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

Date: 21st October 2022

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
Ref.: Newgen Software Technologies Limited (NEWGEN/INE619B01017) Scrip Code – 540900	Ref.: Newgen Software Technologies Limited (NEWGEN/INE619B01017)

Sub.: Outcome Transcript – Conference Call – Q2 FY'23

Dear Sir/Ma'am

As intimated earlier through our letter dated 14th October 2022 regarding the Conference Call of the Company, which was held on Tuesday, 18th October 2022 at 04:00 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 Digitally signed by AMAN MOURYA Date: 2022.10.21 18:48:51 +05'30'

Aman Mourya
Company Secretary

Encl.: a/a

"Newgen Software Technologies Limited

Q2 FY23 Earnings Conference Call"

October 18, 2022

MANAGEMENT: **MR. DIWAKAR NIGAM – CHAIRMAN AND MANAGING DIRECTOR – 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 – CHIEF FINANCIAL OFFICER – NEWGEN SOFTWARE TECHNOLOGIES LIMITED
MS. DEEPTI MEHRA CHUGH – HEAD, INVESTOR RELATIONS – NEWGEN SOFTWARE TECHNOLOGIES LIMITED

MODERATOR: **MR. ANIKET PANDE – LEAD TECHNOLOGY ANALYST - ICICI SECURITIES LIMITED**

Please note that the transcript has been edited for accuracy purposes

Moderator: Ladies and gentlemen, good day and welcome to Newgen Software Technologies Limited Q2 FY '23 Earnings Conference Call, hosted by ICICI Securities Limited. From ICICI Securities, we have lead technology analyst, Mr. Aniket Pande, welcoming the management and investor on this earnings call.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to the management of Newgen Software Technologies Limited for their opening remarks. Thank you and over to you.

Deepti Mehra Chugh: Thank you, Inba. Good evening, everyone. I'm Deepti Mehra Chugh, Investor Relations, Newgen Software Technologies Limited, and I welcome you all to the Q2 FY '23 results of the company. I have with me from the management, Mr. Diwakar Nigam, Chairman and Managing Director; Mr. Varadarajan, Whole-Time Director; Mr. Virender Jeet, CEO and Mr. Arun Gupta, CFO.

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 the 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 forward-looking statements made from time-to-time by or on behalf of the company. For further details, please refer to the Investor Relations section of our website.

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

Diwakar Nigam: Good afternoon everyone and thank you for joining us today on our Q2 Financial Results Call. In the second quarter driven by robust demand especially across our traditional markets our revenue witnessed a growth of 22% Y-o-Y to reach INR 226 crores. We believe cloud and subscription revenue is a good indicator of our business momentum. The subscription revenue had been growing steadily at the healthy pace of 30% Y-o-Y. They now comprise 35% of our total revenues.

The annuity revenues for the quarter were INR 143 crores, witnessing a growth of 24% Y-o-Y. The annuity revenues comprised 63% of our total revenue in Q2. While the global environment is uncertain our traditional market continues to remain strong. We strongly believe that our products have significant leverage across both sides of the market opportunity revenue enhancement and cost optimization and efficiency and we can pitch accordingly.

India witnessed a strong growth momentum during the last two quarters with exciting businesses from both existing and new customers. In Q2, Indian market grew by 27%. EMEA and APAC geographies have also been performing well for us growing at 24% and 39%, respectively.

Our US geography, however, has not been performing well. As we mentioned in the last quarter, in the US region, we have been working on altering our sales methodology, moving towards larger-sized accounts with higher mining ability than the current smaller and medium-sized banks and credit unions.

We have also done some reorganization and team changes in the region recently. The quarter was marked by 14 new logo wins spread across geographies. We had significant deals in existing and new accounts during the quarter.

We are happy to share that we have been a successful bidder for a leading bank, public sector bank for providing solution and services for the end-to-end digital lending platform. The total size, total order size is INR 49 crores spread over five years. We are also executing a midsized product for US based banks operating a network of banking centers throughout Colorado, Kansas, Missouri and Texas.

We also received additional mining business from UAE's largest bank, a cloud base with a private sector bank in India and a midsized project for a leading Indian private sector bank. We have also entered into the cloud deal for a multinational automobile manufacturer in USA to a system integrator.

Moving to the update on our offerings and opportunities. We recently launched our comprehensive configurable and future-ready trade finance platform for banking. The platform is built on low-code framework that lends the flexibility to allow seamless bank specific configurations and management of the complete life cycle.

It helps bank go paperless and streamline their end-to-end credit process while ensuring compliance with domestic and international regulation. The platform involves advanced level of content management and enables banks to process trade finance business efficiently and cost effectively while reducing the turnaround time significantly.

Keeping in mind the evolving needs of business and customers it can be configured easily to launch any new structured trade finance product. It provides cloud-native architecture and low-coal integration engine. Designed by bankers, and experts in trade finance and technology, the trade finance platform is a revolutionary concept.

We are excited about this launch and confident that this will play a vital role in accelerating our company's growth.

We also launched the all-new integrated Robotic Process Automation, RPA, offering -- strengthening the low-court process automation portfolio. We continue to work on our long-term platform and cloud road map.

On the operational front, we see normalization in the workplace with in-person meetings, team collaboration and regular customer meetings. Business travel has now normalized. Attrition level seems to have stabilized across the sector. We have been investing in all spheres of talent acquisition, including campus recruitment and lateral hire as well as retention and development.

In the sales and marketing front, we continue working on both of our sales engine, direct sales channel and partner network to expand our markets footprint. We recently held our in-person customer meet, Newgen Connect 2022, in Mumbai, which received tremendous response and participation from our large Indian customers, system integrators, consulting firms and many prospects.

It was a good platform where we highlighted our road map, customer success stories as well as enable customers, custom integrators and consultant network to provide their input, understanding the product capabilities, collaborate and exchange notes. We will be hosting such events in other markets as well in the next few months.

Profits and margins; our profit after tax for the quarter was INR 30 crores. On the cost front, there has been a continued impact of elevated employee costs given by the industry-wide supply side challenges, which are now gradually abating. There has been pressure on costs on account of increased go-to-market initiative, returning to in-person events and gradually normalizing travel expenses.

We continue to invest heavily in our global initiatives, our products and in our people. During the year, R&D expenses comprised about 11% of the revenue, and sales and marketing expenses comprised 24% of the revenue.

In the first half of the year, our total revenues are INR 414 crores, witnessing a growth of 20% Y-o-Y. Our profit after tax is INR 49 crores. However, I would like to highlight that given the seasonal nature of our business and linear costs during the year, usually profits in the second half of the year are higher than the first half.

On the cash flow and balance sheet, our net cash generated from operation activities were INR 57 crores in Q2. Our net trade receivables were INR 258 crores at the end of September, which resulted in net DSO of 111 days. The DSO has been higher in the current quarter. But we expect the number to stabilize in the future quarter.

We are taking prudent steps to tap newer opportunity and combat uncertain environment as we continue our growth momentum. We believe that we have a solid product in place that is highly appreciated by our customers and add significant value.

We have a loyal customer base in place. Our cloud and subscription revenues have been growing at a fast pace providing healthy visibility of long-term revenues. We continue to invest cautiously in improving our product and marketing strength, and transforming business for growth and operational efficiency. We are now open for question and answer. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Anyone who has a question may enter star and one.

Ladies and gentlemen, we will wait for moment while the question queue assembles. Our first question is from the line of Aniket Pande from ICICI Securities.

Aniket Pande: Hi, thank you for the opportunity to host you and wishing all the members of Newgen Software a happy festive season ahead. I had couple of questions. Your revenue growth looks quite impressive at around 22% Y-o-Y in this quarter. Earlier you have mentioned a guidance of 20% Y-o-Y revenue growth for FY'23, which implies around 20% Y-o-Y growth in your second half of this year. It seems like you can easily exceed this guidance based on your historical trend. Any comment on that?

Virender Jeet: Thanks Aniket and good evening, and wishing you the Happy Diwali. And you're right, generally, our Q3 and Q4 are higher revenues, but so has been the case in the past year, revenues are higher. So it is a seasonality, so to do 20% growth in both quarters is on a much higher base than on a Q1, Q2 base.

So these quarters will be larger than Q1 and Q2 per quarter. Thus, they will have a higher degree of margins. Right now, we are looking at accelerating growth and finding ways to accelerate that. What percentage we'll hit, I think it's an outcome very, very difficult to comment on that.

Aniket Pande: And sir, how are your conversations going on in US and European markets, actually? Are you seeing any impact because of macro headwinds? Has the deal closure cycle further elongated as compared to last quarter? Or is still, as of now, you aren't seeing any incremental pain coming?

Virender Jeet: Yes. So fortunately, right now, our growth is driven from the markets which are beyond US and Europe. That's our traditional markets, like India, Middle East and Asia Pacific. US and Europe, we have as last quarter. We said there is clearly a much more pain in those markets than we see in the traditional markets.

And the profile of customers which are very large, we are seeing -- hearing conversations of no uncertainty. Does it really affect our business growth this next quarter? It's very difficult to say.

But right now we have a large number of opportunities, where clients are confident that in this environment also they can go ahead and do those deals.

But this is – nobody can comment on completely this because as the situation is unfolding, all businesses are redefining their plans. And unless, we are completely in a more stable environment, we don't know what's going to happen. So there is an uncertainty in deals. But surely, the interest is right now quite high in what we are doing.

Aniket Pande: One last question, your annuity-based revenue share has improved quite a lot at around 70% as of last quarter, but it has dropped a bit in this quarter. So how should we look at annuity base revenue going forward from here on?

Virender Jeet: Yes. As we grow, the annuity will keep on growing because that's what -- you will see those streams are growing at much higher rates than the company. So SaaS, ATS as well as support, these -- all three are growing at a much higher rate than the overall growth rate of the company. Looking at it on a quarter-on-quarter basis may not be fair because what happens is if there's a license component higher or lower will determine the percentage of annuity. But on a yearly basis, I think last year, we were sub-60%. This year already for the first half, we are much higher than 60%. So at the end of the year, we'll do substantially better than last year.

Moderator: Our next question is from the line of Akshat Agarwal from Jefferies.

Akshat Agarwal: Thank you for the opportunity and I wish you very happy to Diwali to all of you from the Newgen Management Team. I have a few questions. Firstly congratulations, on a good set of numbers particularly, on the growth side. This year -- this quarter the growth has finally been led by the India and the Middle East markets besides the group step-up in APAC, could you please help us understand what sort of growth can we expect from India and Middle East over a two to three year period?

I was under the impression that we have a very high market share in these markets. So structurally these markets are expected to grow slower, compared to US or the newer geographies like you're looking to expand, particularly Australia. That's the first question. I'll ask my follow-ups after this.

Virender Jeet: Good evening Akshat and wishing you Happy Diwali. You are right. This quarter, the growth has been, and in the last quarter the growth has been predominantly led by India, APAC and Middle East and they have grown at a substantial rate.

If you look at next three years, though we have a strong penetration of our presence in India, it's not exactly true in Middle East and Asia Pacific. I think our penetration out there is quite thin yet, because a number of countries is very large and the kind of markets we operate is still very few on there.

Having said that, there's one fundamental difference, which is happening in all these three markets, we are getting into larger accounts with larger deal sizes, which is making a difference. So, I would say that the potential of these markets, if the oil remains stable and the overall, the economic situation remains good in these markets. There is no reason why we will not continue to grow in.

So India has been always going for us, it's only that during the COVID era. It was really, really in a bad state in terms of spending for many, many sectors. That's the time, but if you see that last year, India did some growth and this year. I think first it's been leading the growth by almost 30%, 35% H1 growth.

Same is true with APAC, and I think Middle East will also do a good growth on a very high number as last year. So I don't see any reason why the next three years, they can't be the grow drivers up to this percentage. In terms of when I say doing around 20% growth.

Having said that, our long-term story of higher numbers of growth has to come from mature markets and that's where we are investing in building the strategy. Right now, we are pivoting out there a bit in terms of redefining what we have been doing in banking. As in the earlier call, Mr. Nigam has stated that, in the banking we are trying to shift to slightly larger accounts, because of the lifetime value of those accounts is going to be much better than the businesses we have pursued so far and as well as looking at our sales strategy and various ways to how to accelerate that. So I'll stop there. I hope that answers your question.

Akshat Agarwal: No, that's very helpful. Thanks a lot sir, just a follow-up on this. So that's supposing your strong growth in India, Middle East and APAC to US where on constant currency terms, perhaps your revenue growth would have been flattish to slight decline on a year-on-year basis.

Is it fair to assume that over the next couple of years the traditional markets are going to be the growth drivers, while US might take longer than expected to, again become the growth driver like it was in '21?

Virender Jeet: No. So we are not waiting that long. So I think our strategy, we are waiting for a couple of quarters to bring it to a better growth trajectory. So it will, you see in the US this quarter would also grow a bit and it will continue growing over the next two quarters. And next year, we should again look it as one of the growth engines at least at, equal terms to other markets, if not higher. So we are not waiting for two, three years. We are waiting typically for next two quarters to reset the market.

Akshat Agarwal: That's very helpful. Final question from my side and that's on margins. So this quarter we've seen a very sharp increase in other expenses, as a percentage of revenues on a year-on-year basis. Has this entirely been driven by higher marketing and travel costs? Or is there any one-off over there?

Virender Jeet: Yes. So no this is predominantly marketing and travel and also in terms of the offices have restated the other costs of running the facilities that has gone up. And there is no onetime thing in this.

Akshat Agarwal: So in terms of your margin expectations, could you just give us some sort of an outlook of what sort of margin should we be expecting from Newgen, maybe this year and the year after that? Any sort of guidance would be helpful?

Virender Jeet: I may not be able to give you exact guidance. But what happens if you look at historically, the Q3, Q4 will have much higher expanded margins. If we meet, our growth targets on those markets. So those quarters and so from the current H1 around INR 50 crores of PAT we should be able to have a much significant larger number in the H2 of that. This business generates high gross margins.

As you know, it's around, between 65% and around that gross margin and rest depends on our top line growth of that year as well as investments. So investments in sales and marketing and R&D are almost set at 10%, 11% and around 24% this year, they won't change much. No, it completely depends on the top line we hit and then the margin which unfolds.

Moderator: Our next question is from the line of Mihir Manohar from Carnelian Capital.

Mihir Manohar: Congratulations on the good revenue. Largely I had a question on GSI side of the business. I mean I just wanted to understand what is the GSI traction now? What are the numbers of deals that we have won from GSI? And what is the traction here?

Second question was on the currency impact. I mean we are having 22% Y-o-Y revenue growth. If you could quantify what is the currency impact, currency depreciation here? That will be very helpful, and my third question was on the local trade finance platform and the launch that we have done.

So just wanted to understand the strategy behind this? What is the market that we are targeting? What is the market size over there? What kind of strategy are you going to adopt and what is the internal revenue target that you have been looking for this particular platform over the next three to five years? Yes, so those are the three questions?

Virender Jeet: Thank you Mihir for asking. So on the GSI front, we are continuing to push that strategy and we are increasing our funnel. The funnel has improved from deals up to almost 90 deals now in the funnel we have. We are also spreading across going into other GSIs which have shown more interest beyond the traditional ones, where we had already done the leads.

This quarter we have closed two deals with GSIs, one in Australia and one in US and we expect that momentum to keep on improving slowly. Of course, it's not at the same rate as we had expected to GSI, that's why we are trying to look at various strategies of helping that business to grow further. So, on the GSI front I would say that, in terms of investment, enablement and building that structure. I think that there's a lot going on.

On the funnel lot is going on. But on the conversion it's a bit slow, it may take a bit more time for us to accelerate that. On the currency impact, yes there has been in terms of, currency gains in terms of, on a constant currency. We have roughly around 16% of growth. If you're, that was your question.

And there's also in terms, there will be some amount of losses on cases of, in terms of some out of on the hedging. So we can, Arun can give you more details about that, if you want. On the low core trade finance, I think we are very excited about. We have been always creating product lines based on our local platform and we were very lucky to get opportunities of redefining products for some of the most leading financial institutions in India on trade.

So we have been able to launch this new product. The market is very ripe for this product in emerging markets like Southeast Asia, India, some part of Middle East and -- but Europe. Europe is a very large buyer. Trade is on our understanding is trade is also on the verge of being transformed. All the current solutions are around seven, eight years old.

We have a new generation product, which solve the current trade problems, which business is looking at. And right now we are pursuing at least 30 different opportunities in our funnel across various geos and we do expect that this year. We will close another three, four trade opportunities. The difference is that these opportunities are pretty large. Unlike our traditional the deal sizes out here and the long tail is very pretty large.

So we have not really done, how much of revenue on its own will come from this product line. But we are in the process of setting the business plan. Maybe in the next few quarters we'll have more clarity about, how independently it can be a growth driver for the company.

Mihir Manohar: And I have just one more question on the margins. I mean, you have anticipated for 18% to 25% kind of margins for the full year. When I do ask for the second half of the year that comes to around 30% plus?

So just wanted to understand how confident are we of having 30% gross margin are given the fact that now non-COVID costs are coming back and travel costs are coming back, R&D costs are coming back. So how should we see the margins for the best part of the year and consequence of the guidance that we had for the year?

Virender Jeet: So on our guidance we only have a number which is 10 historically and we have clearly said that last year margins, are not the reflection of business. Because a lot of elements of our business, which we are pursuing have not the costs were factored in.

We had a history of having roughly around 9% of our revenue is travel which was zero last year and similarly SG&A expenses were much muted and the manpower which is this onetime correction in the market, which has led to around 25% of growth in the manpower cost.

Having said, that our cost basis in Q1, Q2 generally tend to be the highest cost base. From here the cost for the remaining part of the year is slightly lower. Not substantially lower, it is slightly lower in Q2 and Q3.

Now in terms of doing higher level of revenues compared to Q1, Q2 and stable or lower cost base in Q3 do expand margins. Now whether they will be significantly higher as high as 30%, 31% or more like 27%, 28% will have.

Moderator: Our next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. There seems to be no response from this line. We will therefore move to our next question. That's from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, I just wanted to understand, number one, I was reading an article in PTI. So there it was mentioned that, we expect to double our revenue to $200 million by FY'24 on the back of this recently launched trade finance platform? So just wanted to understand your perspective on it?

Virender Jeet: See, we are in that range of 100 million and we have an ambition target of going, taking this company to the next step of 500 million over the next five, six years. There are multiple drivers for that, and the trade initiative is just one of the drivers on that.

On its own, it will, I think it will play a significant part in pushing the growth up. But I think the exact date of doubling it by '24 is a press freedom. They take that, they take a freedom to the next level. But yes, but I think we are looking at accelerating growth beyond.

No, if you can see we are doing a significant growth without the US engine firing right now. And with US and GSI giving us some momentum, I think we should be able to accelerate the growth and meet those aspirational goals.

Deepak Poddar: So our stance means that we are looking to accelerate growth on the back of this new game-changing platform that you kind of indicated today?

Virender Jeet: Exactly.

Deepak Poddar: And at a higher operating leverage. I mean the revenue base. What is the sustainable EBITDA margin that our kind of business can see on an annual basis after factoring in the seasonality that we have in our business, right? So is it in the range of 25%, 30%? Would that be a fair, also assuming now the travel cost has come back? So that 25%, 30% range, is that a fair kind of EBITDA margin level that one can see in our business?

Virender Jeet: We are a product based business with high, very high gross margins. So in case you stop investing like in a very bad year. You end up expanding margins, because finally, the gross margin starts reflecting the net margin position. But our aim is to invest our growth, invest in product development, go and spend on travel, go and spend on sales and marketing.

So what we have said that on a way we want to maintain it around kind of a 18% to 20% net margin with around 23% to 25% EBITDA margin in the medium term. Whether we reach that into this year, next year those depends on how the top line and the costs unfold. But, you're right product companies can generate much higher EBITDA margins any time their growth rate slow down for some time, because overall the business is generating a lot of margin.

Deepak Poddar: Absolutely. But it's not one either, right? I mean we can do both continue to invest as well as per optimum requirement as well as, continue to generate healthy margins for us as a company?

Virender Jeet: I hope so. I think that happens more at bigger sizes. I think right now with this kind of a turmoil, in the system in terms of cost basis, high attrition, uncertainty, you will have to sometimes reinvest for the growth to return or sometimes also wait for just the returns and not invest in growth like we had the last two years.

So you can't balance it every time, but on a long term, yes. I think the business will keep on expanding margins as a percentage of subscription revenue growth as a percentage of volume of business growth, because your cost bases are fixed.

Deepak Poddar: Fair enough. That's interesting. And my last query is interesting that you mentioned about $500 million revenue in next five to six years, right? So that factor in your growth that you might see from trade finance platform and even this robotic process automation that kind of you have recently launched as well and more product into the pipeline, right?

Virender Jeet: So our long-term goal of being a first $1 billion company or doing 500 million over the next five years, these goals -- all the initiatives are towards those goals/ vision. So there is not a single entity even the current product lines have enough capacity to take us there and we'll keep on doing these new initiatives.

So we have, so the idea of what we are trying to communicate is we will always be interested in growth, spending aggressively for that growth. And pursuing all avenues to make sure we grow at much higher speeds than traditional growth rate.

Moderator: Our next question is from the line of Harsh Shah from Dimensional Securities.

Harsh Shah: All right. I just wanted to understand that in one of your slides, you mentioned that the subscription revenues at around INR 79 crore and then when you give the revenue breakup below that, you have mentioned that SaaS revenue is 10%, which comes to around INR 22 crores. So, just wanted to understand the difference between INR 22 crore on SaaS and INR 79 crore on subscription revenue?

Virender Jeet: Yes. So I think the SaaS is typically the revenues as we have changed the licensing from perpetual licenses to cloud-based or SaaS-based licenses. This is the licensing part of annuity-based license we are generating. That has reached around 10% of the business. On the other hand on the traditional license sale we are charging an annuity, which is called traditionally called the ATS.

That is remaining part of our, around INR 55 crores for the quarter. So collectively between subscription revenue which is a combination of our SaaS subscription and traditional license subscription, which is called ATS which is roughly around, now INR 79 crores, INR 80 crores for this quarter.

Harsh Shah: This -- sorry.

Virender Jeet: Please go ahead, Harsh.

Harsh Shah: Yes. So the INR 22 crore, which is the 10% of our revenue which you qualify as SaaS? This is typically based on volume basis, right? This is the revenue which is based on per transaction or per item basis?

Virender Jeet: Yes. This is typically per user per month sold at per user per month or sold as an annual license charge. So on this license fee, there is no perpetual right to license. This is kind of a consumption based license or a PUPM based license on that.

Harsh Shah: And the remaining INR 55 crore is fixed in nature, regardless of volume?

Virender Jeet: No. It is not. It also varies, but for that to vary you have to sell additional license to the customer on which you will generate 20%, 22% of the ATS. So the first one, is equally divided. The second one is the majority is upfront loaded which you've already realized previously and only are getting only 22%.

Harsh Shah: And other question following is to, do we have any plans to get into the transaction side of the business? Because, globally the payment side the payment business, not typically transaction but payment business, which is expected to grow phenomenally well. So are we already present there? Or do we want to be there? Any thoughts on that?

Virender Jeet: So we would continue to be a software product company and providing software products in various spaces and in financial services we keep on expanding into different verticals. But we don't, we are not a payments business or a transaction based payments business. We don't have any plans to go into that business.

Harsh Shah: No. I mean you reframe it. Not getting into business what Paytm does, but would you be an enabler for them the back end, which someone like Paytm or you have many fintechs, which are into BNPL, all that kind of stuff. Would you be into software services, which enables them or helps them in doing that things?

Virender Jeet: We have software products which help those businesses, and there are some customers who are using our software products in part of their payments businesses. But it's one of the spaces in many spaces we operate, but in terms of looking at it as a focus area on which we want to build growth we have not paid too much attention to that right now.

Harsh Shah: Understood and on the annuity part. So when we say our annuity revenue is around INR 142 crore for this quarter. So do we mean that if you stop investing this is the revenue, which we will continue to get?

Virender Jeet: Yes. This is, so what we call annuity is generally the contracts, which are renewed year after year. So while there's two parts of this. One is the subscription, which is typically our license profile, where the gross margins are in the range of 90% or higher.

The second part is about a higher degree of support, which is a customer support which people contract for year after year. The revenue profile is more like service revenue profile. But both these things are contracted year after year as a renewal contracts. That's why we call them in part of the annuity revenue so.

Harsh Shah: So subscription revenue is a subset of annuity revenue? Is that correct?

Virender Jeet: Yes. Exactly, subscription is a subset of annuity revenue.

Harsh Shah: So the INR 142 crore includes INR 79 crore?

Virender Jeet: Includes INR 79 crores. The difference is the INR 79 crores is a high gross margin revenue. It has got a license gross margin kind of no cost. While as the remaining part of INR 63 crores has got the margin profile, has a service margin profile.

Moderator: We'll take our next question from the line of Utkarsh Katkoria from PGIM India Mutual Fund.

Utkarsh Katkoria: Just continuing on this revenue split. If you could please explain, it's in your presentation, revenue split by segment. So when we talk about annuity plus subscription revenues, what does that include? So when I look at revenue split by segment, it says implementation, 16%; support, 28%; ATS/AMC, 25%. Can you help us understand that chart?

Virender Jeet: Yes, so if you look at the revenue segment, there are 3. One is the sale of software, which is the license software sale, which is perpetual in nature...

Utkarsh Katkoria: Which is SaaS?

Virender Jeet: No. So SaaS is a license sale, which is sold as subscription, but traditionally since we are still older customers and existing customers who buy in the perpetual license mode, there is a onetime license sold and only the ATS get started, added to the annuity part of the business. So that's roughly around 15%, then you have this -- sorry, not 15%.

Yes, so then the second part of which is called the SaaS revenue or SaaS license, which is around 10% of our revenue. This is typically software sold as PUPM basis. Generally, on cloud or an in premise, but the licensing model is PUPM. The third one is the ATS/AMC. ATS/AMC is that for the traditional perpetual license we have sold for many years. I get a 20% annuity for all that same every year. So that is what the 25% of that is my revenue is coming from ATS/AMC.

Support is another head, which is typically people beyond our standard ATS contract as for additional support in which because they have larger complex implementations, they got more people to have a dedicated support team. So that is...

Utkarsh Katkoria: Support classified as subscription plus annuity or support is not classified in that category?

Virender Jeet: Support is part of annuity revenue because the profile of revenue is that it gets renewed every year. But it's not put in subscription revenue because the margin profile, that is very different.

Utkarsh Katkoria: So can I safely say that support plus ATS/AMC plus SaaS is your subscription plus annuity revenue? That pool includes these 3 buckets?

Virender Jeet: Exactly. We call it together annuity revenue.

Utkarsh Katkoria: And implementation and other services and sale of products outside the annuity revenue?

Virender Jeet: Exactly. Yes.

Utkarsh Katkoria: And we expect this annuity revenue stream to keep increasing, which has relatively better margins?

Virender Jeet: Exactly. So that's the whole idea, so because that's more predictable revenue we are able to remove the jerkiness in our business. We want to be able to smoothen the quarter or the lopsided nature of the businesses by increasing this annuity portion.

Utkarsh Katkoria: Okay, and just a follow-up, if you can explain what is the sale of products?

Virender Jeet: Sale of product is generally, before we used to sell our software license as PUPM, we used to sell it as perpetual license. And even today, we do in some deals, we have perpetual license. Again, if a government is coming with an RFP and they want to buy software, they would say they would like to buy a perpetual license. That means they get right to use it perpetually, but they will pay you a recurring support charges or on EPS charges, which is typically for upgrade, maintenance. So that is what...

Utkarsh Katkoria: And implementation is just a onetime thing, right? You implement the software for your client and that is done? That revenue accrues and then there is nothing recurring about that?

Virender Jeet: Exactly and it's also customers can again contract you for something more, but yes, once the contract is over, there is no recurring element of the implementation.

Moderator: We'll take our next question from the line of Saurabh Sadhwani from Sahasrar Capital.

Saurabh Sadhwani: Congratulations on the good results. I wanted to know some details about the trade finance platform. So how are you pricing the trade finance platform? Is it based on a per-transaction charge or is it based on a per user per month basis? And secondly, what would be the average deal size for the trade finance platform?

Virender Jeet: Yes. So there are different. So first, to understand about trade finance, first of all, licensing model remains as same as the underlying platform licensing. The way we sell our low-code platform, the content management platform, which is based on some kind of usage, whether it's number of users, number of transactions, number of servers, it depends on that. Over and above that, depending on the complexity of trade, there are multiple levels of trade solutions. So the smallest trade deal on, can be like a few crores. It can be roughly around INR 3 crores, INR 4 crores, and the larger one could be like as large as INR 15 crores to INR 20 crores. So it depends on the usage and a number of modules which that business is buying.

Saurabh Sadhwani: So the average deal size would be, average yearly revenue from a client in trade finance platform would be around?

Virender Jeet: Can be easily around INR 5 crores, INR 6 crores.

Saurabh Sadhwani: And what was the deal size for the logos added in this quarter, the average deal size for the 14 new logos that we have added?

Virender Jeet: I'm sorry, I don't have that data offhand, but maybe you can write and we can help you.

Saurabh Sadhwani: Yes, sure. No problem.

Virender Jeet: So on our average deal size has continuously for so many years kept on growing. They would have grown on this time, so we can send you the exact data.

Moderator: Our next question is from the line of Jitendra Chawla, an individual investor.

Jitendra Chawla: I have just one question from you. I mean our business doesn't require rather than the promotional spend that you do, which you call investment every year. And hence, we are net cash flow-positive. So, and that cash pile is kind of increasing and it's affecting our ROCE negatively. So what plans do we have to utilize this cash? Are you looking at any inorganic opportunities and if not could there be a possibility for a buyback, because our valuations are very attractive? Any buybacks which you do would be very EPS- accretive? So if you can show some light on that.

Virender Jeet: Thanks, Jitendra. So you're right. So we have accumulated cash and I think we are very happy that as a product company, $100 million, we are generating cash and profits, which is a rare thing. Having said that, our core focus right now is all on growth and invest whatever we have for growth. So that means also exploring inorganic opportunities in markets which will suit us for really rapidly growing further.

We are giving ourselves some time, maybe a year or so, to look at options and beyond that, in the meantime, we'll still be accumulating and generating more cash. And if we are not able to successfully deploy it, then we'll look at various options of returning, either higher dividend or buyback to shareholders.

Moderator: Our next question is from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Happy Diwali to you all. My question is regarding the growth you said that in five, six years, you will be a $0.5 billion company. So that suggests a very high growth rate. So the question is that, are you thinking of inorganic growth during this 5-year period or the products that you have will lead to such a wonderful growth outcome?

Virender Jeet: Thanks, Rajesh, for the question. So on the answer, let me clarify. So the aspiration of doing $500 million has not been translated directly into a target. Having said that, we are looking at all avenues as, inorganic is not off the table.

We are looking at inorganic ways but right now, the kind of products that we have in terms of the low-code product and the content management product, there's enough market globally for that. The market itself is growing. And we have got excellent customer base. We're showing a lot of confidence in that product. So we don't see the product or the product coverage being a challenge in doing that.

But of course, the challenge is in terms of how fast can we establish ourselves in the mature markets, how fast can we exclude the GSI ecosystem selling our products. Those will be some of the challenges we'll keep on investing on and working on that. The current product, whether it's trade or RP or the new version, they will all help in that cause.

V.P. Rajesh: So let's say, if we think about three year timeframe and let's exclude any inorganic growth, what kind of organic growth can we expect from the current and future products in the business?

Virender Jeet: See, we have grown for a very, very long period of around 20%, and with some of these initiatives, we want to accelerate it beyond 20%. So I would say that next two, three years, we should be able to -- if everything fires, we should be able to accelerate this much beyond 20%. And that is where we can reach on that, but it's very difficult for me to put our number right now on that.

V.P. Rajesh: So you're saying the floor is 20%? And depending on how the market develops for some of these newer products, it could potentially be in that 25% plus range? Is that a fair way to understand your thinking?

Virender Jeet: Yes. I think that we have a bare minimum expectation of doing 20% because that's what historically the minimum company has been delivering. And now all these initiatives and all the investments which we have done in various areas should accelerate the growth further. We are anticipating and having hopes of even higher than 25%.

Moderator: Our next question is from the line of Ankush Agrawal from Surge Capital.

Ankush Agrawal: Sir, firstly, on the increase in our cost base that we have seen, it's been a sharp increase Q-on-Q as well. And in Q1 in the last quarter, you had mentioned that this year you're budgeting around 18% to 19% growth in the cost for the year. But if I look at this number and if I assume that you don't do the same kind of cost number for next 2 quarters as well, we are broadly going to increase our cost sales of more than 25%. So what's changing that outlook from 18%-19% to this very high number, if you can highlight that?

Virender Jeet: Yes. So I don't think we have an outlook of 18%-19% ever. We had a high -- we have already an outlook of around more than 20% of growth. So 22%-24% was already projected as possible. So there is no surprise on the cost front. The only surprise is probably on the manpower side, we had higher cost because the market kept on pressurizing. And even for the first H1 of this year, there were higher attrition, which would increase the cost base. There's an element of growth also, which will factor in that cost.

So on the cost base, we don't have too many surprises. We see that over the next 2 quarters, the cost remaining or even reducing from this level and with our targeted growth rate achieve that, we should be able to expand margins.

Ankush Agrawal: So what you're saying is the cost this for next quarter is going to remain flattish on the absolute terms that you are saying?

Virender Jeet: Exactly. On the absolute terms, yes. Compared to the Q2 cost of this year, Q3 and Q4 is going to be slightly lower.

Ankush Agrawal: Okay, and this would be a recurring phenomenon for coming years that Q1 and Q2 would have the hike and then stay flattish from the beginning of the quarter?

Virender Jeet: Exactly. So what happens generally in April and our June, this is the largest increment cycle in the company, and that is where the – because a lot of fresh people get regularized on that and a lot of people have increment cycles in the capital. That's why I think Q1 and Q2 are the higher quarters and then it gets normalized for Q3-Q4.

Ankush Agrawal: Okay, and another comment that you made, I think, last quarter on the cost front as well that going ahead, we can do 10% kind of revenue growth with every 6%-7% kind of cost increase. So does that hold through in the going through the coming years as well or does this change in that outlook given that you are now targeting the $500 million in very high growth rate?

Virender Jeet Yes. So what I had explained is that we don't need proportionate manpower for the revenue growth. So for every 10% of revenue growth, we need more like 5% of manpower growth, so because a lot of our revenue streams are disconnected from manpower. So, but manpower is a part of our cost. What has happened today, the costs are going more in regularization of travel, which is around 5% of the overall cost revenue and then also regularization of SG&A expenses, improved marketing, face-to-face events, offices. So this year, it's generally going to be resetting the cost base and next year onwards, then we should be able to track and win the efficiency in that.

Ankush Agrawal: Good. Lastly, again something on the cost fronts...

Moderator: Mr. Agrawal may we request you to return to the queue? There are several participants waiting for their turn, sir. We take the next question from the line of Sameer Dosani from ICICI Prudential Asset Management.

Sameer Dosani: Just I'm not sure whether you clarified or not. I joined in late. So look at US based SaaS companies have been speaking about a slowdown in decision-making and having an impact on their top line. So are you seeing similar trends in US and what is the overall outlook, if you can just throw some light? Are you seeing, is there some impact of the recession or any slowdown, do you think?

Virender Jeet: Yes. So Sameer, we answered this question a bit. I think probably you missed it. I think on the US side, there is a much bigger pain than what we can see in India, APAC and Middle East because of -- and a lot of customers are sharing that there is an uncertainty around corners. So as a result of that, we do see uncertainty in decision making.

But how much does it translate into business and what numbers do we hit is very difficult to predict? We think that in next 2 quarters, we should still be able to push a bit of growth in US, but how fast is a different thing.

Sameer Dosani: And UAE and I mean middle East and India is not affected by that in that sense?

Virender Jeet: So far, we are not finding it. I hope it remains that way, and Middle East is oil price has the economy, I think right now, it's holding well in India. I don't think it's getting touched.

Sameer Dosani: And also looking at the current performance, our 22% to 23% margin guidance, does that hold or are we seeing medium term, we would have that? But in the short term, in FY '23, do you think that will be a risk FY '23 and FY '24?

Virender Jeet: See, generally, in this year, I think as I said, we are -- this is a process of resetting the cost base. Lot of costs this year are also unnatural. In terms of some manpower costs are unnatural, in terms of number of cycles of increments, number of the churn because of iterations. So you have to add and you lose talent very fast.

The travel is not returning, and the efficiency of that travel and the business development will start reflecting in the turnover in next two quarters. So I think this year, we have, as I said last year, last year's margins are unrealistic because a lot of those things we are not...

Sameer Dosani: I'm just comparing your guidance because that is what you had spoken about right, 22%, 23%?

Virender Jeet: Yes. So we are generally looking at still have a target of between 17% to 18% of PAT. We may fall short of that. It depends on how we hit on the top line.

Sameer Dosani: And lastly, how is the GSI relationship going? Because you have worked hard for that. How are you seeing things, is there some progress that you can share on that?

Virender Jeet: I think we are extremely happy with what's happening out there. I think more and more GSIs are finding very interesting to carry over products. The funnel is growing. We are not very happy with the conversion rates out there and the deal flow so far.

Having said that, we did close 2 deals this quarter as well, and we expect in the remaining part of the year to have some acceleration in that. But it is still a long way to go, and we're working on it.

Sameer Dosani: These two deals are US-based?

Virender Jeet: One is US, one is Australia.

Moderator: Ladies and gentlemen, that was the last question. I now invite the management of Newgen Software Technologies Limited to add a few closing comments. Over to you, sir.

Deepti Mehra Chugh: Thank you so much, everyone for participating in the call. For the pending queries, would like to connect one-on-one if possible and for any other further questions, you can also go to our website. Thank you.

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