operational efficiencies. The RSU cost under Management Incentive Plan 2023 is INR 8.2 crores compared to INR 8 crores last quarter. EBITDA, net of RSU spend, is 16.1% as against 14.7% last quarter.

Year to date, September '24, for 9 months, revenue was INR 1,292.7 crores or $155 million as against INR 1,268.2 crores or $154 million same period last year. Excluding onetime fee, the growth is 3.5%. Adjusted EBITDA was 16.3% as against 14.5% same period last year, excluding onetime fee.

Our growth has been impacted by macro environment. However, we have been able to expand margins through operational efficiencies. We are committed for profitable growth and continued our investment in sales engine, new technologies and innovation to deliver long-term sustainable growth. And getting down to depreciation and amortization, the total expense was INR 16.6 crores compared to INR 16.7 crores last quarter. This includes INR 6.3 crores for intangible capitalized on account of Velotio and Scaleworx acquisitions.

Interest expense is INR 1.6 crores compared to INR 2 crores last quarter. Other income was negative of INR 72 lakhs compared to income of INR 2.2 crores last quarter. This quarter, we had an exchange loss of INR 2.2 crores compared to an exchange gain of INR 1.1 crores last quarter, mainly on account of mark-to-market forward covers. Further, the other income comprises of interest income of INR 1 crores this quarter compared to 68 lakhs last quarter.

During the quarter, the average rate for USD and Euro was INR 83.76 and INR 92.05, respectively. These are the 2 main currencies for R Systems. As at year-end, we had total forward cover of $37.5 million, with average rate of INR 84.75; and Euro forward cover of EUR 2.7 million, with average rate of INR 94.3, which have already been marked to market at closing rate of September 30.

Our tax expense was INR 11.8 crores this quarter as against INR 21.9 crores last quarter. Reduction of taxes is due to reversal of tax provision of INR 6.2 crores against dividend received from subsidiary company as a result of declaration of dividend in this quarter. Net profit after tax was INR 39.8 crores or $4.8 million compared to INR 24.8 crores or $3 million last quarter. Basic EPS for the quarter was INR 3.37 compared to INR 2.1 last quarter.

Getting down to asset side, the total receivable including unbilled at the end of quarter were INR 319 crores compared to INR 320 crores at the end of last quarter. DSO is 59 days as against 60 days last quarter. Our cash and bank balances, net of short-term borrowing as on September was INR 260 crores compared to INR 179 crores at the end of last quarter.

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

Nitesh Bansal: Thank you, Nand Ji. So, summing up and looking ahead, clearly, we are seeing good signs of activity in the market. We've seen traction begin across all sectors now. As the year is coming to a close and also US elections behind us, there are definite signs that customers are planning to spend more in the coming year. And this is the time when they're doing a lot of those RFQs and RFPs. So clearly, very busy times from a sales perspective.

Our increasing partnership and collaboration with the ecosystem power players; AWS, Microsoft, Salesforce, Boomi, UiPath, and something that we have done recently in the last 2 quarters, building up an active start-up partner ecosystem as well, that traction is continuing to grow. We've seen benefits of that collaboration and significant activity in the market with that.

If you look at the trends, the trends have really not changed much. AI, of course, continues to be talk of the town. Fully leveraging AI continues to require both expertise in technology as well as understanding of the new domain, and those are the areas where professional service providers like us become really necessary because we bring the combination of understanding how to leverage AI to solve those business problems. And this is where we are beginning to see companies show a lot of interest and ask for services.

Process efficiency and automation, cost savings, they all remain dominant themes. Digital product engineering, AI and automation are all very relevant, and we are seeing activities across all these areas. With the growth of activity in the sales process and the number of request for quotations, proposals, etc, we remain fairly optimistic of the market sentiment improving with the beginning of '25.

So with that, I would probably end the presentation now, and we are open to questions.

Moderator: Thank you very much, the first question is from the line of Nikhil from Kizuna Wealth. Please go ahead.

Nikhil: Sir, I just wanted to ask you, like, now we are seeing that the environment is pretty much optimistic now, so can you just highlight how the pipeline is making progress? Like how much growth is there in the pipeline, like in ACV and TCV numbers, too? So that is my first question, sir.

Nitesh Bansal: Yes, Nikhil, thanks for your question. We are seeing increased activity, which is reflected in growth in the pipeline. However, since we do not share the ACV, TCV numbers or the guidance, I won't be able to provide that. But like I said earlier, we have seen both, the number of inquiries as well as number of proposal asks go up, and we continue to work through them.

We are hoping that, along with those asks, decision-making cycles would also become faster, where, in the last few quarters, we've seen a lot of customers hold back on their decisions. Some of that will open up, too. So, while the response to your question is not in quantitative terms and numbers of whether it's ACV or TCV of the pipeline, but definitely, we are seeing the pipeline grow up and looking forward to good conversions.

Nikhil: Okay, sir. That was so insightful. So, my second question is like our ITES business is now approximately 10%. So what is the margin and what is the sustainable margin? (Inaudible)

Moderator: Mr. Nikhil, we can't hear you.

Nitesh Bansal: Yes, we couldn't, but Nikhil let me understand what you are saying is now that our services margin is around 18%, are they sustainable or what is our outlook? I'm guessing that's your question. And I think in my previous earnings call also, we've mentioned that we are consciously working on some of these margin improvement initiatives through utilization and pyramid improvements, etc, to one of course, provide a sustainable growth to the EBITDA margins, but also to create additional room for us to invest for the growth.

As we are seeing the market move towards a growth sentiment, we will continue to invest both in our sales and marketing efforts by putting more feet on the ground as well as start building additional capacity for delivery. So, while our margins will remain sustainable, and when you look at our annualized margins, you will see a sustainable growth in them. But we will also be making some amount of investments to fuel the growth on the top line basis.

Moderator: The next question is from the line of Anmol Garg from DAM Capital.

Anmol Garg: A couple of questions. Firstly, on the margin side, utilization is now close to an all-time high. And we are also talking about making some investments on the sales side as well as on the delivery side. So what are some of the levers that will help us in increasing the margins from the current levels?

Nitesh Bansal: So, Anmol, thanks for the question, and thanks for joining again, so we believe, on the utilization front, we've done a fairly good job, and we are at industry-leading utilizations. We will try and sustain the utilization while making conscious investments and improving our delivery bench strength and capacity to be able to capture growth as it comes in the market.

And since we are looking at investments in line with growth, I do not believe that it should lead to a massive dilution of margin there. Sales and marketing investments are budgeted with certain amount of drag as a percentage of revenue. So for us, we are quite confident that we should be able to, when you look at our annualized margin, this is just a quarter margin, so I wouldn't base it on this when you look at the full year margins. That's where we will try to make sure that we are able to stay sustainable.

And from a levers perspective, we still have levers, which will be related to as we get into larger customer sizes. The whole management overload and effort becomes more streamlined. We are looking at pyramid rationalization. And also, as we change our service mix, our service mix itself also can lead to better margins. All of those are in the works, and all of these levers will start playing out, as we work through in the quarters to come.

Anmol Garg: Right. Just continuing on the same, Nitesh, are we increasing our sales incentive structures? And would this have an impact on our overall SG&A? So, should we expect increase in SG&A levels from the current levels?

Nitesh Bansal: So on the sales side, we're not increasing the incentive structure because sales incentives are benchmarked with the market, and we are in a quite a good spot. We are able to incentivize our sales people for the efforts and the outcomes they produce. We are, however, continuing to improve our sales bandwidth, which basically means increasing the number of people in the market, both for hunting as well as farming.

As we develop better logos of our customers, we are continuing to invest in farming efforts so that we can deepen our relationships with them and increase our wallet share. So, that will continue, but it is planned to be largely in the line of our expected growth.

So from a percentage change of SG&A, while there will be some investment, it's not a massive investment, not a massive move to the percentage of SG&A. We will definitely see SG&A increase as a percentage over the next quarter and the next, but those investments are already made. The cost, obviously, gets reflected in the next quarter.

Anmol Garg: Understood. And also, if you can talk about a bit on our journey towards signing on larger ISVs as our clients. Have we been able to sign any larger ISVs this quarter? Or is there any new partnerships which is expected in coming quarters as well?

Nitesh Bansal: So from a partnerships perspective, I think we've been very conscious and partnering with the companies that we intend to. We will definitely also start working with ServiceNow in the quarters to come because that's something which we've been working on, and we will establish that partnership but what we will be focusing more on is improving our partnership levels with the partners we work with, on getting more traction with them and getting to a point where they start becoming their channels to bring us more deals. We have seen increase in the deal inflow through our partner channels in quarter-on-quarter for every quarter in the last 3 years, and that's something that we'll continue to work on.

From signing larger ISVs perspective, our overall percentage of revenue or revenue mix from customers that are greater than $500 million or greater than $1 billion has continued to move up and I think like we had said earlier, we had set up a sales motion to open large accounts and larger deals. That continues to do its work, and it will continue to produce as well. So, the answer is yes, and we are continuing to sign larger customer sizes and with better deal sizes as well.

Anmol Garg: Just one last thing is on the deal wins. So, I know that you don't give ACV or TCV numbers. But from a qualitative aspect, if you can indicate whether we have seen increase in the deal sizes versus the last quarter? And is this a trend which is happening? Or should we expect the deal sizes to remain where it is?

Nitesh Bansal: Anmol, we are definitely seeing our average deal size go up, quarter-on-quarter. We are also tracking it at pipeline level. And we are seeing that in our pipe, also, we are getting more number of larger deal sizes. And like I said earlier, it's a conscious effort of gradually moving towards it. So for us, definitely, it is a positive trend, and we have every intention to continue it that way.

Moderator: The next question is from the line of Vinay Menon from Monarch Capital.

Vinay Menon: Congratulations on the good set of numbers, sir. So just a few questions from my end. So utilization is at 83.5%. Is there any room left for improving? Or could we, like, top up somewhere close to this level?

Nitesh Bansal: Well, it is pretty much the best of the industry kind of a utilization level. So I wouldn't say that we can or we will try and push for going beyond this level kind of a thing. So yes, your question is valid. We are pretty much at the top from utilization perspective because, from every calculation we look at beyond this, there isn't too much room for the utilization side. However, like Anmol or Nikhil had asked, are there other levers? Yes, there are other levers that we continue to work with.

Vinay Menon: Okay and on a similar basis, sir, what kind of employee addition could we see, sir, over the next few quarters? Because you've had a few quarters without any kind of employee addition. So are there any plans for that?

Nitesh Bansal: There certainly are and we are willing to add bandwidth and employees in data, cloud, AI. And also a bunch of our specialized areas around security and similar services.

Vinay Menon: Okay and the margins, sir, continued to be strong. So is there been any improvement in billing rates on the IT services side?

Nitesh Bansal: No, the market environment wasn't going to support the rate increase. In fact, in the last couple of earnings calls, there were questions around whether we have given discounts to our customers. Given the nature of our services in the product implementation and product engineering space, we haven't offered discounts to our customers. But on the contrary, we have not increased or we've not been able to get billing increase either.

So, the robustness of margin performance is largely due to better utilization and better operating efficiency, tighter control on project costs, better control over change requests and all of those aspects and not a direct billing rate increase. Like digital operations, like some of the enterprise business that we carry out in Asia Pacific, our business mix has become richer, and that has also had some positive impact on margin improvement.

Vinay Menon: Okay, sir. And so we've seen like 2 cuts already in the U.S., one 50 bps and one 25 last night. So has there been any impact on discretionary expense? It's been 2 months since we have seen the first cut. So have companies started to ramp up spending or something like that?

Nitesh Bansal: To increase spending directly, not yet. But intend to spend, definitely. Because I think the impact of the cuts, the last cut gave people the positivity and hope that they will be able to spend more. But then there was the election, which created uncertainty, and people were obviously cautious with the election side of things. With the second cut and now election results being clearer, I think their intent to spend is becoming clearer.

And also, given that the US budgeting cycles are typically, they get into budgeting cycle in October, November. So, new spending don't happen around this time, but they do prepare for spending next time. So the short answer is, we haven't seen increased spending happen already, but we are definitely seeing signs of increased spending intent for the future.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities, please go ahead.

Sandeep Shah: Thanks for the opportunity and Congratulations on very good execution, especially on the margins, despite the macro challenges being there. So the first question Nitesh, is in terms of growth momentum, we have done extremely well the past few quarters. Do you believe fourth quarter can also be maintained in terms of growth momentum because of the furlough, I'm asking because it could have a seasonal impact?

Nitesh Bansal: Sandeep, thanks again for joining in. Yes, you are absolutely right. Q4 always has a seasonal impact because of furloughs, because of holidays and also a lower number of working days. So one, we believe that the growth momentum should continue. So, growth momentum in terms of volumes will definitely happen. That volume, translating into revenue, will be dampened by the lower number of working days and furloughs. So that will be reflected in the numbers accordingly.

But that's a seasonal variation that all of you are very well kind of aware of, that we lose a certain amount of revenue conversion of the volume growth each year in this quarter. So, there is momentum. There is a fundamental volume growth that we will aim for, but it may not translate into exactly one-on-one basis from volume growth to revenue growth.

Sandeep Shah: Okay. So you are still eyeing a positive growth in the revenue in dollar terms in fourth quarter?

Nitesh Bansal: I won't be able to give you a forecast, but volume growth momentum is definitely there.

Sandeep Shah: Yes. Why I'm asking Nitesh, is this year's exit rate would be better if you annualize the fourth quarter run rate and divide by the CY '24 dollar number. We are may be entering CY '25 with a better confidence, and that should lead to a possibility of a higher double-digit kind of growth. Is it the right way of looking at it, looking at your pipeline, average deal size, win ratio?

Nitesh Bansal: Sandeep, I couldn't have said it better without commenting on exact numbers, I think the sentiment is absolutely right.

Sandeep Shah: Okay and any update in terms of Blackstone channel, how many customers you have closed with the signing and how many are in the pipeline? And can it be a big growth driver in CY '25?

Nitesh Bansal: So, Blackstone channel has been fairly effective and important channel for us. We have already got close to15 customers from the Blackstone portfolio companies. It is beginning to contribute a reasonable percentage of revenue for us. Just like all the other market activities, prospecting and reaching out to clients, we are constantly working with Blackstone portfolio companies as prospects.

We currently have another close to a dozen prospects that we're working within the Blackstone portfolio. And just like market sentiment improves and people start spending, these companies would also, and I'm looking forward to some of them making those decisions, and hence, contributing to the growth in a similar manner.

Sandeep Shah: Okay and Nitesh, is it possible to give some colour in terms of average deal sizes in the pipeline now versus one year back, in terms of win ratio now versus one year back, and the pipeline growth if you can quantify versus one year back.

Nitesh Bansal: Sandeep, not in exact terms, but I'll give you the sentiment. Number one, from a win ratio perspective, our win ratio for anyone, actually, across the industry, you would see, it would have gone down because there are a lot more deals which are undecided, where customers have delayed decisions. So, win ratios get impacted by that, but our average deal size has certainly gone up.

And from a colour perspective, I would say that we've moved up a significant double-digit percentage sizes. I mean, I don't know how else to provide a colour without giving an exact number, right? But Sandeep, the other thing is, it's not done yet, right? I mean these are the beginnings of the outcomes of a conscious effort, right? And these things don't change overnight.

So, these are leading indicators that we're doing the right things. We're chasing better-quality deals. We are going after higher-value deals, and we are beginning to win them. But these will become mentionable or a large-enough number only a few quarters down the line, right? So definitely, pipeline is bigger, made up of bigger deals. We are also winning them. And more number of decisions come in, then this will become a bigger factor kind of a number.

Sandeep Shah: Okay. Just last couple of questions. In terms of any large client-specific issues, which we are worried about entering CY '25. Second, now the margin, including ESOP charges, is higher than our margins when we did not have the RSU. So, that's a great execution on margin. So, do you believe the current margin run rate can be maintainable going forward? Q-on-Q variation is okay, but Y-o-Y, can it be maintained?

Nitesh Bansal: So is there a singular client-centric issue that we are worried about? The answer is no. Our top clients are largely sustained and, in fact, some of whom we've seen either stagnate or not grow year-on-year. We do believe that growth with the spending will come back even in those clients. So clearly, no single client-centric issue that would worry us.

We do have, and we have said that in the past quarters also, that there is a certain amount of churn in the business, which comes because of the nature of our business. Because we are on discretionary spend, we are doing project work, building products for people, so there is a certain amount of churn that continues. But it's not like we are expecting any large client to suddenly drop off. From a margin perspective, thanks for the compliment. Yes, we are very conscious of it, and we do believe that we will maintain a sustainable margin trajectory.

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

Mihir: Thanks for giving the opportunity, Congratulations on the underlying operational improvement. I mean that is clearly getting reflected on the margin side. My question, sir, was more on the comments that you made on the good signs of activity picking up for you, and where intend to spend going up. So, is this getting reflected across sectors? Or how is the situation on the telco side? If you can provide some colour around that because we are more exposed to telcos and ISVs. So I mean, just particular commentary of intent to spend going up, how is that panning out from a telco portfolio in that level?

Nitesh Bansal: Thanks, Mihir, and thanks for the compliment. We are seeing the activity pick up across sectors. Tech was the biggest impact or highest impacted, and where we are seeing some of the tech spend come back, telcos following behind. So, the signs of while the discussions have started, some of the deal activity signs will probably start off and start showing up. But from a sentiment perspective, we are also seeing some of the telco, ISVs and OEMs begin to relook. And perhaps largely also because some of the larger OEM customers etc, did a massive cost-cutting and rationalization in the earlier part of this year. So perhaps they are kind of done with it and start off now.

So I think that sentiment is reflected across sectors. During the last few quarters also, for us, health care, which is the third large sector that we have exposure to, has continued to do well, and we expect that to continue. We are also seeing revival in financial services and overall services, which is hospitality, education and travel & transportation. So, it is currently at least reflective across all.

Mihir: So basically, you mentioned, on the deal flow side, the deal flow has gone up. If we can quantify over here, what is the improvement which has happened, that will be helpful? And second question was just on the headcount side. So where do we report our SG&A headcount? Does it sit in the support part of the piece or does it sit in the technical piece? How do we see the SG&A headcount building up for us, let's say, over the last six months, last 12 months?

Nitesh Bansal: Nand Ji, I really could not hear the question. Did you get that? Would you be able to answer?

Nand Sardana: So he's asking how is the deal flow going on? And second question is on the support, where we do report marketing and sales people, that I'll answer, right? Deal flow, you can answer. How is the deal flow in the last 1 quarter?

Nitesh Bansal: Well, deal flow in last 1 quarter has been well, it's positive from a perspective that, yes, our total net new wins as well as revenue from net new has gone up quarter-on-quarter, which is also reflected partly in the growth that has been reported. And like I said, when I'm talking about all the activity, it is really about how the deals have come in, and we continue to respond and win some. So, deal flow has gone up quarter-on-quarter, and we continue to look at it that way.

Mihir: Sure. Just on the SG&A side.

Nand Sardana: So, let me answer this. On the SG&A side, in the press release at the head count, we reported at the bottom of the head count- support staff, which is 527 as on the end of September quarter. It includes sales and marketing resources as well.

Mihir: Okay. And how much would be that?

Nand Sardana: Okay. Our hardcore sales team excluding the ISR would be close to around 60 resources, Nitesh Ji, excluding the ISRs?

Nitesh Bansal: Yes.

Mihir: Sorry, how much?

Nand Sardana: 60 is the hardcore sales guys who are at on-site location and additional 55 to 60 ISR support them in the sales lead generation, and they support from NOIDA during the night shift.

Mihir: Understood Sir and what was this number on last quarter Y-o-Y basis?

Nand Sardana: The sales resources number would be almost same or maybe 2%, 3% increase. ISR number would have reduced maybe by around 8 or 10 resources in the last 2 quarters.

Moderator: The next question is from the line of Omkar Sawant from Marcellus Investment Managers.

Omkar Sawant: Hi Nitesh, 2 questions from my side. Firstly, on the delivery side, you have hired a global delivery head, right? So, your presence has been more offshore-centric, right? Does that change over the next couple of years? Do you plan to go more on-site-centric? Does that mix change?

Nitesh Bansal: So Omkar, yes, we've hired a Senior VP of Delivery for global delivery and the approach is still completely like it has been, offshore-centric. The person joined at the NOIDA, leading our delivery for a certain number of verticals and horizontals. When we talk about global delivery and working like a global delivery organization, this has been a conscious effort for the last 3 quarters, where we operate as a single company and try to break the silos so that we are joined up, and we are able to deliver to our customers from any of our delivery locations.

So, now we have examples of customers which is in contrast to the past, where we have customers which are American customers being getting deliveries with a combination of resources in India and Eastern Europe, or a European customer who has been delivered from resources in combination of India and Asia Pacific or any that kind of combination. And that's why, having more robust delivery mechanisms, better methodologies and tools, bringing everyone together as one team is really the global delivery that we have been building and leveraging.

Omkar Sawant: Okay and secondly, on the sales organization. So, even apart from the senior leadership, we have had a lot of senior level hires, right, from Tier 1 organizations. So, how does the sales for organization overall change now? Does -- the focus areas for you change? Or the partnership-led deals that you're chasing, does that change? Some colour on that would be helpful.

Nitesh Bansal: So really, from a sales leadership perspective, we've really brought in only 2 senior-level hires. The Chief Customer Officer had come onboard in Q1 with a clear focus that we have to focus on farming, on improving our partnership channel-led kind of a sales motion, and obviously, improve lead generation and deal pipeline through the channel partnerships. So, that was one change. It was a clear white space that we recognized as part of our strategy exercise we did towards the end of last year, and we got in and filled in that gap.

The second hire is our CTO that we have brought in recently because as we develop deeper relationships and do more deeper technical work, typically, the buying patterns in the market are the technologists buy from technologists. And technically minded people or CTO kind of people are effective consultants and salespeople. So, it is in line with our strategy, which has not changed, that we are going to build deeper relationships, that we are going to be partnering with our clients in their entire product and platform development and kind of improvement or expansion journey.

So, those are the only senior-level hires we've brought in on the sales side. Largely, strategy remaining the same that we will deepen our relationship with those partners. So, we're continuing to do that. That we will increase our deal flows through channels, we're continuing to do that. We are seeing more impactful deals. And for that, we need those kind of conversations to happen, and hence, these people are there.

So those things are remaining, internal minor changes or alignments of people's focus areas by verticals or some more people focusing on key accounts. And there's been more support in the market in the form of specialist salespeople who can sell cloud services or who can sell data services or who can sell AI services. Those are constantly ongoing. But it's not a shift in strategy, it's just deepening of the strategy, putting it into execution and enabling it through the right people and the right mix in the market.

Omkar Sawant: Okay and apart from Service, are there any other partnerships that you are exploring?

Nitesh Bansal: Well, from a large notable tech enablers' perspective, we're not exploring because we do have a lot of those partnerships. But definitely, Snowflake and Databricks are partners that we are going to go deeper with because as we increase our stance on data and AI, those are important players in the market. We already work with them. We need to raise our joint partnership motions with them.

Recently, we got upgraded in our partnership with Salesforce. We've now become a Crest partner, which is again, a result of the conscious efforts that we've been making. We have been upgraded in our partnership with Microsoft in the Asia Pacific region, and we will continue to work through those.

The only additional angle is that we've seen how, as people continue to deploy more AI into business use cases, there are a lot of new things that are happening and coming along with that, which is actually in today's time, not possible for any single organization to keep pace with and develop capabilities across everything.

So actively working with the start-up ecosystem and leveraging partnerships with our start-up partners has also become a fairly important thing, and we continue to get better at leveraging them and working jointly with them towards our customers.

Moderator: The next question is from the line of Prolin Nandu from Edelweiss Group.

Prolin Nandu: Nitesh, I just have 1 question, right? It's been a year since you have joined R Systems, right? And you have taken helm, and you know things internally now. So can you help us understand as to what is it that has surprised you in last 1 year in terms of capabilities of R Systems? And what is it, which are the aspects which are taking more time in terms of the change that you want to bring about, or the direction in which you want to take the company to?

Nitesh Bansal: Thanks for that question and we can go into a fairly elaborate discussion about it, but I'll try and answer in short. I think what has surprised me and quite positively is the number of hidden stories in the sense that I think we have been our worst enemies in terms of not telling the stories of the good work that we've done. Every time we have reached out deep within the organization to find have we done work in this area, and the answer we found surprisingly is yes.

Just to give you an example, recently, we were trying to find if we have actually carried out doing simulation software for medical services and to my surprise, we have actually done that a few years ago for a client. So that has been a surprise. And I think that's also been the most difficult thing, how to get all of the hidden treasures of R Systems to life and put them out there.

And well, the answer has also been in our hands. We are deploying generative AI within our own organization. Every time, we find new data sources, where this information may be hidden, we are consuming it through generative AI and making it available through a very easy conversational interface to our people internally so that this discovery does not remain difficult for people. So, those are all those kind of things that are happening. So, it's surprise, it's a frustration, but it's a great win as well.

Moderator: The next follow-up question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Just last one question. Nitesh, you're also aspiring to get into product support and cost takeout deals from clients in N-1 product stages. Any early signs of success? Because this can lead to a higher annuity business, more predictable business for us.

Nitesh Bansal: Absolutely, Sandeep. Though not very big numbers, but we have seen a couple of deals in the last quarter in the product sustenance space. We are currently in active conversations with at least another few customers who are talking, basically, product sustenance, the whole product portfolio management type of approach that we had talked about at some point with you as well.

So definitely, it's resonating in the market. It is a need of the market. It's just that, for anybody to hand over the product to us requires a lot of trust building, and we have been successful in doing that with few clients. And we are getting better at it, and it's also giving a story that is helping us now present them to others and win their trust as well.

Sandeep Shah: And here, the average size of deal would be bigger, right, versus what we used to do earlier?

Nitesh Bansal: The TCV will tend to be bigger because of some of these will essentially get into a multiyear nature. ACV will depend on whether it is one product or a portfolio of products. So currently, we've seen a few single product deals. Our aspiration is obviously to look at portfolio of products as a whole.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Nitesh for closing comments.

Nitesh Bansal: Thank you so much once again all of you for your continued confidence and questions. Like I've always said and felt your questions are both enlightening as well as they give me things to look at and do better with. So, looking forward to talking to all of you again for our next earnings call or some time in between. But thank you so much. We really appreciate your attendance.

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