



“Newgen Software Technologies Limited Q1 FY 2020
Earnings Conference Call”

July 24, 2019



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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 FY 2020 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 “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepti Mehra Chugh -- Head (Investor Relations). Thank you and over to you, Ma'am!

Deepti Mehra Chugh: Good evening everyone. I welcome you all to the Q1 FY 2020 Results of the Company. I have along with me today Mr. Diwakar Nigam -- Chairman and Managing Director, Newgen; Mr. Varadarajan -- Whole Time Director; Mr. Virender Jeet -- Senior VP (Sales and 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. These are subject to a number of risk 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 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 the presentation of the results.

Diwakar Nigam: Good evening and a pleasure to have you all at our Q1 FY 2020 Post Results Conference Call. The fiscal year began on a positive and interesting note for us as we continued with the revenue growth momentum and witnessed improvement in our operating profits.

On the revenue front, we witnessed a growth of 23% Y-on-Y and reported revenues of Rs. 131 crores during the quarter. This was backed by a double-digit revenue growth across all geographies, especially APAC and USA, which have been growing as a stronger pace.

We have also opened up our new subsidiary in Sydney, Australia, in April as a part of our concerted efforts to expand footprints in the market. We are currently pursuing opportunities in



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the market and look forward to help organizations in their digital transformation journey in that region as well.

During the quarter our license revenue, which is the key growth driver for a product company, witnessed a growth of 90% Y-o-Y. We closed a few interesting new logos in the enterprise, banking, and financial services and insurance space totaling up to 12 during the quarter.

Notable deals include license agreement with a global leader in alcoholic beverages, Cloud deal with a US company in legacy annuity business, License agreement with a Filipino based stock life insurance company, Agreement with a Saudi Arabia conglomerate, Agreement with Union Bank and Trust of USA for implementing Newgen BPM platform for enterprise-wide automation of its banking processes for enhanced operational efficiencies and improved customer interactions. We are increasingly focusing on higher deal sizes.

During the quarter, we have received some large orders from our existing customers, including licensing agreement with two large banks in EMEA region, Licensing agreement with a large public sector bank in India and Expansion of our cloud agreement with US-based registered investment advisor services company.

Overall, our annuity revenues comprise 49% of our revenue and witnessed a growth of 22% Y-on-Y. Of this, cloud revenue were Rs. 8.4 crores during the quarter and witnessed a growth of 73% Y-o-Y.

In terms of vertical, we saw robust growth across all key verticals especially healthcare, insurance, BPO, IT and banking. We continue to invest in deepening our product capabilities, talent development, new market expansion and brand initiatives. Keeping in mind the growth requirements, we are investing across various fronts. In order to minimize, the attrition rate, existing employee salaries have been increased in-line with the market trends. The strengthening of senior management team has been done keeping in mind the market expansion. Additional sales and marketing talent-hiring is being done in international markets.

We are now a team of about 3,000 people with about 380 employees in R&D and 360 employees in sales and marketing. In July 2019, we were granted a patent by Indian Patent Office enabling organizations to automatically assess the quality of scanned images and make necessary corrections.

I am happy to share that we received multiple awards and recognitions during this quarter as well. These recognitions encourage us to constantly improve our capabilities and meet market and customer expectations. We continue to enter into global alliances to further expand our partner network.



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Profit margins and cash flows - Our operating profit expanded during the quarter to Rs. 7.7 crores from Rs. 0.6 crores partly due to implementation of lease accounting standard Ind AS 116. The profit after tax was Rs. 3.1 crores due to significant decrease in foreign exchange gains, including other income.

Our net cash from operating activities were at Rs. 45 crores

Expenditure - In Q1, our R&D expenditure comprise approximately 10% of our revenue. We were granted another patent in July 2019 taking the total to 12 patent grants.

The sales and marketing expenditure comprise approximately 27% of our revenue for Q1.

Our gross trade receivables on June 30th, 2019 are Rs. 237 crores and the net trade receivables are Rs. 198 crores. The gross DSO stood at 134 days and net DSO stood at 112 days, considering a revenue of trailing 12 months. Here also, we have made great progress.

We continue to witness improvement in the collection trends and continue to work towards improvement in our debtor day position with changing collection policy and improvement in contracting.

In the end, I would like to say that we are working on a multi-prong strategy for building a holistic and robust business across markets. Thank you. Now, we can go for the questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: My first question would be why has your annuity income declined on a sequential basis? This is sort of the first time we are seeing this happen. So why have we seen this...

Virender Jeet: Nagraj, this is Jeet. Does your question for decline referring to Q4 annuity income?

Nagraj Chandrasekar: Yes, the Q4 to Q1 annuity sequential decline.

Virender Jeet: So Q4 to Q1 I think, that is not the right comparable. I think, Q1 to Q1 would be a right comparable. There are some annuities which will have to do with the contracts which have been earned during the year, due to the lag, the annuity of that gets added towards the quarter three and quarter four of that year. The change would be minor though. So total annuity



revenues have increased from Rs. 64 crores to some Rs. 78 crores (Q1 v/s Q1), while from Q4 to Q1 it has changed from Rs. 86 crores to Rs. 78 crores.

Nagraj Chandrasekar: Got it. And secondly, our US revenues which are mostly more annuity SaaS revenues and less seasonal, have sort of dropped off in the past couple of quarters. What really has driven that?

Virender Jeet: See, I think, if you look at US growth rates are still high, I think last year the rates were higher than the company average. Even this quarter we have grown at 24%, while the SaaS revenues has grown by above 70%. But I think if you look at overall US revenues, it is historical revenues, it is a combination of SaaS and non-SaaS. So today, our SaaS revenue for a quarter is just Rs. 8 crores. But overall US revenue is Rs. 39 crores. So Rs. 31 crores is still the traditional revenue, which has been a part of ATS/ AMC, support, implementation and licensing.

Nagraj Chandrasekar: So just following up there, we saw US revenues at this Rs. 31 crores - Rs. 34 crores run rate throughout sort of FY 2018 and in the first quarter of last year, we saw a bump-up in the two-quarters post that and now we have come back to a sort of Rs. 31 crores ex-SaaS sort of number. Was it the case in the second-half of last year, you saw a lot of product license sales. And that bumped up revenues now we are back to mostly annuity US revenue number?

Virender Jeet: Yes, I think, we have mentioned that last year, we had two very large license deals in US which bumped-up the revenue. That is why it reached almost 40% growth with those quarters. But one of those license deals are taken out, the peaks are gone, so then we see more progressive overall growth rate of 24% - 25%, with SaaS growing at more like 70%.

Nagraj Chandrasekar: And then if I look at seasonality as well in all four geographies, it looks like the ex-US all the other geographies are still very seasonal. Are we mostly selling product licenses in APAC, in EMEA as well?

Virender Jeet: Yes, absolutely. I think apart from US, where 90% of new logo sales is coming on SaaS, all other geographies it is predominantly perpetual license sale.

Nagraj Chandrasekar: Okay. And just sort of finally, what would be your revenue growth guidance for the year, if any, you would have right now?

Virender Jeet: We do not have any guidance. But historically, we have been moving around 20% - 23%. We do not see any reason why that should change this year. I think we have done 23% growth in Q1. And also this year on constant currency basis it has been a healthy growth, it has been above 20% growth. So we do not see any reason why we cannot keep the same momentum over the three quarters.



Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia : My question pertains to the US geography, we have seen a sequential decline in the revenues from the US. So is the US business seasonal in nature that we have to compare Q1 versus Q1 or we should view it on a sequential basis?

Virender Jeet: Ashish, this is Jeet. Thanks for the question. I think we had the earlier question which was similar. I think you should understand the US business is not only cloud business or only ATS business, it is historically similar to other businesses that it has a perpetual license sale, there are implementation cycles, which are milestone-based, and then there is support and cloud. So what is happening is that the new logo acquisition is coming on cloud. Predominantly ATS and new logo is more linear or incremental. But traditional implementation cycles, project completion cycles, support cycles are still Q3/Q4 heavy because as you collect more orders in Q1, Q2 those end up being slightly higher in Q4. So it cannot be completely linear. But as soon as the cloud base and the new logo start picking up and they become a substantial part of the revenue then we can expect them to be completely incremental.

Ashish Kacholia : So do you see the seasonality reducing in the US business? Or it will continue to seasonal?

Virender Jeet: See what is happening, what has increased seasonality is that last year, we received some major license deals from existing clients because they were already on perpetual license, so they extended the same license model. So those became jumps in those quarters. But if you look at predominantly the new business, the new logo acquisition is all on cloud. So as the business keeps on growing and the new accounts start becoming larger and larger then the seasonality will keep on getting reduced in US. So I think we have seen that significant shift in last year, in spite of having that bump, the seasonality would have reduced compared to previous year and I think, we should expect even in this year. But still if we see opportunities, where some large existing customers can give us a large million dollar license deal, then that will still introduce seasonality in that quarter. But broadly speaking, as the size of the business grows the seasonality in the US should surely reduce.

Ashish Kacholia: My other question is EMEA. So when we say EMEA are we referring more to Europe? Are we referring more to Middle East? What are the breakup within Europe and Middle East in the EMEA?

Virender Jeet: It is predominantly Middle East and Africa. It is not Europe, because Europe businesses is just starting, we have just got few orders from there. So the revenue is all for Middle East and Africa.

Ashish Kacholia : What is the size of our lowest and the biggest engagement that we have got this year?



- Virender Jeet:** Lowest and biggest, are you talking of new logos?
- Ashish Kacholia :** Yes.
- Virender Jeet:** I think the largest one would be around Rs. 6 crores this year in this quarter. And the smallest order would be probably Rs. 2 crores - Rs. 3 crores. I am not sure but I can send you the data. But generally, our new logos have a size anywhere between Rs. 2 crores to Rs. 6 crores crores.
- Ashish Kacholia :** So half-million to 1 million I mean that is the broad range?
- Virender Jeet:** No, less than half a million because what happens is the order value will be like half million, but the revenue realizing during the quarter will be only the license revenue. So the average deal size for this quarter would be Rs. 2 crores. But order values will be in the half-million to 1 million range, you are right.
- Ashish Kacholia :** Is there any chance that this will increase over the years or this is the typical standard kind of size
- Virender Jeet:** No, I think it has increased. So, if you look at last three years consciously, we have left a lot of channel businesses which are small order values because we do not see a lot of lifetime value of those customers. So we are focusing only on larger deals. And if you look at year after year average deal sizes have significantly gone up. Last year, inspite of lesser number of new logos, still our business from new logos was substantially higher. Same is true this year. Last year, compared to Q1 we have lesser logos but our business is about 20% higher than last year. So the deal size is completely changing.
- Ashish Kacholia :** Okay. I am just trying to understand this from the customer's point of view, I mean, he may want to give you more business, but the requirement may not be so much in their organization. So can this \$1 million size that we are referring to, can it become \$2 million - \$3 million - \$5 million dollars over the next three years?
- Virender Jeet:** So the entry level strategy for us is to really enter slightly light in terms of solve a particular business problem. So I think the appetite for the customers to pay for the first solution is more like a \$1 million to \$0.5 million. But our potential in that account can go up to \$2 million, \$3 million, \$5 million because then he can use the same system for multiple products or use multiple products or roll out more users. That is the case. So we still have customers who have given us \$2 million - \$3 million businesses every year. But if you ask me what is the entry level sweet spot for us it is 500k to a \$1 million.
- Ashish Kacholia :** Okay. And what I could say about Union Bank and Trust was that it is kind of a \$4 billion asset bank. So is our target more the medium-sized banks?



- Virender Jeet:** Yes, I think if you look at US, our target is banks with \$4 billion to \$50 billion assets sizes. Similarly, in Europe, we are talking of mid-Tier banks but in other markets, APAC, India, Middle East and Africa, we are talking about, typically Tier-I and Tier-II banks.
- Ashish Kacholia :** And my last question is, we have seen some reduction in the debtor days. Are these numbers one-off? Or do you see that this will be the improving trend going forward, we are able to collect better as we become a little bigger?
- Virender Jeet:** So I think last five quarters, we have continuously improved it. And we do not see a reason anyway, we cannot improve it further. But yes, still we do not have all the challenges sorted out, we still have some debtors which are problematic, especially more than one year, though they would be largely provisioned for but those will be still on the books. But going forward, at least revenues which have been billed over last five quarters, we have far better collection rate. With the same time we should keep on improving it.
- Deepti Mehra Chugh:** Between the quarters, there would still be variations.
- Virender Jeet:** Yes, between quarters depending on the revenue it could become higher but compared to the same quarter last year, it will be substantially better.
- Ashish Kacholia :** Does your contract with your customers leave some amount of ambiguity that they do not pay you? I mean, it seems to be a bad habit with many of your customers?
- Virender Jeet:** We keep on working on the contracts too, but I think, it is a behavior of certain markets and certain territories rather than contracts. So I think we do not have similar issues in US on debtors having similar contracts. But we have issues in India and Middle East and Africa market.
- Ashish Kacholia :** Okay. So it is just the client behavior, it is not the... In the US you are doing a 100% collection as per the contract?
- Virender Jeet:** Yes, I think depending on how the revenue is realized, but we do not have any major collection issues.
- Ashish Kacholia :** Right. And you are saying that the US will continue to be a fast growth market for us, right?
- Virender Jeet:** US and APAC as of today are looking as fast-growth markets because APAC the base is small, so it would not make too much of difference but US surely is a faster-growing market for us.
- Moderator:** Thank you. The next question is from the line of Tushar W. from B&K Securities. Please go ahead.



- Tushar W.:** My question was again related to collections. So as you highlighted that the receivable policy there has been some change in the receivable policy and could you throw some light on this receivable policy and whether these receivable numbers are sustainable at this current 120 - 130 level? And would there be impact on growth in medium-term? Thanks.
- Virender Jeet:** Yes, I think, we have worked better on contracting and incentives for collection post sales. So some changes in sales processes and some changes in terms of contracting, that is where we are focusing. So we do not see any major impact on any revenue in medium-term or short-term. But having said that, since we are more prudent, collection becomes the prime focus when you are booking businesses, there are some orders, especially in government, where we are pushing back if we do not have very visibility of the payment. So, yes, in a way, but not in a major way.
- Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.
- Ashish Kacholia :** Sir, I just wanted to ask your trends in the other income, the other income has fallen in this quarter. So what was this other income line? And how do you see this shaping up for the year versus last year?
- Virender Jeet:** So last year, the significant part of other income was coming from the FOREX gain. If you look at on a quarter front, the other income shrunk from Rs. 7.8 crores to Rs. 3 crores. So, it depends predominantly on the currency moment. So if the dollar situation improves then we should have better other income. On the other hand, if the rupee appreciates, very significantly, we may have some impact on other income.
- Ashish Kacholia :** I had a suggestion that since we are a newly listed company and we have a very good story tell that we can probably give EBITDA bridge, EBITDA margin bridge, so what is the EBITDA margin last year in the same corresponding quarter? And what is the EBITDA margin in the current years quarter? And the ups and downs leading to that particular EBITDA margin number? That will really help investors in terms of look any...
- Virender Jeet:** Yes. So I think, if you look at the press release, we have provided the EBITDA adjusted for the other income. So EBITDA adjusted for other income in the last quarter for the same period was Rs. .6 crores, while for this year it is Rs. 7.7 crores.
- Ashish Kacholia :** Yes, I was just talking about EBITDA bridge, in a graphical format.
- Virender Jeet:** Yes, we will do that.



Ashish Kacholia : Because that really gives us a sense, we can kind of focus on the business instead of asking these data points.

Virender Jeet: Yes, sure. We will do that.

Ashish Kacholia : Just getting few more clarifications sir. Just want to understand if there is some mechanism by which we track our market share in the deals won in our particular segment? Because from what I understand that there are a lot of US companies, which are kind of growing really-really fast and our this low code software segment of the market is a fast expanding market with a few multi-billion dollar market cap companies? Do we have any tracking methods by which we track our market share in this segment? Is there a chance that we can become a gorilla in the space at some point of time?

Virender Jeet: Yes, I think that is what we are all working on. But obviously, the market as you said, typically the industry is bigger than \$20 billion. So today, at a hundred million or less we really do not look at the market share story right now. And our go-to-market predominantly is named account strategy. In terms of mature markets, where the predominant market share lies, which is US, Europe, Japan and Australia, my presence is hardly any presence. So our initial strategy is to win logos by targeting the core verticals where we are present which is health, insurance, banking, and some part of enterprise where we have a named account strategy where we are trying to enter through banking vertical accelerators or health accelerators. On the other hand, in the enterprise space, we are going horizontal with the traction which the industry is finding on the low core solution platform. So right now, we have not made deep inroads on the horizontal low code side, we are still getting inroads on the vertical approach of selling. So probably once we have a substantial size in US, maybe when we reach \$100 million in the US, that is the time we can talk about the next stage of looking at our market share which is relevant. Because today, we look at the market in terms of my addressable market like if there are 900 banks in \$4 billion to \$50 billion market cap, how do I cover that? So I look at coverage strategy. I do not look at the market shares right now.

Ashish Kacholia : Are we winning any deals against the market leaders currently?

Virender Jeet: I think, every day. I think, 90% the competition is IBM, Appian, Paga everywhere. And we are winning against them, I think it is very difficult to beat us in India, Middle East, Africa, and our winnability also in US is improving.

Ashish Kacholia : So this Union Bank deal that you won, would this have included competition against these big names that you just mentioned like Appian?

Virender Jeet: Surely. I think, one or two of those will be surely there.



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- Diwakar Nigam:** Actually, if I can take that question, I know Appian was there and Pega was there.
- Ashish Kacholia :** Okay, so that is very encouraging sign then I mean, if we are being able to win, it looks like a pretty good bank from the website, it seems that they know their business.
- Diwakar Nigam:** The customer said specifically that your domain knowledge is so good, they will be able to deliver better solution.
- Ashish Kacholia :** Right. And when we do a initial half million - \$1 million kind of a deal with these guys, What is the business that we can hope to do with them over the next two years for instance? Is it just restricted to the maintenance and annual service contract or we are able to kind of expand more and give them more services here and there?
- Diwakar Nigam:** The whole strategy is land and expand. So we try to grow it in general BPM areas, ECM areas, as well as new applications. And that is why all combined, we start getting the base of about \$1 million to \$2 million per year.
- Ashish Kacholia :** Okay. So you are saying that if you win let us take it \$1 million deal, you can hope to kind of mine that account with \$2 million per annum over the next few years?
- Diwakar Nigam:** Absolutely. Between two to three years, it will be \$2 million account on a continuous basis.
- Ashish Kacholia :** And how many cases have we seen our success story pan out like this?
- Diwakar Nigam:** Just many, many, many.
- Ashish Kacholia :** Okay, great.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to Ms. Deepti Mehra Chugh for closing comments.
- Deepti Mehra Chugh:** Thank you so much for joining the call. For any further questions, you can connect to us or visit our website. Thank you.
- Moderator:** Thank you. On behalf of Newgen Software Technologies, that concludes this conference. Thank you for joining us and you may now disconnect your lines.