



“Newgen Software Technologies Limited Q1 FY21
Earnings Conference Call”

July 22, 2020



**MANAGEMENT: MR. DIWAKAR NIGAM – CHAIRMAN & MANAGING
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*Newgen Software Technologies Limited
July 22, 2020*

Please note that the transcript has been edited for the purpose of clarity and accuracy.

Moderator: Ladies and gentlemen, good day and welcome to the Newgen Software Technologies Limited Q1 FY21 earnings conference call hosted by ICICI Securities Limited.

As a reminder, all participants' 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 '*' then '0' on your touch-tone phone. Please note this conference is being recorded.

I now hand the conference over to Ms. Deepti Mehra Chugh – Head, Investor Relations, Newgen Software Technologies Limited. Thank you and over to you, ma'am.

Deepti Mehra Chugh: Good evening everyone and welcome to the Q1 FY21 results of the company. I hope everyone is keeping safe. Connecting with me today from our management is Mr. Diwakar Nigam – Chairman & Managing Director, Mr. Varadarajan – Whole-time Director, Mr. Virender Jeet – Senior VP, Sales & Marketing and Product, and Mr. Arun Kumar Gupta – Chief Financial Officer.

Before we move on to the discussion, let me highlight that this call may contain certain forward-looking statements concerning Newgen's future business prospects and profitability which are subject to a number of risks and uncertainties, and the actual results could material vary from the forward-looking statements. Past performance may not be indicative of future performance. The company does not undertake to make any announcement in case any of these forward-looking statements become materially incorrect or update any forward-looking statements made from time to time by or on behalf of the company. For further details, you may please refer to the investor relations section of our website.

I would now hand over to Mr. Nigam for presentation of the results.

Diwakar Nigam: Good evening everyone and thank you for joining us at our Q1 FY21 post results conference call. In the past 28 years, as an organization we have witnessed several difficult economic cycles which have made us more agile and resilient. As we end another quarter post COVID, we see ourselves better empowered as an organization to combat the ongoing situation and emerge stronger in the long term.

During this quarter, we have achieved revenues of Rs. 132 crores. We continue to get business from our existing long-term customers. They have enjoyed the benefits of digitization during this period and are keen to go for more and more digital processes. We have ensured full support to our customers helping them in maintaining their mission-critical business operations smoothly. We have also commissioned many new solutions for them completely remotely.



On the new logo front, we made 22 new customer additions during the quarter. In EMEA region, we have undertaken a mid-sized project for a global leader in energy transportation business based in Qatar. In APAC region, we are executing a project for one of the largest and fastest growing insurance companies in Philippines. In the US region, we have added 15 new logos in banking and credit unions offering PPP (paycheck protection program) and forgiveness solutions. These solutions were installed and made operational in just few weeks. These have made life of our customers really easy, as they could use the workflow from office as well as home and achieve their urgent work very easily. Moreover, these opportunities are expected to help us in deeper penetration in the region. Currently, Newgen is in dialogue with many of these clients for our regular lending and account opening solutions as well.

The US region witnessed a revenue growth of 36% YOY during the quarter.

As you are aware, COVID is bringing in a new kind of uncertainty to the business environment. In this environment, SaaS-based workflow solutions are catching on and are becoming a new class of solutions that are quick to start and have low entry barrier. Newgen with its world-leading ECM and BPM platform, is uniquely positioned to garner a larger market share in the coming year.

Coming to revenues, our annuity revenues continued to remain strong and comprised 66% of the revenues and witnessed a growth of 11% YOY. Of this, cloud revenues continued to grow rapidly at the rate of 30% YOY. Cloud deployments are expected to accelerate faster in the coming quarter.

In terms of verticals, banking & financial services and insurance verticals continue to be growth drivers during the quarter with growth of 12% and 29% respectively.

Employee safety and customer service continues to be the forefront of our post-COVID strategy. We have adopted effective practices and solutions to ensure safe and efficient remote working environment. We are successfully fulfilling our commitment through effective remote enablement measures. These include institutionalizing of new business processes and ways of working, thus leading to better collaboration, efficient delivery, and enhanced productivity despite lack of travel and in-person interactions. We have successfully handled events, demos, architectural design sessions, pilots, supported deployment, and customer operations. The quarter witnessed many projects 'going live' and as well as ongoing rollouts highlighting the organization's seamless adoption of the new normal. With our agility in operations, we have been able to maintain continuity of business for some of our long-term customers by successfully shifting from onsite to offshore model leading to better economics for both the customers and us.



As an organization, we have always focused on profitable growth as a long-term strategy. Newgen's margin resilience and cash generation prowess becomes visible in the current quarter where profits and margins have expanded even amidst this challenging market. We have made substantial cost rationalization efforts across all spheres including manpower cost and operational cost. We have optimized our execution capabilities while continuing with long term investment in R&D and sales & marketing.

EBITDA was up by 101% at Rs 16 crores and profit after tax was up by 196% at Rs 9 crores. Further, optimization measures would continue in the coming quarter. We continue to extend our reach globally with our direct and indirect sales network. Newgen is focusing on strengthening its SI ecosystem and we currently have ongoing engagement across geographies with these SI's.

We are maintaining our strategy of making continuous investment for future, organic growth, and deploying capital for the right opportunities. We believe this would help us in strengthening the organization and making it more resilient. Our R&D expenditure remained at 10% of revenue and sales & marketing efforts at 20% of revenue keeping our long-term plans in mind.

Our liquidity position continues to be healthy with net cash from operating activities at Rs. 55 crores during the quarter. Our net trade receivables as on March 31st 2020 are Rs. 221 crores which resulted in a net DSO of 122 days. While there has been some slowness in collections in the last quarter, we believe that this is not a long-term phenomenon.

While in short term, the environmental challenges are expected to lead to some headwinds in our ability to close new logos given the disruption in movement, we expect strong acceleration in demand and adoption of digital solutions across all verticals and regions in medium term.

We will continue our focus on growing recurring revenue, profits, and cash flows and building a resilient business model. We are carefully monitoring the situation and taking all necessary steps including identifying and leveraging new opportunities for growth, implementing new and efficient ways of working, and expanding margin.

We are now open for Q&A.

Moderator:

Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles.

We have the first question from the line of Hardik Sangani from ICICI Securities. Please go ahead.



Hardik Sangani: The kind of work we have done on the PPP program on the US side, we already have a system and a business case in place. A similar thing has been happening in India itself. The government is giving SME loan, all kind of loan forgiveness from moratorium thing. So, do we see an increased traction of offering a similar kind of products in India as well? I am just guessing what would be the typical size which we can get?

Virender Jeet: I think for forgiveness or lending programs globally, we have worked on multiple territories including India. In India also, we have a lot of existing customers who are looking at some kind of programs which the government is running. We are hopeful that in coming months, the momentum will pick up. Right now, we have worked with one of our existing customers on such case and we have 3-4 more cases going on, but you can understand the size of US market is very large in terms of number of institutions. In India, you have roughly around 80 to 100 targets, and so far, 40-50 are there as existing customers. We do hope that in the next 2 quarters, there is going to be some momentum in India, but it may not be of the same size. India's average deal size for us can be anywhere between around Rs 2 to 3 crores for such a program. But right now, we don't have the same momentum as we had in the US to get that.

Hardik Sangani: Second question is, even in the margins, we have performed quite well compared to year-on-year. Last year because we planned a headcount and all our planning is done on the year start. Do we think in this year we will be able to recoup the margins, to not around FY19 level, somewhere closer to that?

Virender Jeet: This year, we are not upfront planning for large manpower addition. That is one optimization, but there are other optimizations also in operations in terms of travel optimizations, in terms of the profile of work shifting from close to customers to offshore. So, there are multiple optimizations built into the system. And we do expect the margin position to be better than the last year.

Moderator: We have the next question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: I hope the entire team is keeping safe and sound. I wanted some color on the 15 logos we have won this quarter, specifically majorly in the US and also the Phillipine logo. Would the US logos be mostly SaaS-driven business wins? Just some color to begin with would be useful.

Virender Jeet: The US is predominantly a SaaS business, but when you are saying new logos, these are the contracts where right from the stage of closure to all the way to execution and go live was done in a short period of time. All these were done remotely using our cloud offering and our low code development platform in which the US forgiveness program of what you call Paycheck Protection Program, those were the processes implemented for these 15 banks. For other markets, we also have the traditional deals which are also non-cloud in terms of our perpetual



sales of licenses. In Philippines, we had license sales. In Middle East, we had some customers. Also, we had some customers in India. Even in those customers from the traditional model which are non-cloud, we have really worked out on the processes and we are able to really deploy on their installations as well as start the implementation. So, both from cloud as well as non-cloud, we are able to execute, we are able to acquire customers as well as implement those solutions. But to talk about US more, it's about banks predominantly which onboarded as the first process - forgiveness and the lending process. And in the future, we are looking at a larger revenue as they start doing larger solutions of the same platform.

Nagraj Chandrasekar: So, this new logo win would not be the existing pool of bank customers we have in the US. These are customers that came on for this specific product and we hope to cross sell going forward. Given that we have a sizable critical mass of US customers now, how is the pipeline looking like on the midsize sub \$2 billion banks that we are going after? How is the pipeline looking now, now that we have a good critical mass of cases to show potential customers? Should we target something like 10 to 15 new logo wins every quarter or what sort of run rate are you sort of internally looking to do this year? I am assuming there has been no letup in ordering because of COVID by US banks.

Virender Jeet: There are multiple parts of this question. One is, I think the pipeline is looking very good. As part of this pursuit of PPP based solutions, we have been able to access a very large customer base – prospect base – where we expect to grow the funnel, grow the opportunity base over the next 5 to 6 months. Overall funnel is very positive, and as Mr. Nigam put in his call, the overall traction for digital solutions, overall traction for solutions which can be done on low code and done fast, there is a momentum in the market.

On the closure rate, we do target roughly around 20 to 25 banks in our traditional space every year. That's our target and goal. While as the lending program does accelerate a lot of such origination cases, but we may not have the same momentum of acquiring 15 to 20 clients every quarter, but our goal is to do on the normal non-lending, non-PPP side to get around 25 to 30 logos in a year..

Nagraj Chandrasekar: Just one question on the India pipeline. Given it's a mostly mature revenue pool where we cross sell new products to most existing customers. How does that pool of revenue now look like on the annuity side? Are banks still adding more products to the platform or are you assuming this year would be a bit weaker because of how the economy and how banks are likely to do going forward?

Virender Jeet: India is a bit challenging because of various things because our ability to get new logos both in our government side as well as because of the merger and consolidation of banks and NBFC disruption. So, there is an impact. But on the existing accounts side, they continue to grow healthy because as we are expanding our solution funnel from lending to digital onboarding to

multiple solutions in trade finance, our existing customers are still finding potential to keep on growing the platform across multiple business lines. So, we still expect a very healthy business coming from our existing clients, but we do see some headwinds at least in the first few quarters in India on the new logo acquisition because the new logo acquisition we are having some challenges because we need to build relationships with new customers. For that, travel and other things are also very essential. So, there is going to be an element of challenge on the new logo. , On the existing accounts, we have a continuous need to expand those accounts. So, we have created solutions over the last 1 or 2 years where multiple banks are now using those products. Trade is one of the areas which is really showing a lot of interest in these customers. In the programs, like Hardik was mentioning, the lending and the forgiveness programs which are starting in India, slowly they are catching up momentum and I am sure most of our customers will go with that solution using our systems.

Nagraj Chandrasekar: Just one final question. We sort of budget and plan a cost increase at the beginning of every year. So, what sort of cost increase are we looking at on our cost base in FY21?

Virender Jeet: We are not looking at any cost increase on that. In fact, we are looking at a bit of optimization on that cost because there is no pre-planning of increase in the capacity of execution because we are able to get much better scale doing it remotely. The second is, there is an automatic optimization of some operational cost in terms of your travel and other expenses. So, we look at, in fact, the reduction in the overall cost.

Moderator: We have the next question from the line of Hardik Sangani from ICICI Securities. Please go ahead.

Hardik Sangani: A couple of questions. Firstly, the question is, increasingly we are getting heavier on the banking and the insurance side. In other verticals, do we have any specific plans as such to expand our customer base or improving on that part? Second is, on the margin part that we observed right now. In this quarter, like I said, the recouping of the margin part, currently, all the other companies have started lateral hiring as well. On that part, do we see some cost increase on account of increased attrition or retaining of certain talent?

Virender Jeet: One thing is, it's true that banking and insurance is a substantial part of our business, and so far, even in mature markets, we are finding more and more growth in these 2 segments, and that's why they are becoming heavier. We do have internal endeavors to really push the other segments, especially manufacturing shared services and government. And I think there is a common pursuit to do that, but as of now, I thought banking in this crisis point also is responding better because their needs of technology are having a much higher priority. So, I do think at least for some time, the banking and insurance will continue to be an important part of the revenue for us while on the other hand, as we start growing further, we will start opening other segments as well and there is a continuous pursuit on that.



On the margin side, as I said, the margin positions will keep on expanding for the whole part of the year compared to the last year, but yes, there is an element of seasonality in our cost basis also. I think generally our Q2 costs are slightly heavier on account of lot of campus guys joining. Maybe this year that cost may shift to Q3. And as the market does open up and the economy opens, we may start incrementally investing in some part, but I don't see it's going to be a large difference in the cost basket. It may vary and we may have some lateral coming in, we may have some campus guys joining in, but that will not lead to a substantial change. But Q3 costs on manpower will be surely higher than Q1 and Q2. That's because of our campus people may be joining at that point of time.

Hardik Sangani: A lot of provisioning and capital raising has been done in the first 3 months of the US as well. The banks have raised capital and provided adequate provisioning. So, is the business coming back to normal and the projects which were on hold like 3 months ago, do we see some restart in those kind of logos? Are non-COVID part offerings again gaining traction?

Virender Jeet: What is happening is no business ever stopped. I think it just got slowed down. But what's happening? People are trying to live with this new normal and everybody is believing that this change is slightly more long term and permanent. So, people are moving ahead with their opportunities bucket. So, we have a lot of our traditional onboarding and CLOS solutions being pursued right now. We do think in the next few months, customers will start reaching the decision-making cycles and start looking at closures also. And more and more, it's getting established that the remote working and remote deliveries are quite possible. They don't find any risk with that.

But has it returned to normal? I don't think the answer for that is yes. There is some kind of a new normal which will drive some demand., These days, I think, that last moment decision making is slow at all places. And US, Europe, we surely see the momentum of customers deciding is much faster than other markets. There, we do expect in the next quarter as well as coming quarters after that, the sales momentum continues.

Moderator: We have the next question from the line of V P Rajesh from Banyan Capital. Please go ahead.

V P Rajesh: My question is on slide #60 where you have shown the revenue split by segments. I am new to the company. So, I should pre-phrase my question with that. If you could just explain the ATS/AMC and how is it different from support bucket that you have shown here?

Virender Jeet: This is about Q1, the first pie chart. Is that right?

V P Rajesh: That's right.

Virender Jeet: What is happening is, as you understand, the license, SaaS, and ATS/AMC, these revenues have no direct cost associated with them. So, their margin profiles are very different. They are



like typically 80-90% gross margin because there is no direct cost associated with that whereas support which is annuity based is an additional support which customers demand beyond our ATS. It is delivered through a service, there is a direct manpower cost associated with that.. So, the margin profile is like implementation, but the revenue profile is more annuity based and more assured year after year.

V P Rajesh: So, support is something that they are asking for additional services beyond your AMC contract, right?

Virender Jeet: Yes, typically very large customers they may have ATS up to 100 k or 200 k, but they may have to do a global rollout or do a big rollout and they would contract 5 more people permanently to take care of their issues and their support. They are making the application live. So, it's an additional support contracted beyond ATS.

V P Rajesh: So, when you talk about your annuity revenue of 56%, are you adding these three together? Is that how one should understand it?

Virender Jeet: Yes, it is including SaaS which is a subscription, ATS/AMC, and continuous support.

V P Rajesh: So, in a way, what you are saying is that you do have a visibility on this support being consistent year-over-year. It may vary from customer to customer, but as an aggregate figure, you expect it to continue to be always there. Is that the way to understand it?

Virender Jeet: Absolutely. Basically, between these 3 revenue streams, we don't see any kind of a significant change. There may be minor changes and also there is an element element of compounding. So, as we keep on adding customers, they keep on growing organically.

V P Rajesh: But these 3 buckets if I add up, it comes to 38 and call it about 66%.

Virender Jeet: For this quarter.

V P Rajesh: This number will continue to increase depending on how many new products you are able to sell because I am assuming sale of products and implementation go hand in hand and then this is just like any other software company. This will become more recurring in nature as you are able to sell more. Is that the way to understand this?

Virender Jeet: Exactly. The sale of products or sale of subscription defines the business and then these things keep getting compounded like any other software license company.

V P Rajesh: My one question is on the next slide on the debtor side. Almost 2 quarters of your revenues are generally outstanding. What's the thinking and what's the game plan around that?



- Virender Jeet:** Generally, if you look at any software license company globally, their debtor days outstanding is between 130-160 days. You can compare it globally. What has happened is, 2 years back when we started the journey post IPO, our DSO were in the range of 200+ days and it was a bit of also hygiene as well as a bit of following up and some of these business areas were in terms of government and other things. So, we took up a call that in the next 2 years, we will bring it around 120 days which we have been successfully able to do by doing various internal hygiene things in terms of linking performance pay to collections rather than sales. So, it has come down. And what we think is, beyond this level, this was without pushing customers or modifying existing contracts. Now, what we can do is, from here, as the the perpetual license sales start becoming less and the annuity part or the subscription business increases, we see further this can come back to the 80-90 days in a year and a half time.
- V P Rajesh:** In terms of the growths in the US that you talked about 36%, if you were to pull out the contracts related to PPP, then what would that growth be?
- Virender Jeet:** Because PPP billing is more substantial, it may be around 7-8 crores. Deepti, can we calculate that if we reduce 7-8 crores from US, then what the growth would be? I think it would be still maybe 20% or something. But we can check and send you the data.
- V P Rajesh:** What is driving this growth? If you can just talk a little bit more about that because that seems to be something very nice.
- Virender Jeet:** I think US we have been pursuing subscription based business for the last 2-3 years. In other markets, the cost of disruption was very high because we still depend a lot on the new sales and new logo acquisition is a very important part of our business. In US, we have a strong base and the subscription business has been building over the last many quarters. So, organically every quarter, their base keeps on building. So, we had a good run going through. And then with this PPP, it did another 10% to 15% to that growth. Other territories, this quarter was negative compared to last year's same quarter.
- Deepti Mehra Chugh:** Just to add to that, I think if we exclude those Rs 7 to 8 crores and we would have roughly 16% to 18% growth still.
- Moderator:** We have the next question from the line of Praveen Yadav, an investor. Please go ahead.
- Praveen Yadav:** I wanted to know when can we expect SaaS revenues to be substantial. Right now, this quarter, we have around 10 crores. In 2-3 years, how much you see growth in that?
- Virender Jeet:** SaaS is still growing much higher than the company's growth rate. This time, it's around 30%. I think we will continue that momentum of high growth rate and our idea is in the next 3 years, we should bring around the overall subscription annuity revenue to around 30% of our company's revenue.



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Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Ms. Deepti Mehra Chugh for closing comments. Over to you, ma'am.

Deepti Mehra Chugh: Thank you so much for joining us on the call. For any further questions, you can connect with me or go to the website of Newgen Software.

Moderator: Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.