Newgen Software Technologies Limited
CIN: L72200DL 1992PLC049074, E-44/13, Okhla Phase II, New Delhi 110020, India
Tel: +91 11 46533200, 26384060, 26384146 Fax: +91 11 26383963

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BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001	**National Stock Exchange of India Limited** Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (E), Mumbai – 400051
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Sub.: <u>Outcome Transcript</u> – <u>Conference Call – Q1 FY'23</u>

Dear Sir/Ma'am

As intimated earlier through our letter dated 18th July 2022 regarding the Conference Call of the Company, which was held on Wednesday, 20th July 2022 at 04:30 P.M.(IST), please find enclosed herewith a copy of the transcript of the said call with the Investors/ Analysts.

The transcript of the said call shall be made available at the website of the Company under the URL https://newgensoft.com.

This is for your kind information and record.

Thanking you.

For Newgen Software Technologies Limited

Aman Mourya

Aman Mourya
Company Secretary

"Newgen Software Technologies Limited Q1 FY2023 Earnings Conference Call"

July 20, 2022

ANALYST:	**MR. ANIKET PANDE – LEAD TECHNOLOGY ANALYST - ICICI SECURITIES**
MANAGEMENT:	**MR. DIWAKAR NIGAM – CHAIRMAN & MD – NEWGEN SOFTWARE TECHNOLOGIES LIMITED** **MR. VARADARAJAN – WHOLE TIME DIRECTOR - NEWGEN SOFTWARE TECHNOLOGIES LIMITED** **MR. VIRENDER JEET – CEO - NEWGEN SOFTWARE TECHNOLOGIES LIMITED** **MR. ARUN KUMAR GUPTA – CFO – NEWGEN SOFTWARE TECHNOLOGIES LIMITED** **MRS. DEEPTI MEHRA CHUGH – HEAD (INVESTOR RELATIONS) – NEWGEN SOFTWARE TECHNOLOGIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Newgen Software Technologies Limited Earnings Conference Call hosted by ICICI Securities. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniket Pande - Lead Technology Analyst from ICICI Securities. Thank you and over to you, Sir!

Aniket Pande: Thank you Peter. Good afternoon everyone and welcome to the Q1 FY2023 results of Newgen Software Limited. Connecting with me today from the management side is, Mr. Diwakar Nigam, Chairman and MD, Mr. Varadarajan, Whole Time Director, Mr. Virender Jeet, CEO, Mr. Arun Kumar Gupta, CFO, and Mrs. Deepti Mehra Chugh, Head, Investor Relations. I now hand over the call to Mrs. Deepti for further proceedings. Thank you and over to you Deepti!

Deepti Mehra Chugh: Thank you Aniket. Good afternoon everyone. I am Deepti Mehra, Investor Relations, Newgen Software, and I welcome you all to the Q1 FY2023 results of the company.

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 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 now hand over to Mr. Nigam for presentation of the results, which will be followed by the Q&A. Thank you.

Diwakar Nigam: Thank you, Deepti. Good afternoon everyone and thank you for joining us today for our Q1 results call. We are starting FY2023 on a strong note with revenue growing at 18% Y-o-Y. I would like to highlight once again that there is a seasonality in our business due to the license-based model historically. Q1 is a leaner quarter in comparison to the rest of the quarters thus we do not look at the sequential performances in the business.

Having said that, we are now increasingly seeing a growth in Cloud Subscription side of business, which grew by 33%. The Cloud and Subscription revenues put together have now reached 38% of our total revenue. This shift is expected to lower the seasonality in the coming years and lead to more uniformly in revenues across the quarters. The annuity revenue for the quarter was Rs.131 Crores witnessing a growth of 25% Y-o-Y. The annuity revenues comprise now 70% of our total revenues in Q1.

In terms of geographic growth during the quarter was led by India and the EMEA markets. Indian market had been subdued for some times now and we are happy to see developments in this market. We have entered into key transformation projects with existing customers including license agreement with an India-based oil major, and a key life insurance player in India. EMEA continues its growth trend since last year. The U.S. market has been lacking traction and we are working across the various initiatives to combat the same. We had new logos win in Q1 2023, 6 totally with two logos in America's region.

Moving to update on our offerings and opportunity. Just as the cloud eased scalability and distribution access at an infrastructure level in the past decade, low-code platforms are now equipping organizations with the ability to develop their business applications faster to digital technologies and abstracted for ease and functional wages.

The next phase of our product journey will be led by Artificial Intelligence and Data Sciences led digital automation. Organizations are now looking to leverage data to take informed decisions. NewgenOne along with Number Theory has now become a unified platform for meeting all data sciences need of the customers. We continue to work on our long-term platform and cloud roadmap. We have announced NewgenOne with cloud native multi-persona Artificial Intelligence and Data Sciences platform. The platform is further enriched with intelligent document classification and extraction, integrated processes, and RPA capabilities. Also we have strengthened our DevOps for easy application requirements.

We have recently commissioned Forrester Consulting to conduct a total economic impact study and examine the potential return on investment to the enterprise. Enterprises implying our solution may realize Newgen solutions are giving very good ROI. We are happy to share that key findings in terms of the ROI and payback period have been very encouraging.

On operational fronts, we are increasingly seeing the employees back to the workplace in-person meetings, team collaboration, and customer meetings are now increasing, business travel is starting to normalize. We have started hosting and participating in face-to-face events and doing in-person customer meetings. At the same time we continue to offer the required flexibility to our employees, we have been investing in all spheres of talent acquisition, retention development and incentivization to mitigate the impact of elevated attrition cost across the industry.

On the sales and marketing front we are continuously working on building our direct sales channel along with focused alliances with our partners especially the system integrators to expand our markets. With the partnership the system integrators we are driving joint sales, marketing activities and campaigns as well as joint solution development.

During the quarter we entered into strategic alliance with companies like India-based Coforge and Indonesia-based Anabatic Digital as a part of our strategy to accelerate digital for organizations across geographies. We are also exploring partnership with large consulting firms.

Profits and margin: Q1 has historically been a low profit quarter for us given the non-linear revenue across the quarter. Our profit after tax for the quarter was at Rs.19 Crores. We are increasingly witnessing normalization of the cost base. Employee costs have increased on account of salary increments and continuous supply side challenges leading to additional cost. In addition there has been normalization of travel expenses. We continue to invest in our global expansion, our product, in our people.

During the year R&D expense comprising about 11% of the revenue and sales and marketing expenses comprise 25% of the revenue as usual. As an organization we remain committed to our medium-term margin targets and working across initiatives to achieve the same. Our net cash generated from the operating activities was at Rs.73 Crores. Our net trade receivables were 226 Crores at the end of the June which resulted in net DSO of 102 days.

To conclude, we believe we have a resilient and growth-oriented business model in place for long-term. Our Cloud and Subscription revenues have been growing at fast pace, providing healthy visibility of long-term revenues. Our products have significant leverage across both sides of the market opportunity, revenue enhancement as well as cost optimization.

We have been continuously investing in improving our strength and solving multiple business goals for organizations. This includes in transforming a business to maximize organizations growth and market share and become future ready, digitalizing the process for enhanced operational efficiency and cost optimization, applying analytics and data sciences to accumulate it for process data generating business intelligence insight for enhanced decision making, building new machine learning model and using these to improve a straight through business process, reinventing business model.

That is it. We are now open to Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Akshat Agarwal with Jefferies. Please go ahead.

Akshat Agarwal: Good afternoon Sir and thank you for the opportunity. A couple of questions from my side; Firstly why is it that we are seeing a steady decline in new logo additions for the company over the past several quarters? It used to be about 20 new logos every quarter it is currently come down to 6 that is one. Secondly we were expecting a step up in growth in the U.S. markets particularly driven by our partnerships with GSI what is happening there and why is it that U.S. markets are not performing the way we expected them to perform? That is it from my side, thanks a lot.

Virender Jeet: First on the new logo front we have historically been able to generate around 50 to 60 logos a year and we have also moved away from some channel-based sales which we used to generate larger momentum of logos there were smaller ticket items. In last two, three years we have deliberately shifted from them and as we are progressing in the markets its getting more and more meaningful for us to get after slightly larger deals which fit in our profile of about 200k of annuity or more. This is one of the switches and one of the reasons in fact where we have also suffered in terms of moving away from such accounts both in U.S. and in other markets as well. While having said that our expectations even for this year is to do around 50 to 60 new logos and some of these logos are very large and they will give us multi-year revenue. Q1 we have missed some orders which have slightly got delayed or deferred, but on a yearly basis we are still on track to do around number of 50 to 60 new logos and we are hopeful that, that is going to happen. On the growth in U.S. market I think we explained that last time also there are a couple of factors. Last year for last six quarters ending up to March we had a one-time PPP revenue which was generally between 5 Crores and 8 Crores on every quarter which was not sustainable and recoverable. The second part of this issue is also we have completely shifted from license sales, some of the license deals which we used to get from Caribbean and other countries we have completely stopped and gone to subscription. So there is a decline, but the other bigger factor is we have realized that in U.S., some tier of accounts which we are pursuing as part of our direct go-to market strategy on banking. We do not see substantial yield coming them as part of repeat business. So we slightly shifted that to larger accounts and we are hopeful in some time we are able to build that business and go to a more meaningful tier of accounts because getting given those 25 logos we are not able to generate a substantial value in the business. So we are doing some amount of pivot out there. On the GSI front we have been telling continuously I think the funnel though it is very positive, but the deal flows are not at the same speed as we expected. We will close some deals with GSI this year also I think last year also we closed 5, 6 deals. I think we are hoping that this year also will be doing better number than that, but it is not at the same speed. Having said that I think we have reached in U.S. a number which is at the most bottom. This number is based on almost the regular annuity business which we generate from U.S. So any deals which we have got last quarter and this quarter should start adding revenue to the coming quarters and we are hoping towards the next three quarters U.S. will show a growth momentum because the current revenue is at a very base level. I hope that answers your question.

Akshat Agarwal: Thanks a lot. It is very helpful that is it from my side.

Moderator: Thank you. Our next question is from the line of Sachin Jain from Carnelian. Please go ahead.

Sachin Jain: Thank you for the opportunity. My question was largely on U.S. because that is one of the key regions for your larger strategy. So can you give more qualitative comment what is happening at a GSI front though you covered a bit on a previous question's previous answer but can you give more quality because I think it is last one and half or two years you are making efforts towards U.S. and we are not seeing meaningful traction yet. So can you give more qualitative input how it is unfolding for you one from GSI monopoly and second your direct sales point of view?

Virender Jeet: I will try to further give you some color. See what has happened in U.S. as you are rightly saying we have two businesses one is our direct sale business which is typically going in to tier two, tier three banks in U.S. Out there we have a steady funnel of winning deals. Of course during the COVID period those banks behaved very differently and we did not have a lot of banks winning, but the other bigger challenge we did not see long-term potential in some of that account base because they were too small to give us repeat businesses. So the cost of sale our lifetime was not recoverable. So we have done a deliberate pivot of leaving a large part of that market and going to slightly larger accounts. So this is one part and as part of that we have instructed the U.S. team, they are working on that and that will happen over a period of time. The second part of the GSI as I told I think we have done a fuel work on the GSI ecosystem, now we have strategic partnership with multiple players, we have funnel going we are approaching that market but the challenge is our control on the deal has been very less out there in terms of closure cycles and we have seen sometimes the deal will take multi-years for us to close for the GSI because since really substantial. For us to solve that we are looking at acceleration of the funnel , creating more funnel and that is what we are focusing on and we are hopeful that it may we have taken like slightly more time, but over the next quarters the significant results coming out of that exercise.

Sachin Jain: What was your aspiration Jeet as far as GSI is concerned how many deals probably it will have, it was six last year if I understand correctly. What do you think in your opinion this year this number could be a ballpark, I mean, I am sure you also would not have a complete handle on it but generally what is an inspiration what kind of traction in terms of possible deals you think from U.S. through GSI channel?

Virender Jeet: We are still expecting at least 15 deals coming this year from this channel.

Sachin Jain: Sorry can you repeat again?

Virender Jeet: Around 15 deals coming this year from the channel.

Sachin Jain: Understood and how do you see the environment because we keep hearing a lot on our demand environment getting deteriorated in USA particularly so how you are reading from your business perspective environment over there?

Virender Jeet: What has happened one last two quarters on the ground the activity has started picking up in fact we are finding more and more interactions with customers in terms of events, physical events, road shows are happening. So there is a lot of activity happening and all these smaller accounts have started reopening for us, but you are right on the other front the larger accounts I think we are talking a lot about what is going to happen down the next three quarters this is a challenge and I do not know today we see any concerns but a lot of people see kind of an apprehension. I do not think it is effecting right now our business but we keep on observing it around next two quarters to three quarters. I think that is specific for U.S. and Europe are more about it but in the markets like EMEA and India we see a very little impact on this.

Sachin Jain: If suppose for some reason GSI and all does not like you see at the Newgen level 15%, 20% growth has typically been would be continued?

Virender Jeet: Yes, we said that GSI is going to be an acceleration engine on our own we have a sustenance of generating around 20% of our growth and that will happen irrespective of what happens on the GSI front.

Sachin Jain: This year also you should see that will happen?

Virender Jeet: We are still planning to hit our target of around 20% growth.

Sachin Jain: What is the reason for growth in India because India has shown a very substantial number and if I compare it to last year so is there anything to read in India's business?

Virender Jeet: Not much I think it is organic I think one of the things is that the accounts in India are quite sizable and they have continued to give us more business and they are using our platforms for more and more things. It has accumulated over multiple quarters and if you see it is not very different from what we did Q4 but Q1 last year was an exception because of everything being shut that is why you see a huge growth compared to that but we think in India most of this growth is sustainable and you will see there is no jerky revenue see unlike in other times, we had a lot of license revenues which determines the jerky part of the nature. This time you would not see that at all so most of the deals we have got in India this year are again either more continuous in terms of revenue and support or on subscription sites.

Sachin Jain: One last question post Number Theory integration how initial feedback how now this platform is being perceived after integration with Number Theory offering with AI side so some color on that?

Virender Jeet: See we are very excited about it so one of the biggest advantages we are having our customers used cases which had requirements of Machine Learning and Data Sciences we are able to service them much better and they are quite excited. So as part of our first endeavor we are integrating this product into our platforms and solutions. We have already integrated in certain lending solutions in our case and we have started taking them to market and we are very happy with the response, but over a period of a time we will be going and integrating this platform into all other aspects of our products and services and that is where we will see much more value. It is a piece of technology which we are very happy about and we want to leverage it more and more across our production system.

Sachin Jain: Thank you. I will come in the queue for any further questions.

Moderator: Thank you. Our next question is from the line of Giri Shetty from Banyan Tree Advisors. Please go ahead.

Giri Shetty: Sir, thanks for the opportunity. My question was you mentioned about the six logos right, what is the average ticket size of the six logos acquired? That would be my first question.

Virender Jeet: I do not have the exact data but these are all larger logos for us. I think maybe around 400k, 500k would be an average ticket size, but the significant size we can provide you the data if you could mail us.

Giri Shetty: Also Sir I wanted to know about your sales force so if I see a company like an Appian or a ServiceNow. So these if I see their sales and marketing expenses it is quite high it comes to around 40% to 45% whereas for us I believe it is in the range of 20%. So how does it compare in terms of sales and marketing capabilities as compared to these companies especially in the U.S.?

Virender Jeet: You are absolutely right. Some of the U.S. companies in the same area or similar domain or similar size are spending roughly around 40% on sales and marketing. We are able to do slightly some amount of efficiency because globally a lot of our cost basis in sales also are India centered in terms of all your inside sales, marketing as well as lot of travel-based sales happens out of India. The other thing is also we have been able to successfully generate substantial profits at $100 million size which none of these companies they end up, up to $200, $300 million they keep on burning up to $40, $50 million here. So we are lucky that we have built a business model which is quite healthy as a product company generating roughly around 20% of margins at $100 million. So with that kind of a model that is how we would like to proceed and in terms of we are not shying away for investing more in sales and marketing, but we have taken a conscious call that we have to maintain a balance between growth and profits and will continue doing that.

Giri Shetty: Does it make it difficult to sell as and when you go there versus an Appian which has a local sales force selling the product to a local customer does that make a huge difference in conversion?

Virender Jeet: I do not think the cost of sale makes difference because finally it's about your strategy, your value prop to the customer your ability to reach those are the issues which our sales and marketing is trying to work and overcome. I do not think its the cost of sale and in case if you find an opportunity to invest more in sales to make that success we will go and invest in that. I do not think the overall budget of sales is how you are modeled as a company rather than what happens on a transaction.

Giri Shetty: No I meant local as in Appian there is a local sales force?

Virender Jeet: In the U.S. we also have a complete local sales force. This is all U.S. nationals or U.S. citizens who are operating as our sales force. We have a large around 14-15 people sales team out there which is all local and we have our sales costs are exactly same as any other guy out there, but in terms of we are able to optimize in terms of sales support, marketing, presales where we have slightly lesser better operational control and minimize the cost out there.

Giri Shetty: Okay got it and the last question is on attrition. So you mentioned about around 35%, 40% attrition last time can we have that number has it come down this quarter how is it and what are your total number of employees right now I believe it was 3284 last quarter right?

Virender Jeet: Yes, it is around same number we are on 3350 if I am right and attrition is slightly better than last quarter but we have not seen a very significant shift in attritions yet. But we are hoping the planned attritions for next quarter are showing a decline by around 5%, 6% but I think it is too early I think things are changing but the overall sense is that it may stabilize in next two quarters for sure.

Giri Shetty: And you maintain your margin guidance that you have given around 21%?

Virender Jeet: Yes, see I am saying the margin is a factor of our topline, our topline guidance is to keep meeting our 20% growth and in case of that we should be able to be close to our margin guidance.

Giri Shetty: Okay sure, thanks a lot.

Moderator: Thank you. Our next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: Thanks for the opportunity. I had two questions first is India business means is the business because of the first quarter of Indian financial year licenses getting renewed or the momentum will be sustained throughout the year what do you think it?

Virender Jeet: As I said I think more and more the jerkiness in our business the license is getting minimized so whatever business happens is now more sustainable in terms of the base of that business has gone up. If you look at our subscription or our annuity business now is almost going to reach around 40 million at the end of the year. So the base 70% is of our business is annuity business where you have complete control. So the base itself is changing and the jerkiness part is going away. So I am assuming that India growth what we have achieved in Q1 we should be able to maintain such numbers and grow on those numbers there is no jerky revenue in this.

Saurabh Sadhwani: How many of the new logos, I mean all of the new logos are not our subscription-based right?

Virender Jeet: I think so. I think because most of them I do not see any I think one of them in India is licensed, most of them are subscription.

Saurabh Sadhwani: Second thing about the margin I know you said in the previous concall that the margins are going to decline, will it recover from here for the rest of the year and also want little bit detail on why the margins have been impacted?

Virender Jeet: I think first if you look at margin history of Q1 because of the seasonality of revenue as Mr. Nigam said in this call. Our historical if you track five-year Q1 margins they have been either negative or in the percentage of 2%, 3% at the highest row before this was 6% leaving the last year first Q1 because the cost based were unnatural at that moment of time. So because our costs are front loaded in terms of resources and other things there is not very much variability you can create out there. So on first quarter of any year and last five, seven years there is no margin. In fact our 10% margin this year is healthy compared to our first quarter and as you look at our revenues keep on growing on Q2, Q3, Q4 while the cost shift does not have seasonality, the costs remain in the same. So you keep on unfolding margins in the next fourth quarter. So I am very hopeful that we will be able to maintain our growth momentum for the remaining quarters and in case we are able to achieve that the margins will automatically unfold. They can be a 0.5% here there but it would not be very different from the guidance we provided.

Saurabh Sadhwani: The cost will stay flattish or are they going to increase for the employee expenses and the travel expenses?

Virender Jeet: Slightly more in Q2 and then declining in Q3, Q4 that has been the trajectory.

Saurabh Sadhwani: Thanks. That is all from my side.

Moderator: Thank you. Our next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Thanks for giving the opportunity. Just I had a question I mean you mentioned that you are looking to close roughly 15 deals from GSI channel this particular year. I mean just wanted to understand how is the product adaptability moving, I, what gives us confidence that we are looking at this number versus close to six number of deals in this particular financial year so what gives you confidence for that number that was the first question and second question was understanding the operating leverage. I mean more revenue coming in from GSI how would the operating leverage and how would the margins or profitability change for our company so wanted to understand that from a structural angle?

Virender Jeet: First of all the confidence comes from the funnel and the opportunities and cases which are already running in the field. We have roughly around 79 cases which are pursuing right now with GSIs in different areas and we are very hopeful that between Q2, Q3, Q4 even if we are closing three, four cases will reach that number. So that is one, so it is clearly coming from the funnel the confidence is coming from with that. Of course there is an uncertainty on closure and but still having said that specifying that uncertainty we still think that 15 deals are doable. On the operating leverage I think broadly since service delivery part of these deals more often the GSI does. So we have only what comes to us is more higher gross margin revenue either in subscription or in licenses. So operating leverages do expand through GSI deals but unless the GSI revenue on its own becomes substantial it may not change the overall picture. So I think we will have to wait for the GSI revenue to become 20%, 30%, 40% of the business then you will see we should be able to move from 65% gross margin to around 75% gross margin. Does that answer your question?

Mihir Manohar: Yes sure, and just from the deal size I mean the 15 deals that you are looking in what is the average size of the deals that we should consider I mean I understand it is difficult to pinpoint a number but just from an understanding only?

Virender Jeet: Around 400k would be on an average because there will be 250k and there will be $1 million deal but I think around 400k would be an average deal.

Mihir Manohar: For 400k annual.

Virender Jeet: This is my guesstimate so but I can send you more data you can ask Deepti to get more details.

Mihir Manohar: Yes sure that is it from my side. Thank you.

Moderator: Thank you. Our next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Thanks for the opportunity. I joined the call late so I am not sure if this question might be asked, but there is a lot of news about some of the large banks in the U.S. pulling back on their IP spends. So I was just curious in that context given U.S. is a big market for us and especially banking segment with that is what we are hearing and what is the view that we have in terms of any kind of slowdown from the strengths from some of these banks in the U.S.?

Virender Jeet: See Rajesh one thing we have seen in our solutions, have a need for growth as well as for cost optimization. So we have seen cases even in extreme cases of contraction or pull back of spends we have seen, our kind of solutions being deployed to optimize cost to optimize back ends to reduce manpower. We put their use cases to get created in all kind of economies. Having said that today my penetration in large banks U.S. is very minimal so actually we do not have too much of insight into the ecosystem what is happening in very, very large banks. We are still working on tier 2 and tier 3 banks and in that we are seeing right now the activity has started again in fact they have been sleeping for last two, three years having said that everybody is saying that there is going to be something horrible happening around the corner after two quarters or three quarters, right now we have no idea about on the on the ground our clients have not started showing any signs of that yet.

VP Rajesh: I see. I will get back in the queue. Thank you.

Moderator: Thank you. Our next question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agarwal: Firstly what kind of increase in the cost base, have been budgeted for this year?

Virender Jeet: So overall our costs may increase in around 18%, 19%.

Ankush Agarwal: In the long-term like four, five years what kind of sustainable growth in the cost base should we expect will it be closer around 2% or will go back to like 15% which was historically there? The reason asking this question is because this year obviously we are coming off a low base from last year so the number could be higher but in the long run what would be the run rate for that?

Virender Jeet: It is very difficult to predict the future but if I look at how historical data we have been able to grow at 20% of growth with much lower cost of growth around 13% to 15% has been the cost base in those years. Taking this year is an exception because it is starting from a low base, no travel cost we think in future with every 10% of revenue growth we can easily manage between 7% or 6% of cost.

Ankush Agarwal: That is right. Secondly would you like to comment anything on what explains the sharp degrowth and license fee it is just one off for the quarter or it is largely structure wherein more and more subscription base are coming up so it should be something that will stay?

Virender Jeet: I think two things one is deliberate we are pushing back on licenses and which we are taking the hit on that in terms of our topline because of that but the second is also we have seen that we have missed on new logo acquisition this quarter we have got some orders which have got deferred or we missed them by bond base of the quarter and that has been the primary reason, but having said that our license revenues may not grow at the speed at which the overall company is growing in fact there may be a decline, but the right major for us to track is the subscription revenue which we are growing at around 32%.

Ankush Agarwal: Internally we are now more focusing on subscription deals and not license is that what you are trying to say? Then lastly in one of the recent interviews you kind of commented that that your goal is to grow the business of $500 million in next five years can you shed some light on that because internally in the concalls we have been guiding for some 20%, 25% growth but that $500 million target is at least double that as such?

Virender Jeet: I think we are a software product company which is operating in a market size which is roughly around $60 billion with businesses operating in India, Middle East, APAC and now we are shifting to more mature markets. So the addressable basket and opportunity size is very large. Of course it depends on the execution we have a trajectory of growing at a particular percentage. Our initiatives of GSI, our initiatives of entering more mature markets should accelerate our historical growth rates. So that is the plan. So once any of these starts clicking and giving us more sustainable revenue we should be able to accelerate this growth rate much beyond 20% and that is what our business plans are drawn for and our investments are made.

Ankush Agarwal: But earlier I believe you have been making this comment that GSI would be adding probably 4%, 5% extra on top of what we do organically. So is there any change in that or the GSI would probably add much more than what we had earlier expected?

Virender Jeet: It should add but I think it will start with when I say 4% or 5% when I am saying that if I can meet my 15, 20 logos target this year that should add 4%, 5% and next year it can become much bigger than that and you can become compounded but the whole GSI stream is going to target of accounts which we generally have not been our accounts we have not been targeting those accounts. So it increases our market thus we should be able to increase our growth momentum.

Ankush Agarwal: Internally we do not have any kind of constraints in terms of how much businesses you want to maintain internally and versus GSI like you are came with even GSI going at 50% of overall revenues?

Virender Jeet: We are completely going with GSI becomes 70% of the business we have no problem in that but it takes time so that is a desirable state.

Ankush Agarwal: That was very good. Thank you.

Moderator: Thank you. Our next question is from the line of Karan Doshi from Edelweiss Financial Services. Please go ahead.

Karan Doshi: Good evening Sir, my question is on the deal that we have signed with Coforge and Anabatic Digital can you give us some color in terms of what kind of client additions or the events you can expect from signing this thing with such GSI also have we got a foot in the door with one of the clients at Coforge or are we still ramping up can you add some color on that piece?

Virender Jeet: So with both Coforge and anabatic we have got early successes we have already have deals together and I think Anabatic is in Indonesia if I am right it is a very, very large local system integrator and have got huge penetration in the market and our deal and signing and raising the partnership level to a level where we are having joint go to market and plan is helping. Similarly in Coforge from a tactical deal we have also signed an agreement to pursue markets in Europe, U.S. and other areas and go after carriers and set up joint targets. These are business plans. I think they do not have right now direct correlation in terms of how much revenue we can get but we are hopeful that once we work on these plans over next to three quarters we should be able to build a substantial business with both these partners.

Karan Doshi: My next question was just an extension of this if you could explain how do these deals come into play in terms of how did we get our deal with Coforge and similarly how can we then penetrate into let us say other similar system integrators? Do we first sign a deal with the GSI and then move on to the clients or do we have a client interaction first and then talk to the GSI and extend?

Virender Jeet: Both ways I think what happens but historically the India based ecosystem of GSIs is where we already had client interactions so we had common clients, we had common partnerships we had joint cases historically and once there is a more momentum and people see that we can carry the same solution to different markets that is where the partnership becomes turns and that is how we work with other GSIs as well so we have moved away from some of those cases from the tactical client partnerships to having more joint go to markets with these users and that is what is happening. It is we have a history being in Indian market and working with these guys for nine, ten years. They have seen our products, they have seen our platform, they have seen the capability and what we deliver as an end result for client and together we are very hopeful we can take the same thing to global customers and make them successful.

Karan Doshi: That is it for me. Thank you.

Moderator: Thank you. Our next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: One question was that how is your sales funnel looking now and vis-à-vis let us say three months or six months ago has it been consistently going up or are you seeing some kind of pullback in that?

Virender Jeet: See from last six months I think things have started opening up and becoming better on the sales activity front also on the result front in terms of we have started converting from more flattish quarters to more growth quarters. So we see all across especially in markets like India and Middle East are doing considerably well. U.S. we are trying to pivot and we are trying to change some amount of strategy of how we are going and other new markets like Australia will start getting the early wins. So overall we are seeing for us the market activity becoming better over the last six months.

VP Rajesh: I see and then as you were talking about your gross margins expanding because you will do more businesses with the GSI partners. So is it because that you stopped doing integration internally and that is why the margins will expand on this there is some other variables?

Virender Jeet: As part of our know sale there is an element of service delivery today since we are selling our own systems we are doing also the implementation which is a service delivery part so any service delivery has got much lower gross margins than the overall license because generally license and subscriptions are at a very high gross margin. So as the service delivery is taken by the partner or the GSIs more and more our revenue composition becomes a higher gross margin in terms of more license and subscription thus improving our overall gross margins. We may continue to do service from some tactical clients or some strategic clients but overall more and more services are passed on to that GSI and higher gross margin revenue gets passed on to Newgen.

VP Rajesh: So in this quarter what percentage of revenue came from services type for us?

Virender Jeet: Good question so on purely services site we are at 180 roughly around 60%, 62% of the revenue came from services.

VP Rajesh: And that is associated with the license revenue you sold?

Virender Jeet: These are all services for us to do with the sale of our license.

VP Rajesh: I am sorry could you repeat that Sir?

Virender Jeet: All our services are associated with the sale of licenses either for implementing the software or having a long-term additional support contract with the customer.

VP Rajesh: If you take out the support part that is what I was interested in that with the new license?

Virender Jeet: The implementation is roughly around 21%.

VP Rajesh: 21% okay and in terms of the business you said you are pushing back on the license deals so this is mainly because the client really wanted to have a license and you were not willing to give him or how is that dynamic working out?

Virender Jeet: We are not having such a luxury that we will completely leave deals but what we are saying that deals which we are of smaller size something in the range of 100k to 200k as license we have not interest in selling them because the annuity component we generate becomes considerably small. It becomes 30k to 40 k so as a long term we lose interest in that account so for a larger license deals we still are ready to accommodate and say yes, but for smaller license deals we are pushing very hard. In fact that also means sometimes leaving it on the table.

VP Rajesh: In terms of our market share if you can comment on that both in our core geographies of India and some of the newer markets as to where we stack up amongst the other providers?

Virender Jeet: Rajesh, there is no official study for that and the global market share I think we are very, very small. We do not even own 1% of the global market share because the market is predominantly US and Europe. We have got a substantial kind of a leadership position in India and Middle East for sure because almost all marquee customers, banks, insurances we have acquired them at least most of them but there is a 10-year-old study done by IBM in which we were the number one and IBM was number two, but that was very old study so nobody has done a study after that today so I think we are still number one in India. We are still number one in MEA region but in other regions we do not have a substantial market share.

VP Rajesh: Given the size of the market share Gartner or the other analysts firms talking about who are the leaders, who are the challenges, etc?

Virender Jeet: They do not do it in submarket. They do it at a global level. The percentage of revenue across vendors and out there the big guys are the IBMs and Microsoft and Pegas of the world, but on a regional level they not have market share for who because they cannot do that regional size estimate.

VP Rajesh: Understood. Thank you that is all I had?

Moderator: Thank you. Our next question is from the line of Keval Shah from Jeetay Investments. Please go ahead.

Keval Shah: Thank you for the opportunity. Sir just one question that since you mentioned that you are keeping up with our growth target should one assume that with the couple of deals that have got has postponed are likely to get closed or would have got closed in the Q2 and our H1 deal wins would look considerably stronger than compared to last year?

Virender Jeet: I would not go as far as predicting that but I am saying is that with respect of the number of deal wins the way we are building business more on less jerky that means less license based or more subscription MMC we have a continuous growth momentum and even the deals which we have added in the last year Q4 and Q1 will start contributing revenue in Q2 of this year and we will surely add many more deals in Q2 but many more deals we add in Q2 will play a part but may not play a substantial part in revenue of that quarter.

Keval Shah: Absolutely Sir I understand the revenue is a function of the order book that is being there for the last year or whatever time period would it be but I am just talking about orders in specific not really their contribution to the revenue but just independently talking about the order book? Do you think the order flow for Q2 and so should be stronger compared to Q1?

Virender Jeet: Surely better than Q1 yes.

Keval Shah: Alright Sir that is about it. Thank you so much.

Moderator: Thank you. Our last next question is from the line of Vivek Gedda from SBI Mutual Fund. Please go ahead.

Vivek Gedda: Thanks for the opportunity. I was not on the call throughout the time so I am sorry if I am asking this again but I think you also spoke about 15 new deals from GSIs that you were targeting this year firstly I wanted to check how many of them have happened in this quarter and what gives you the confidence that we will be able to do 15 this year that is part one and part two on GSIs would the concept of deals be more depending on how they actually subside in? For example we are trying to move away from license but would that be very similar through GSI server? Would they be also be looking for license-based kind of overall deal that might accrue to you?

Virender Jeet: I think both the questions so I first I think on the deals expectation from GSI is completely based on funnel. We are already operating kind of a 79 case funnel with some of those cases are in advanced stages and some we will add also during the year and we are hopeful that we should be able to do better than what we did last year in terms of deals wins especially since we are opening few more markets like Australia, APAC, we have also deals that are coming from GSI so I am very hopeful looking at that funnel we should be able to do much better than what the current situation is. On the question of deal construct I think selling subscription is quite normal even to GSIs because then this is what the model which every other vendor sells so we do not see but in cases of some large cases if it is a licensed deal and it has been structured in roughly like that so we are quite open to go and pursue that as a license deal with the GSI as long as we are able to get a substantial revenue in terms of multiyear revenue from that client we are okay with that so today the deal construct of GSI is not very different in terms of when our licenses are introduced it does not matter. There are two kind of deals constructs one is if are part of a very large or a fee where we are getting positions then the directly construct remains the kind of model they are buying in then we are go and support that but in case we are creating a single opportunity around our solution then we are normally going with the subscription most of the time. I hope that answers your question?

Vivek Gedda: That is helpful. The other thing I wanted to check is this entire position that Coforge is very interesting? Is there a difference between how you actually, I mean, small size GSI versus a large size GSI would there be probably better connect with the management and potentially a better push from a medium-term perspective?

Virender Jeet: The question is with most of the GSIs we have extremely good relations with their headquarters in India and we have good relations with them but I think finally it determines in the hunger in the market and the opportunities we are able to create in the market and place them. We are hoping with Coforge with some successes in India and in other markets they are quite interested right now. We are quite interesting and we are hopeful that we should be able to build an interesting funnel, but I think it is too early. Let us give it a few quarters and then we see how it unfolds.

Vivek Gedda: Got that. Best of luck and thanks.

Moderator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would now like to hand the conference over to Mrs. Deepti Mehra for closing comments.

Deepti Mehra Chugh: Thank you everyone for attending the call. For any queries you can connect with me or go to our website. Thank you.

Moderator: On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.