



“Newgen Software Technologies Limited  
Q3 FY2020 Financial Results Analysts Call”

January 21, 2020



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*Newgen Software Technologies Limited  
January 21, 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 Newgen Software Technologies Limited Q3 FY2020 Financial Results Analysts Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Ms. Deepti Mehra Chugh of Newgen Software Technologies Limited. Thank you and over to you, Madam!

**Deepti Mehra Chugh:** Good evening everyone. I am Deepti Mehra Chugh – Head, IR, Newgen Software Technologies Limited. I welcome you all to the Q3 FY2020 results of the company. I have along with me today Mr. Diwakar Nigam – Chairman and Managing Director, Mr. Varadarajan – Whole Time Director, Mr. Virender Jeet – Senior VP, Sales & Marketing and Product and Mr. Arun Kumar Gupta – the Chief Financial Officer.

Before we move onto 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 materially 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 in future or update any of these statements made from time-to-time. 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 everybody and thank you for joining us at Q3 FY2020 post results conference call.

Our revenues in Q3 witnessed a growth of 15% to reach Rs 185 Crores and as expected business is picking up in the second half of the financial year. EMEA region has performed very well during the quarter. For US, we have been able to maintain the revenue base in spite of a strong Q3 last year where we got some big license deals. However, growth in India continued to be muted on account of macro uncertainties and market headwinds.



*Newgen Software Technologies Limited*  
*January 21, 2020*

During the quarter EBITDA was at Rs.36 Crores witnessing a growth of 34% YOY. Profit after tax was Rs 24 Crores witnessing a growth of 33% YOY. Revenue growth and cost rationalisation led to improvement in margins. EBITDA margins improved to 19.4% from 16.7% in Q3 last year. PAT margins improved to 12.7% from 11% in Q3 last year.

As we mentioned last quarter, the organization continues to work on its long-term focus of investing in building capabilities in the mature markets, while continuing to strengthen operations in emerging markets.

We are happy to share that we are very in the new version of our product iBPS, a low code BPM platform for rapid application development. By adapting low code development platforms, organizations respond faster to the needs of their digital business. With this release we expect to extend our solutions stack for digital initiatives across all verticals. This would get us deeper and wider market presence. With low code capabilities of our platform, our customers expect to gain from significant reduction in the deployment cycle, effort and costs.

As a part of our focus on sales and marketing beyond our new territory expansion, we are investing in building the sales channel for global system integrator network. We hope to achieve a significant part of our revenues in the next five years through this channel.

In US, we have some early wins through this strategy and hope to get inroads in Fortune 1000 clients, which is expected to lead to higher deal sizes. We have rolled our aggressive plans to replicate the GSI strategy across all our mature markets.

Our effort on new logos has resulted in us adding 12 new logos in Q3. Notable deals include Cloud deal with a full service commercial bank in Massachusetts, a project with a government agency in the Caribbean, a large project with East Africa's largest commercial Bank, a project with a reputed organization for all financial solutions in the Kingdom of Saudi Arabia, selection by a leading energy and environment solutions provider from India.

In terms of verticals we saw a robust growth across our banking and financial services and BPO/IT vertical.

Last quarter we had completed our annual increment process across organization as well as continued with the employer hiring program keeping in mind the growth requirements. In the current quarter, we see optimisation of the employee cost by about 2.4% compared to last quarter. Further our new release of the low code capabilities of iBPS platform would



*Newgen Software Technologies Limited*  
*January 21, 2020*

ensure significant reduction in deployment cycles and thus optimization of effort and cost. We hope to optimise future requirements of implementation work force. This should help us improve our implementation margins further.

Overall our annuity revenues comprised 55% of the total revenues and witnessed a growth of 28% YOY. Of this Cloud revenue grew by 61% YOY. In mature markets, we are finding strong traction for our Cloud business. The Cloud business revenue recognition is back ended but it brings more predictable revenue streams with better long-term margins.

We continue to invest in deepening our products capabilities, talent development, and new market expansion and brand initiatives. We are happy to share that Newgen has been positioned a “Challenger” in Gartner Magic Quadrant for Content Services Platforms, 2019. Newgen also received Special Recognition at Dun & Bradstreet – RBL Bank SME Business Excellence Awards 2019.

Our trade receivable as on December 31, 2019 are Rs 215 Crores which resulted in reduction of net DSO to 116 days compared to 132 days in Q3 FY2019.

Now about nine months FY2020 results. For nine months FY2020 consolidated position, revenues were at Rs 470 Crores, 13% higher as compared to similar period last year, but PAT was at Rs 31 Crores, 21% lower as compared to similar period last year. This is also due to considerably lower other income and reduced PAT in previous quarters.

However, we continue to make strong investments in R&D at 9% of the revenue and sales and marketing effort at 19% of the revenue, keeping our long-term plans in mind.

Our net cash from operating activities was Rs.45 Crores in nine months witnessing a 24% increase YOY. We continue to witness strong improvement in our collections. We acquired a total of 50 new logos in the first nine months of financial year.

The overall demand environment is stable in the global market and our sales pipeline continues to be strong and we are hopeful that we should be able to close certain large sized deals and recover our growth rates.

We hope that our investment in US, Europe and Australia would start yielding results and help build up growth momentum in the coming quarters.

We are now open for the Q&A.



*Newgen Software Technologies Limited*  
*January 21, 2020*

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Harit Shah from IndiaNivesh. Please go ahead.

**Harit Shah:** Thank you for the opportunity. Congratulations on good set of numbers, an improvement after the last quarter where we saw a fairly significant slowdown. Sir, if you could give us some indication of the main drivers, what were the reasons why you saw such an improvement and whether this is sustainable. Could you give us some perspective on geographic basis because I notice that in the US and India, your growth headwinds are apparently prevalent down there? So, if you can give us some colour on that also would be quite helpful. Thank you.

**Virender Jeet:** Thank you very much. As you remember last quarter we had kind of a slowdown and it was on account of two things - Q2 previous year was on a very high base number and also we had a slowdown in India where we saw that the deal momentum was not there. Other reason was that our deal closure rate was similar but our average deal sizes were not as good, so in terms of the large deals slipped out of India. That was a significant reason. Having said that on the overall environment or our funnel or the demand we did not see any challenges, so it was natural that you know we would not have repeated that performance in the next quarter. Most of the territories we have been able to win orders including EMEA, APAC, India. Regarding EMEA we have some significantly large wins and that is why the numbers look good, but apart from EMEA even in US front, we are finding good pipeline. In US, there are two things - Last year the same quarter, we had a large license deal of around Rs 13 Crores. If you take out that one-time license deal, in US we have also grown roughly at 30-31%. Having said that what is happening, most of the deals in the US market are Cloud based deals, so even the wins of this year are not resulting in any significant revenue out there. Bookings are there, so they will start accumulating revenues in the last quarter and the next year. So that is why in the topline, one cannot see the growth over the last quarter. But we do not see any challenges on the momentum of our business. As Mr. Nigam said in the call, I think, Q4 and next year we still find there is a huge demand for our kind of products, there are lots of markets where we are finding good traction. So, as soon as India starts recovering a bit and we start getting more foothold, we should be able to build on that momentum and continue the growth trajectory which we have seen previously.

**Harit Shah:** That is quite helpful. My second question is regarding the comments you have made earlier in the call about building out your SI network and I think that could be an interesting growth driver going forward. If you can give some more colour on this in terms of let us say



*Newgen Software Technologies Limited*  
*January 21, 2020*

any specific geographies that we are targeting and maybe any specific names of maybe let us say your key three or four SI who would feel could help you to expand your network. I think right now 20% of your sales are mainly led from the SI channel if I am not wrong. So, if you could correct me on that and do you expect that to increase going forward?

**Virender Jeet:**

Yes, I think, Mr. Nigam mentioned that in the call that as a focus area we are investing a lot in building a global channel system, which is a global system integrator ecosystem. I think this is on the basis of two things; one is that I think our presence as well as brand in the market is finding some traction with SI now and in US luckily, we have had some interesting wins with SI in terms of getting into larger organizations, using one of their system integrators. We have traditionally worked with all of them - HP, Infosys and those are the SIs who are carrying us to these markets also. So, this is one area where we have started building and pushing this ecosystem and the funnel for such cases is also looking very positive - these are very different kind of organizations where we can enter because SIs only make inroads in typically Fortune 1000 companies which could also help our deal sizes. So, using that strategy we are in the early stages with some initial wins. I think we are looking forward that over the next two to three years it will unfold to a larger part of the revenue. Over few years the share of partners led revenues will start increasing.

**Harit Shah:**

So, what will be that as of now, if you can give that?

**Virender Jeet:**

Right now, it is 20% at the year level. The challenge is that the wins which we have got through SIs, again they would not have any reflection on the revenue part because they are all Cloud based wins. Cloud is one core differentiator where SIs are carrying us and so most of the revenues will start accumulating. So, this year we will be similar to 20% number and next year it should become slightly higher.

**Harit Shah:**

Fair enough. One last question from my side, what is the approximate investments that you will need to make in order to expand this and if you can give some sort of indication on that also would be helpful?

**Virender Jeet:**

We do not see that on value terms it is material. It is more in terms of aligning our focus, sales & marketing and other channels to that, and when we say building of SI ecosystem, it is also looking at realigning some structures within the organization to support this aggressively. So, we are already invested. I do not see it materially changing our percentage of sales and marketing spend.



*Newgen Software Technologies Limited  
January 21, 2020*

**Harit Shah:** Thank you very much. I will come back in the queue if I have any further questions. Thank you.

**Moderator:** Thank you. We have our next question from the line of Tanmay Mehta from SBICap Securities. Please go ahead.

**Tanmay Mehta:** One bookkeeping question. Could you please explain the subsidiary structure of the organization?

**Virender Jeet:** India is only standalone. When we say consolidation, it is across all subsidiaries, which is the US, UK, Singapore, Canada and Australia. So, consolidated revenue is our global revenue. So, our P&L is based on the global revenue. Standalone is just India revenue.

**Moderator:** Thank you. We have the next question from the line of Dipesh Mehta from SBICap Securities. Please go ahead

**Dipesh Mehta:** Thanks for the opportunity. A couple of questions; first about the investment which we have started in Australia market; if you can provide what kind of market opportunity we foresee and how one should look at about revenue starting from that market and how far are we from that? Second question is about attrition. If you can help us understand what would be the attrition rate right now we are having, because earlier, I think a couple of quarter's back you indicated about spike in attrition. So, if you can provide some colour about where we are? Third question is about seasonality. Typically, Q4 is very strong for us, but considering last couple of years, our geographical diversification and revenue mix change do you expect similar kind of high seasonality in Q4 to play out or you expect it to be moderate compared to the previous years. Last is about the debtors, we are seeing increasing kind of progress on the receivable days but if you can provide where we expect it to stabilize considering the mix change as well as our efforts? Thank you.

**Virender Jeet:** Thanks Dipesh, remind me if I forget one of your questions. So, for Australia market universe we have started investment predominantly this year. It is in very early stages out here. We have invested in building the sales engine right now which is predominantly sales and presales or technical sales support. We have roughly around four people in that market right now working for that. That is the kind of seed investment which we do in any market. So, right now the opportunity is typically to focus on the same segments where we are strong - banking and government and insurance. These are the three segments, largely. We are again focusing on the system integrators to really carry us and give us early breaks out there. I think it is too early right now to quantify in terms of revenue, but we are hopeful



*Newgen Software Technologies Limited  
January 21, 2020*

that if we are lucky we should be able to crack in and break some deals in Q4 of this year or Q1 of the next year, but I think the new markets are slightly unpredictable when they start and start ramping, but we have seen traditionally between 12 and 18 months we start ramping up the markets, they start giving us some revenues out of that. From there we have to gradually build it up, depending on how the momentum looks. Regarding attrition, we are still roughly around 20% on that front. So, we are trying to do various things to manage it. We have not seen a very significant optimization out there or reduction. We are still struggling with that issue, but then we had already preplanned hiring and other costs have been taken so that it does not affect us on a business perspective. Your next question was about seasonality of the revenue. I think we have seasonality in business because of our license revenues and as annuity component of the revenue starts growing it will have some impact on the reduction of seasonality, but in terms of new logo wins and the license revenue there will be some amount of seasonality. So, last year there was a bit of reduction on seasonality, but we still hope that Q4 is going to be pretty large compared to Q2 and Q3 even this year. Last question was on the debtors. I think we have been tracking that issue for the last six quarters. We had given an indication that we should be able to come to average DSO of around 120 days. We are very close to that. Since Q3 is anyway an optimized number, Q4 we do a lot of billing, so this slightly goes higher. So, we have almost reached the target level. I think now significant changes will not happen, but on an incremental basis as the mature market revenue increases and the annuity revenue increases the DSO can further keep on coming down. So, our initial target of around 120 days, we are close to that. So, I think from here onwards it may become slightly more gradual to reduce it further.

**Dipesh Mehta:** Sure, just two follow ups to it. First, about the receivables, now when we say 120-odd days it is net debt which we refer to or gross we are referring to?

**Virender Jeet:** This is net.

**Dipesh Mehta:** Second follow up is about the seasonality that you indicated. Now when we look at the revenues, but I think the seasonality on profit side is significantly higher than revenue, do we expect similar seasonality to play out because when we expect some moderation in seasonality, do you expect it has ripple effect in terms of significant implication happening on the profit side, as it would be more even kind of profit distribution for us across quarters?

**Virender Jeet:** No, it does not work that way because our costs are very linear between Q3 and Q4. So, anything which is a higher revenue than Q3 completely adds to the margin. So, on the



*Newgen Software Technologies Limited*  
*January 21, 2020*

margin side, there is still going to be more seasonality than the topline side. So, the margin seasonality may take at least few years to streamline unless the subscription or the annuity-based revenues reach around 75% to 80% of our revenue, there is going to be an element of seasonality, lopsidedness in the margins.

**Dipesh Mehta:** Lastly is about the India business. Now earlier quarter you had indicated about because some of the overseas market costs also sits out of India segmental reporting, but anything which is particular to India market, which lead to loss which is recurring in that market, or it is largely because the way we have cost structure?

**Virender Jeet:** I do not think there is anything specific. The only change in India market is we have not been able to do the topline at the rate which we expected. On the cost structure, there is nothing around. India has got some unique costs which can get repeated.

**Dipesh Mehta:** If one adjusts for the international markets support kind of thing, and R&D and all those things, your India market will also make money?

**Diwakar Nigam:** Yes. All markets make money. These are about contributed costs.

**Dipesh Mehta:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Jagmohan Singh from Master Capital Services. Please go ahead.

**Jagmohan Singh:** Good evening Sir. My question is regarding the other income trend. The other income has fallen by 5% this quarter at Rs 40 million and 34% on a nine-month basis at Rs 118 million. So, what was this other income line?

**Arun Kumar Gupta:** Other income is attributable to two things. One is the interest investment income and second part is the currency fluctuations income. So, I think last year we had a very good currency fluctuation income which currently we do not have because of dollar being stable, so that is the reason of this fall.

**Jagmohan Singh:** Thank you so much.

**Moderator:** Thank you. We have next question from the line of Suraj Garg an individual investor. Please go ahead.



*Newgen Software Technologies Limited*  
*January 21, 2020*

**Suraj Garg:** Congrats on the results. I just had a couple of questions; my first question is on your EMEA growth. I just wanted to understand the growth of 80% quarter-on-quarter on EMEA has it been driven by any new logo or has it been from our existing customers?

**Virender Jeet:** I think it is both, but what happens is when you look at quarter-on-quarter, any large deals completely skew these percentages. That is why we keep on advising that Newgen is a better business to be looked at on an annual basis rather than a quarterly fluctuation basis. So, in EMEA we have got a very large deal from a new customer as well as there is a good growth from the existing clients. There is growth rate on both fronts, but if you get on a base of Rs 50-60 Crores, a Rs 5-7 Crores deal it completely changes the percentage behavior.

**Suraj Garg:** What is the visibility on your EMEA business? Do we expect this growth to continue or do you expect it to stabilise at any other run rate?

**Virender Jeet:** I think we cannot repeat 80% growth. As I said that on a yearly basis, we expect all markets to grow in a healthy way apart from India where we see concerns, so eventually all these things will even out on a longer time horizon when you look across multiple quarters and come to healthy growth rates across regions which can be in the range anywhere between 20%-40% which we have seen previously.

**Suraj Garg:** So, the current quarter growth is not a one-off growth, right?

**Virender Jeet:** Our normal growth rates of 20-40% is what we look at on a long-term horizon basis; so, in a single quarter when you look at a quarter-on-quarter comparison, a single deal or a couple of deals completely change the percentage, so quarterly percentage may not be the right way to look at the business.

**Suraj Garg:** On a quarter-on-quarter basis you had mentioned that there will be some big deals which would have skewed the percentage in or against our favour so leaving these deals, what would be the growth percentage of EMEA?

**Virender Jeet:** I do not have the exact numbers with me but it would still be in the range of 30%-35%. So, we still have a healthy growth rate coming out of EMEA. So, we should be able to replicate that, but you know what happens in a quarter is that the QoQ growth also depends on the base number in the previous year and thus can vary.

**Deepthi Mehra Chugh:** On an annual basis it gives a better view compared to a quarter-on-quarter basis.



*Newgen Software Technologies Limited*  
*January 21, 2020*

**Suraj Garg:** My next question is regarding your EBIT margins. So, on a YTD basis, last year our EBIT was about 44 Crores and the current year it has come down to 38 Crores, are there any specific drivers for this reduction in EBIT margins?

**Virender Jeet:** If you remember on a Q2 results basis, our topline was flat and we had negligible margins. So, we have still not recovered fully. We have done well on Q3, we did reasonably well on Q1 but the Q2 gap is still reflecting in this.

**Suraj Garg:** Do we expect this to normalize by year end?

**Virender Jeet:** I think, if you are asking me can we recover Q2 by year end, we may not be able to do that. But on a quarter basis, we hope that our Q4 will also be fine. But again I do not think we can recover all the Q2 margins in Q4.

**Suraj Garg:** Thank you. That is all from my side Sir. Thank you.

**Moderator:** Thank you. We have the next question from the line of Abhijeet Mukherjee from Lucky Investment Managers. Please go ahead.

**Abhijeet Mukherjee:** Just wanted to know the traction in the US? How is the market there? How is the deal traction there?

**Virender Jeet:** On the US front, two things, we still continue to get our deals in banking, the traditional Cloud deals, so the funnel is good. We have also got some good deals around the US in Caribbean region and other places. The funnel is strong. Beyond that as we explained that we have been able to break into this system integrator/GSI network and we have got some very interesting cases lined up and we have also have got early wins in that. So, US is looking pretty good. The only thing what happens is that it does not reflect completely in the revenue because these are Cloud deals and thus back ended. So, from the time we get orders, the revenue realization is six months delayed because it has to have implementation cycle and then we have to go live. There also it trickles quarterly. So, the margin profile is better in three to four years' time, but in the initial two and a half years, it is back-ended scenario.

**Abhijeet Mukherjee:** Would it be possible for you to give us a quarterly order intake data?

**Virender Jeet:** We do not publish that, but I think I can talk to Finance and see what we can make available.



*Newgen Software Technologies Limited*  
*January 21, 2020*

**Abhijeet Mukherjee:** Because you know a lot of companies do give this, the IT service companies and in our case the need for this kind of data is even more important because we are a product company. so, investors really have no idea about how the company is doing because whatever you are booking is the real measure of the sales of the company.

**Virender Jeet:** Remember that Cloud is a new initiative. Initially it was all license deals, so, it was all visible. Under Cloud, we understand that the order booking makes more sense than the billing, so we will try to find out a way which we can build in the matrices, so that we can share the data with you.

**Abhijeet Mukherjee:** Whenever you do this, it would be very helpful for the investors if you could give this data back, you know running back say 12 quarters so that then we have a sense of what is trending in terms of this very key important matrix?

**Virender Jeet:** We give you the SaaS margin and SaaS growth rate, so I think SaaS growth rate we are still at 61% which reflects compounding of these orders. So, we have been able to maintain a higher growth rate for the last few quarters on that. Just the base is around 6% of the revenue so it is not very material right now. The growth rate of SaaS is a reflection of our order pipeline in the US.

**Abhijeet Mukherjee:** Thank you Sir.

**Moderator:** Thank you. We have our next question from the line of Tanmay Mehta from SBICAP Securities. Please go ahead.

**Tanmay Mehta:** Sir, just one bookkeeping question. How do you calculate gross and net debtors? What is the main difference between that? Is it due to the provisions or how is it?

**Virender Jeet:** It is because of ECL provisions.

**Arun Kumar Gupta:** The gross debtor is original bill outstanding amount and the net debtor is after the ECL provisioning.

**Tanmay Mehta:** Thank you Sir.

**Moderator:** Thank you. 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. Madam, over to you!



*Newgen Software Technologies Limited*  
*January 21, 2020*

**Deepti Mehra Chugh:** Thank you so much for your time. For any further queries you can connect to me or can visit our website for further details. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Newgen Software Technologies Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.