



“R Systems International Limited  
Q4 & FY 2022 Earnings Conference Call”

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**MANAGEMENT: DR. SATINDER SINGH REKHI – MANAGING DIRECTOR  
& CHIEF EXECUTIVE OFFICER**

**LT. GEN. BALDEV SINGH (RETD.) – PRESIDENT &  
SR. EXECUTIVE DIRECTOR**

**MR. AVIRAG JAIN – DIRECTOR & CHIEF  
TECHNOLOGY OFFICER**

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

**MR. KUMAR GAURAV – VP (FINANCE & ACCOUNTS)**

**Moderator:** Ladies and gentlemen, good day and welcome to the R Systems Q4 and Year 2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Kumar Gaurav:** Thank you, Michelle. Good morning to all. On behalf of R Systems, I welcome all participants to Q4 and CY '22 earnings conference call. We have senior management of R Systems with us in this call. We will start the call on the opening remark of the company by Dr. Rekhi, followed by financial overview by Mr. Nand and business overview by Mr. Avirag. Thereafter, we will have a closure statement by Dr. Rekhi. 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. Company undertakes no obligation publicly to update or revise any such statement. These statements may undertake revision because of new information, future event or otherwise. Actual result, performance, achievement could differ from those expressed or implied in such forward-looking statement.

With this, I am handing over to Dr. Rekhi for his opening comment. Thank you. Over to you, sir.

**Dr. Rekhi Singh:** Thank you, Kumar. Good morning, everybody, and thank you for being a part of this investor call. I would like to present an overview of R Systems for the benefit of all those who are joining us in this conference for the first time. R Systems was established in 1993 in California as a software engineering company and is now spread across three continents, with 18 development and service centers worldwide.

R Systems delivers digital transformation services with innovation and creativity to businesses in various industries, Technology, Telecom, Digital Media, Healthcare and Life Sciences, Finance and Insurance, and Retail and e-commerce. Our deep industry domain knowledge combined with our expertise in Big Data, Advanced Analytics, AI, Mobility, IOT, RPA, and Cloud help in transformation of businesses in this digital age.

We continued our high growth journey during CY 2022, especially for digital and product engineering services. Our revenue grew year-on-year 31% to INR 1,516 crores that is US\$193 million. CY 2022 EBITDA was 13.7% as against 14% last year. Although, we have improved the margins in quarter 4, but still margins are under pressure primarily on account of salary hikes, attrition challenges, and muted utilization.

Our efforts for rate hikes and higher rack rates have supported the margins to some extent. During the year, we on-boarded more than 385 associates and 32 key logos. Out of the 32 new

accounts added, 10 accounts have potential to become million dollar accounts in a year's time. Profit after tax was INR 140 crores as against INR 141 crores in the last year.

Last year, there was higher other income on account of forgiveness of PPP loan in USA. We continue to have a strong balance sheet with the shareholder's funds of INR 545 crores and net cash balances of INR 268 crores to support liquidity and growth. We served 45 million dollars plus accounts as against 35 million dollars plus, a year ago.

With that, I will now hand over to Nand Sardana, our CFO, to give you a detailed financial analysis.

**Nand Sardana:**

Thank you, Dr. Rekhi. Good morning to all. Thank you, everybody for attending the call. The presentation gives detail of both quarter 4 and year 2022. I'll quickly cover quarter 4 and then move to yearly numbers. The revenue for the quarter was INR 399.5 crores or US\$48.7 million, which is almost flat as Q3.

The gross margin was 35.4%, which was lesser by 100 basis points compared to last quarter, mainly due to impact of average salary increases along with two lesser billable days, net of rupee depreciation. SG&A expenses reduced in absolute terms due to lesser provision for bad and doubtful debt, lesser spend on recruitment along with true-up of year end provision. Resultant EBITDA was 14.9%, compared to 14.5% last quarter. Net profit after tax was INR 41.4 crores or US\$5.1 million, compared to INR 36.8 crores or US\$4.6 million last quarter.

Now I will give detailed overview of yearly numbers. The revenue for the year was record INR 1,515.8 crores or US\$193.2 million, compared to INR 1,155.6 crores or US\$156.5 million last year. Revenue grew at 31% year-on-year. This was an all-round growth, where each business unit and geography has contributed along with better realization and rupee depreciation. Our present sales pipeline is good. We are making focused effort to add large accounts to add profitable growth.

Getting down to gross margin, it was 35.1% in current year, compared to 35.7% last year. This is a reduction of 60 basis points. Reduction in gross margin is mainly due to impact of increase in average salaries, net of rupee depreciation and increase in billing rates. Our effort in getting better price realization have reduced the impact of salary hikes. Our offshore rates have improved by 5% during the year and this will help to improve gross margins going forward.

Getting down to SG&A expense line, SG&A expenses have increased by INR 73 crores. It was INR 324 crores in this year as against INR 251 crores last year. In percentage terms, the SG&A were 21.4% this year, compared to 21.7% last year. The main reasons for absolutely increase of SG&A are due to addition of new sales and presales staff, salary hikes, increased digital & marketing spends and recruitment expenses.

EBITDA in the year was INR 208.3 crores or US\$26.5 million, compared to INR 161.5 crores or US\$21.9 million last year. As a percentage of revenue, EBITDA was 13.7% in this year, compared to 14% last year. There is a slight reduction in EBITDA in percentage terms due to increase in average salary and attrition challenges, although the absolute amount has increased by about 29%.

We are committed for improving margins in coming quarters. Depreciation was INR 35 crores compared to INR 27.7 crores last year. Interest expenses INR 4.9 crores in this year compared to almost same amount last year. Other income this year were INR 1.7 crores compared to INR 41.2 crores last year.

Last year, we got forgiveness of PPP loan in USA amounting to INR 22.4 crores. This year, we had an exchange loss of INR 7.9 crores, compared to exchange gain of INR 8.7 crores last year. Exchange losses are mainly due to mark-to-market of outstanding forward cover. Further, the other income comprises of interest income of INR 4.6 crores this year, compared to INR 7.1 crores last year.

During the year 2022, the average rate for USD and EURO was INR 78.47 and INR 82.56 respectively, as against last year average rate of for USD and EURO of INR 73.83 and INR 87.32 respectively. These are the two main currencies for R Systems. As at the year end, we had total forward cover of US\$42.2 million with average rate of INR 81.39 and EURO cover of 2.4 million with average rate of INR 88.87. This has already been marked-to-market at closing rate of 31<sup>st</sup> December.

Our tax expense was INR 30.5 crores in 2022 as against tax of INR 28.6 crores last year. Effective consolidated tax percentage for 2022 is 17.9% as against 15.8% during last year. Our effective tax rate has increased as one of our SEZ unit had completed first five years of full tax benefit and moved into 50% tax benefit category. Also, last year, there was a lesser tax rate due to PPP grants. Net profit after tax was INR 139.7 crores or US\$17.8 million, compared to INR 141.4 crores or US\$19.2 million last year. Earnings per share for the year was INR 11.81, compared to INR 11.85 last year.

Getting down to asset side in the balance sheet, total receivable at the end of December 2022 was INR 257 crores, compared to INR 178 crores at the end of last year. Receivable in terms of DSO was 52 days as at December '22, compared to 50 days last year. Our net cash and bank balances as at December 31, 2022 is INR 268 crores, compared to INR 277 crores at the end of last year.

We have been constantly generating cash from the business. During the year, R System has done shareholder distribution of INR 77 crores in the form of dividend along with capex and payment of taxes. The shareholder funds were INR 545 crores at the end of December 2022, compared to INR 460 crores at the end of last year. We continue to have a strong balance sheet to support liquidity and growth.

With that, let me hand over to Mr. Avirag for review of operations.

**Avirag Jain:**

Thank you, Nand. Thanks, everyone, for being on the call. I hope everyone is doing good. We continue to focus on digital technology and digital transformation journey. The strategy has helped us in the last few years and still give us a lot of value and we see a lot of momentum in the business. We like to give you a brief flavor of our global operation.

Digital transformation continues to be the focus for us on select key verticals like Technology, Telecom, Finance, Insurance, Healthcare, Life Science, Retail, and e-commerce. Our digital



transformation also includes Cloud, analytics, machine learning, artificial intelligence, data and speech analytics, robotic process automation, IOT, and Salesforce.

These continue to be our arrowhead for growth. On cloud, we work on all the leading platforms such as Amazon, Microsoft Azure, and Google. We are advanced partner of Amazon and gold partner of Salesforce. We see significant traction in the cloud space and Salesforce. These are the growth areas for us. In analytics, we see high growth in ML and AI, data and speech analytics. We are currently serving many existing clients in this space and many proposals are in progress.

On mobility, we do a wide variety of technologies such as Android, iOS, hybrid, and web apps right from application, simple app to enterprise class application. We had eight wins during the quarter. A global leader in IT security solution in US has engaged R Systems for their digital transformation partner to provide product engineering service in their security, network security product development.

Another customer is a US-based healthcare technology solution provider. They have engaged R Systems to help digitize their core application that they use for their various customers in EMR, EHR, customer onboarding, etc. Another is a Canada-based organization that provides roadside assistance, insurance, and related services. They have engaged R Systems to enhance their customer retention using ML and AI technologies, and we are using various AWS models for that.

Another one, one of the leading Telco ISV and our existing customers have mandated R Systems to develop a real-time data audit tool to collect and reconcile data from various sources and take corrective measures. In Southeast Asia, a Singapore-based leading wine distributor has awarded R Systems to upgrade their Microsoft NAV application to Microsoft Business Central and implement LS Retail to automate its various business operations.

In terms of headcount, we have increased from 3,548 in year '21 to 3,874 in year '22, added 326 technical associates during last year. Our utilization was almost flat at 77% in CY '22 as last year, we had attrition challenges over the last year. However, some softening of attrition challenges are happening now. We are making continuous focus and efforts to improve our utilization and reduce our attrition.

On yearly basis, geography wise, North America contributes 74.2%, Europe 10.4%, Southeast Asia 12.5%, the rest of the world 2.9%. On a yearly basis, client concentration, top 10 client contribute 22.8%, with the largest client of about 6.7%. With that brief overview, I'll hand over back to Dr. Rekhi for his closing comments. Over to you, sir.

**Dr. Rekhi Singh:**

Thank you, Avirag. Our performance in CY 2022 is encouraging in terms of revenue growth. However, the margins are shy due to salary hikes and muted utilization. We are committed to get profitable growth through operational efficiency, better price realization, coupled with pyramid rationalization in coming quarters.

Further, we have taken focused efforts for getting larger deal sizes to strengthen the margin. Rupee at present level against USD will also support us to improve our margins. In the last few months, we have seen demand softness amid weakening macro environment. It may affect our

high-growth momentum for certain periods. However, we are still optimistic for continued traction for technology and digital services.

We continue to invest in sales, pre-sales, digital marketing and in newer technologies, and these are helping us to win larger digital transformation projects. We endeavor to utilize our strong balance sheet to support operations and growth. That brings us to the end of our presentation today, and we'll hand you back to the organizers for your questions.

**Moderator:** Thank you very much, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '\*' and '1' on your touch tone telephone. If you wish to remove yourself from the question queue, you may press '\*' and '2'. Participants are requested to use handsets while asking a question.

We have the first question from the line of Abhay Jain, an Individual Investor. Please go ahead.

**Abhay Jain:** Hi, Good morning R Systems team. First of all, thank you for the detailed presentation on the results. I just want to know the detailed factors which is driving your margins downwards since 2020? And how do you aim to improve that?

**Nand Sardana:** Thank you, Mr. Abhay. So, let's see the history of margins. In 2020, we reported 13.3% of EBITDA margins, in '21 year-ending, we did 14%. With a slight reduction in percentage term in 2022 to 13.7%. Well, the percentage terms, the EBITDA margins have reduced by 30 basis points. In absolute terms, it has increased by almost 29-30%. So, the margins have improved while the margins have reduced in percentage terms, I think it is an industry wide phenomenon and I think lot of other companies are also facing that.

There was a lot of pressure on salary hike this year. Our average salary has increased. To curtail the attrition levels, we had to give higher percentage and that resulted into higher average salaries. Having said that, the situation has improved in last quarter or in last 4 to 5 months, and we have seen less pressure on increase in salary. So, we are quite hopeful of improvement in EBITDA margins going forward.

And our endeavor is to do 100 basis point improvement but let us see. So hopefully, and we have done a lot of efforts in improving the bill rates. In fact, last year, close to 4% improvement in bill rate we did at least in our offshore centers. So that will also help us to kind of focus on margins. Rupee also had helped last year, which has kind of helped us to keep margins and we are hopeful that Rupee will continue to help us on that as well. So, that is on, and we are quite hopeful to increase EBITDA margin.

**Abhay Jain:** Thank you. I think that answers my question. Can you also give some update on the open offer of Blackstone? Currently, at which stage is open offer and when it will get open?

**Nand Sardana:** Well, so just to reiterate, Blackstone has signed a definitive agreement with promoters of the company sometime in mid-November, I think 16<sup>th</sup> November, the agreement was signed. It is a delisting cum open offer for which the necessary formalities are underway. Blackstone has filed the letter of offer with SEBI, which is pending for approval right now. So, we don't know when the SEBI will approve.

But based on my discussions, we should be getting the SEBI approval soon. So, we are not sure when it will happen. Once the SEBI approval comes, I have a feeling it is 3 to 4 week process to conclude this delisting cum open offer. There are some conditions and all that. I don't want to get into all these things. But once the SEBI approval comes, which I do not know when it will come, but should be coming soon because almost more than 3 months have passed since filing and after that, it is like around 4 weeks process. So, that is update on that.

**Moderator:** We have the next question from the line of Jagdishwar Toppo from Japa Investments.

**Jagdishwar Toppo:** Good Morning sir, I have a question regarding your telecom vertical in Europe. If I take you through the Slide 9 of the presentation, the Europe business was 13.2% in 2020, it was 13.5% in '21. It has dropped down to about 10.4% in 2022. So, our telecom vertical in Europe are supposed to get into telecom, 5G rollout-related opportunities. So, what are the challenges that we are facing and how do we plan to overcome those challenges? Do we have any strategies to grow this telecom business? And what percentage of revenue you intend the telecom business in Europe could contribute, let's say, in 3 to 4 years' time? This is my first question.

**Nand Sardana:** Thank you, Mr. Toppo. I'll answer the question on the numerical part and for the telecom vertical and the qualitative part, I leave it to Mr. Avirag Jain to answer, but let me first answer your percentage part. You see we have grown in all the units, but our growth in US and Canada geography has been much faster compared to the Europe.

So that is a broad high-level reason that the percentage of North America business has grown to more than 74%. And accordingly, the percentage of Europe and Southeast Asia has fallen down. That's the reason for the percentage. About telecom strategy, Avirag ji maybe you can answer that question.

**Avirag Jain:** Telecom is one of the key verticals that we have. And we have increased our sales team in Europe, and we have aligned our sales team in US as well. So, that continues to be our focus. With 5G rollout coming across the globe, we see lot of opportunities and our sales team is working on many deals. So, we see good growth coming from there.

**Jagdishwar Toppo:** So, any ballpark number that you may have, which you intend to...

**Avirag Jain:** I don't think we can really give numbers like this. Maybe I will leave it to Nand.

**Nand Sardana:** Telecom is a focused vertical. It will continue to grow. I think, on the telecom front, you're talking about the Europe part. But if you see on the telecom and there are 2 part of telecom business. One is that ISV part and second is the enterprise part. The overall telecom as a vertical has been growing. So, that is kind of continue to grow.

**Jagdishwar Toppo:** Okay, thank you. I have one more question. It is regarding the consolidated cash flow statement. You should go to consolidated cash flow statement line item on spending, I see, purchase of property, plant, equipment, there is INR 35 crores cash outflow. So, I see some infrastructure increase in terms of square foot area. So, my question is how much of this is in terms of infrastructure and increase in seat and how much of this is in renovation or modernization of your existing IT system and processes?



- Nand Sardana:** So Mr. Jagdishwar, we have done capex of close to INR 34 crores in 2022. So, all this has been incurred mostly in computer purchase, networking equipment, and modernizing the infrastructure. To answer your question, how much is for the exact capex and how much replacement. Maybe I can answer this question offline to you. Broadly INR 34 crores is the capex spend during the year 2022. This is in line with our growth. We have grown close to 30% last year. So, this is in line with that.
- Kumar Gaurav:** Also, to add on this, we have expanded our SEZ footprint by approximate 50,000 square foot, which was executed this year. So, a significant part of capex belongs to the infra expansion in the SEZ, where we have taken approximate 50,000 square foot over this year.
- Jagdishwar Toppo:** The next line item in that cash flow item, its payment of contingent consideration to erstwhile shareholder of subsidiary. It's roughly about INR 3 crores, small number. So, were some minority shareholders of the subsidiaries? Is that the reason why this cash outflow item is coming in? I reckon that all the subsidiaries were 100% sub. So, why this line item is coming?
- Nand Sardana:** So, let me explain to you. So if you recall, in 2019, we acquired a company by the name Innovizant, okay. So, the deal was that there was an upfront payment and then some money was to be paid for next 3 years. So, we have made the final settlement and close to US\$ 330,000 something was paid in full and final settlement of the acquisition which we did in 2019, that was for Innovizant, a Chicago-based company. So, that is the payment for that. That is paid in full and final.
- Jagdishwar Toppo:** Okay, got it. Which has been paid this year.
- Nand Sardana:** Yes, it's full and final payment. That's right.
- Jagdishwar Toppo:** Thank you so much. My best wishes to the senior management and all the employees.
- Nand Sardana:** Thank you, Mr. Jagdishwar.
- Moderator:** As there are no further questions, I would now like to hand the conference over to Dr. Rekhi for closing comments. Over to you, sir.
- Dr. Rekhi Singh:** Thank you very much. I want to thank all of you for attending this conference and for your participation and questions. With this, we come to the close. Thank you very much.
- Moderator:** Thank you, sir. On behalf of R Systems, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability purpose.)

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