"Newgen Software Technologies Limited Q3 FY'22 Financial Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Newgen Software Technologies Limited Q3 FY '22 Financial Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepti Mehra Chugh from Newgen Software Technologies. Thank you and over to you Ms. Chugh.

Deepti Mehra Chugh: Good day, everyone. I'm Deepti Mehra Chugh, Investor Relations, Newgen Software Technology Limited. And I welcome you all to the Q3 FY '22 results of the company. Wishing everyone a Happy New Year and I hope everyone on the call is keeping safe.

Joining with me today on our call is our management, Mr. Diwakar Nigam, Chairman and Managing Director in Newgen; Mr. Virender Jeet, Chief Executive Officer; and Mr. Arun Kumar Gupta, Chief Financial Officer.

Before we move on to the discussion, let me highlight that this call may contain certain forward-looking statements concerning Newgen's future business prospects and profitability, which are subject to a number of risks and uncertainties and the actual results could 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 of these forward-looking statements made from time-to-time by and on behalf of the company. For any further details, you may please refer to the investor relations section of our website.

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

Diwakar Nigam: Good afternoon, everyone. And thank you for joining us today. First of all, let me wish all of you a happy and a healthy New Year. I hope all of you are keeping safe amidst another COVID wave. For Newgen, Q3 has been a quarter on the path of continuous progression amidst the ongoing uncertain environment.

Our revenues were at INR 203 crores with a growth of 9% YoY. We witnessed acceleration in business from existing customers and healthy operating margins. Our subscription revenue continues to be the strongest component witnessing a growth of 20% YoY. Several of our subscription orders have long gestation, leading to deferment of revenues.

As we had mentioned earlier, moving forward we are pushing for changes towards subscription-based pricing model only. Annuity revenues were INR 112 crores during the quarter, witnessing a growth of 11% YoY. SaaS revenue were INR 14.2 crores. SaaS growth was muted during the quarter due to the impact of period adjustment of one of our project, one of our clients.

The product license business witnessed a growth of 37% during the quarter. In terms of markets, EMEA and APAC continue to outshine. During the quarter we witnessed several expansion deals with existing customers following our land and expand strategy. Unfortunately, travel has not resumed at the same pace as we had anticipated at the beginning of the year.

In the U.S., revenues have been stable, revenue last year included revenue related to PPP logos, which are not there anymore. Overall, we added 17 new logos, some of these logos are still in the process of being rebuilt currently. We continue to help our existing and new customer in creating digital capabilities across the modern-day business needs.

Our key orders from new and existing customers during the quarter include cloud order for a captive premium financing arm of a leading global automobile manufacturer. Project for a diversified financial services company in the U.S. providing a full range of commercial banking, consumer banking and wealth management solutions. Cloud order for a leading specialty finance provider in the U.K., and Ireland for Newgen's automation platform to enhance its premium finance process for business insurance customers. Customer mining for additional license business from one of the world's largest investment management companies. Order from an existing customer in Singapore, which is part of a leading international banking company.

Moving to update on our offering and opportunities. During the quarter we launched an upgraded version of our industry recognized Low Code process automation platform, iBPS. The latest version enhances personalization option of end users and provides an upgraded rule engine for improved decision making.

Further that platform offers improved data handling, enhanced capabilities with robotics, process automation, deployment, containerized deployments, upgraded mobile app capabilities and more.

Reinforcing our strong position in the industry we continue to receive additional analyst recognition during the quarter.

We are positioned as a Visionary in the 2021 Gartner's Magic Quadrant for Content Services Platform for our ability to execute and completeness of vision. We were positioned as a strong performer in the Forrester Wave for Digital Process Automation Software Q4 2021. These recognitions further validate our commitment to drive product innovation to facilitate end-to-end digital transformation.

We now have 22 patent grants in place. We were granted a patent for invention, entitled, Centralized Control Printing and Administration. We were also granted a patent for an invention entitled, Integrated Capture and Analysis of Documents. This patent protects the invention to automatically capture the best quality document imaging using mobile or tablet devices with the help of real time collaboration of various parameters.

As further step to tap the growing enterprise IT budgets in the space of artificial intelligence and machine learning, we are happy to announce that Newgen is acquiring India based Number Theory and AI/ML data sciences platform company subject to completion of conditions as stated in the accrued share purchase agreement. This acquisition is expected to further strengthen Newgen's low code digital transformation platform with AI/ML modeling and data analytics capability. We look forward to accelerating our journey in Data Science and AI/ML domain with this acquisition.

On the operational front, last quarter Newgen's senior management and other teams were back in office. It was good to have face-to-face meetings, the team had participated in person events. However, we have again been forced to move to work from home for the time being till the situation stabilizes. Collective safety and productive working are paramount for us. We shall review the situation and make changes as warranted from time-to-time. As the situation improves, we would move back to the hybrid work model ensuring productivity, cultural assimilation and offering flexibility at the same time. We continue to remain focused on long-term talent development and incentivization. During the quarter, we have also come out with an RSU scheme for employees.

On the sales and marketing front, we are continuously working on building our focused alliance with GSI. We are driving direct sales and marketing activities and campaigns as well as joint solution development with our partners. We are working on our GSI pipeline. However, as mentioned last time, the contracting period of some of these projects are elongated.

On the profitability side despite the escalation, we have delivered another quarter of healthy margin. Our EBITDA was INR 58 crores and profit after tax was up 35% YoY at INR 48 crores. EBITDA decreased on account of normalization of cost base compared to last year as well as increased remuneration to manage attrition. We continue to invest heavily in our global expansion, our product and in our people.

During the quarter R&D expenses comprised about 10% of sales and sales and marketing expenses comprised 20% as usual. Our balance sheet is strengthening with every quarter. Our cash and bank balance and investments put together amount to INR 479 crores and the net cash generated from operating activities was at INR 147 crore, for the first nine months of the year.

Our debtor days continued to show improvements. Our net trade receivables were INR 184 crores at the end of December, which resulted in net DSO of just 90 days on back of sales and collection improvement. For the nine month period of this year, revenue from operations were INR 548 crores, up 16% YoY. Annuity revenues were at INR 331 crores, witnessing a growth of 16% YoY. Our subscription revenue witnessed the growth of 19%. EBITDA was INR 127 crores and profit after tax up 45% YoY at INR 107 crores.

Looking forward, the demand environment continues to be robust. The GSI engagements are positive, we look forward to the integration of Number Theory with our platform to give our customer a match.

With this, I end my commentary on the results and wish you a safe and happy year ahead. We now are open to question-and-answer. Thank you.

Question and Answer

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants you may press '*' and '1' to ask a question. The first question is from the line of Research Team of Carnelian Asset Advisors. Please go ahead.

Research Team: Hello.

Virender Jeet: Hello. Please go ahead.

Research Team: Yes, thank you for the opportunity. I had few questions pertaining to the growth aspect. So, while I look at geographical breakup of our revenues, while I see the India revenues, so we have been in the range of INR 59 crores to INR 60 of crores here and there for quite a few quarters now. So, if you could help understand that? And also in the U.S., you did mention that there was some one-offs, if I understood correctly, which was in FY '21 but again, when I look at USA region as well our revenue seems to be quite stagnant for the last few quarters. So, if you could help understand how our revenues are moving in line with the traction that we have from global system integrators that would be pretty helpful.

Virender Jeet: Yes, thank you, thank you for that question. So, I think there are two parts of your question, one is about the segmentation of revenue. As you've seen, I think the growth predominantly has been driven this quarter from, India and Middle East and you're right on the India trend both the COVID year and in the last six quarters, have been quite muted on the site of new logo acquisition. There are two reasons for that, one is predominantly on the overall economic sector, there has been a slowdown in the first six, seven months. The other government which was a substantial part of our India business has completely stopped or

come to a halt. So, the government and the new logo acquisition have been slower last five, six quarters in India.
On the other hand, I think we have seen a substantial improvement of sales in existing accounts in India. Most of our large banks, most of large insurance companies are expanding their digital initiatives. And that's why in spite of the dip in the new sales part of it, we are able to maintain India revenues and grow them slightly incrementally.

On the U.S., if you look at the COVID year for U.S., last year was extremely good. In fact, some of the quarters we were between 20% to 40% growth. And as we had mentioned that, that growth was on account of our supporting the PPP initiative in U.S., for a series of banks. Since that was a onetime initiative that revenue does not come as a cumulative year-after-year. So, whatever subsequent growth is happening in U.S. is compensating for that revenue. So, the market is pretty wide out there, we continue to win logos. So, that component does not reflect in the overall growth of the territory.

On the account of GSIs and other initiatives, see what's happening, the two things one is some part of the U.S. revenue is getting compensated for the loss of PPP. But the other bigger part is that most of the new logo acquisitions, like even in this quarter, we had a substantial number of new logo acquisitions. The things we are shifting deliberately from one-time jerky perpetual license revenue to subscription licenses or cloud, the realization of revenue comes at least two or three quarters later, and it comes slightly and are more graded rather than upfront jerky revenue.

Looking at all these three factors that's the reason about, looking at flatter revenue, numbers in U.S., and while as in other territories still, there is a licensed business being pursued and there are still some accounts which are delivering license business that's why we are having growth out there.

On the other hand, Middle East and APAC both have been growing for us. And last year/ COVID year, Middle East was slow. But this year it has predominantly delivered for all three quarters. And APAC has delivered in both the quarters. I hope that answers your question.

Research Team: Just a few follow up questions. So, on the USA part what was -- if you could help understand the amount of the one-time work that we did? What was the amount out there, which was there in the last quarter?

Virender Jeet: I think for the year it was somewhere between INR 20 crores to INR 30 crores.

Research Team: Sorry, sir. I missed out. What was the amount?

Virender Jeet: So, for the year it was somewhere around INR 20 crores to INR 30 crores. But Deepti can provide you more details and numbers in that.

Deepti Mehra Chugh: Few crores for the quarter, I'll get back to you with the exact amount.

Research Team: Sure. And as far as India goes, you said that, basically, we're not seeing any traction from the government part of the business. So, what is the outlook out there going forward now since things have started to resume and economic activity has also kind of started to pick up? So, how is the traction on that front?

Virender Jeet: See, I don't think any substantial change has happened over the last two, three quarters on the ground itself, though the activities, they keep on starting and they keep on stopping. But we don't see lot of government initiatives coming in the typical spaces we are operating, even when there are RFPs, we are sitting on those RFPs for a very, very long period of time. Unless we are really behind this COVID for at least couple of quarters, then only it will be more accurate to predict how the India market will behave.

But if you leave out government, the other segments are surely showing lot of interest both in the new financial services as well as our existing accounts. We do see a better momentum building over next quarter on that.

Moderator: Thank you very much. I request all the participants, please restrict to two questions per participants. If time permits, please come back in the question queue for a follow up question. The next question is from the line of Karan Doshi from Edelweiss Financial Services. Please go ahead.

Karan Doshi: Hi, congratulations on a good set of numbers. So, my question is that last quarter, we've seen good deal wins and healthy logo additions, but some of these deals have slightly longer gestation periods, leading to deferment of revenues. Given that one of our key strategies is expansion in mature markets, my question is what is sort of the proportion of new deals and new logos from let's say, North America, Europe? And can we see a spur in business in mature markets over the next one or two quarters once this gestation period for new deals end? And can they start contributing incrementally in the next three or six months? Thank you.

Virender Jeet: Karan, thank you for your question. You're absolutely right. Logo acquisition has improved over the last quarter as well. And you're right that since most of these logos, they don't contribute to revenue of that quarter or subsequent quarter. But you're absolutely right in two to three quarters you will see that building up and adding to the numbers.

On the number of new logos coming from mature market, I don't have the exact number, but we did have wins out there, we had wins in U.S., we had wins in Europe, we had wins in Australia this quarter, at least four, five. And I think some of them at least three were through the GSI channel. So, there's a momentum picking up there. And once the base is established and the run rate is established in few quarters, you'll see that starts reflecting it also on the top line and the numbers. Regarding exactly the number of logos, we have won in mature markets, Deepti can send you the data.

Karan Doshi: Okay, okay. I think that's it for me. Thank you.

Moderator: Thank you. The next question is from line of Akshay Satija, from Alpha Invesco Research. Please go ahead.

Akshay Satija: Hi, thank you for the opportunity. Sir, if you could help us how do these contracts with GSI actually work so we understand we are mainly into product and GSI provide the services, but what could be the quantum of the implementation of these services and the other services or when it comes to cloud, what sort -- is it revenue distribution? What is the model out there for cloud-based platforms?

Virender Jeet: So, thank you, Akshay. So, Akshay, you are right. So, what happens in GSI contracts predominantly, we are looking at revenue streams, which are more license/ subscription based, they could be cloud or they could be in premise, but it is predominantly on the license side we charge. So, the revenue share depends on the contract size. But on the long-term, the long-term view of the customer is definitely the accounts are very large, the implementational service revenues around these clients are multiple times than the license revenue.

But the deals could vary, the deals could be the -- initial deals could be from $500,000, to all the way up to $3 million, $4 million. But the lifetime value for our product is typically multiplication of that license value or the upsell we do on the license, while on the service side it could be very wide, because they could do global rollouts, they could do additional services around that product. So, generally it becomes -- it can be anywhere 3 times to 10, 20 times than the license value. Does that answer your question?

Akshay Satija: Okay. So, is it that when -- so earlier we used do all these services. So is it that now GSIs would be taking away all these services revenue, or there would be some portion that flows to us, is there some revenue distribution kind of a thing there?

Virender Jeet: So, that's one way of looking at it. So, you're right, since we are not executing these projects, the GSI does this revenue and we don't do this revenue. But the other way of looking at is that these are the accounts generally which we were not being pursuing. So, this is in market which is getting opened and extended. And through the GSIs implementation, we are able to scale it as a channel, so it's not an order. So, you have to look at GSI as a channel by which they can give you multiple orders where they are able to service.

And in either way, we as a company sre at a smaller level at $100 million company we will not be able to service all the global customers across all. So GSI or a partner based is a strategy which all product companies. So, the -- Yes, so it's a scale based model for us.

Akshay Satija: Okay. Sir, if you could also help us so how many SaaS customers do we have versus what we did in last year?

Virender Jeet: I have -- sorry, I don't have a number. But overall, we are roughly around 45 customers in SaaS right now on cloud, but on subscription license, we'll have many more. Deepti, can send you more data on that.

Akshay Satija: Okay, okay. Also sir, one last thing, sir, what would be our sales team in U.S.? So, I believe we have roughly 300 employees in sales and marketing. What would be -- what portion of it would be in the U.S.?

Deepti Mehra Chugh: Around 60 people, overall in the U.S., I think we have around 60 people.

Virender Jeet: 60 people are not all in sales and marketing because some of them are also front ending the service element of that. But the direct -- we have roughly around 10, 12 people which in direct sales and then if you include the enablement and other thing, another 20 people around that. So around 20-25 people in the sales and sales enablement role.

Akshay Satija: Okay, sir. Okay, got it. Sir, one more thing we have been talking about that the key difference between us and the competitors like Appian and Pega would be the value proposition that we provide. Sir, if you could help us understand is there a cost differentiation between them? And us and if it is, so what could be the quantum of the difference?

Virender Jeet: So Akshay, this is a very long question and a long answer. See predominantly, the value proposition is around the complete offering, which we have. We have a philosophy/approach of being low code – that has been very integral to what our products we have developed. And our NewgenONE positioning if you go to our website, you can see our ability to provide content services, business process management and customer communication as a single platform reduces lot of cost of ownership for the customers. And the ability for us to execute this project in much compressed time cycle make many projects viable.

So broadly, that is the core value prop. And beyond that -- whether it's 2 times or 5 times it depends on the complexity of the deal, and what you're trying to do in which geography. But we do provide a substantial value when it comes to competing. And I said that every company becomes expert in certain domains and in our core domains, especially in financial services, and any content centric business processes. We are very difficult to compete with, in fact, we end up winning most of those deals.

Akshay Satija: Okay. Okay.

Deepti Mehra Chugh: And, Akshay just to add overall on the cloud, I think, cumulatively we have about 45 plus logos.

Akshay Satija: Okay, on the cloud front. Okay. Sir, one last question, are we looking forward to launch any new platforms along with the current existing three platforms, customer management or anything on that front?

Virender Jeet: Broadly, these three platforms are very, very large. And the potential of these platforms are not realized fully, we are just partially realizing that in certain verticals, in certain areas. As a company, we continue to strengthen these platforms and expand, but within these platforms there is a huge space to expand, getting into more verticals, getting into more solution areas.

And with our investments in analytics, and with the new approach of getting Number Theory, which we've even talked about, we are further strengthening our whole ML and AI capabilities in the platform and then expand in further use cases for the customer.

Akshay Satija: Okay, got it. That's it from my side. Thank you.

Virender Jeet: Thank you.

Moderator: Thank you. I request to all the participants please restrict to two questions per participant. The next question is from the line of Heenal Gada from ICICI Securities. Please go ahead.

Heenal Gada: Hi, thank you for giving me this opportunity. So, just in for margins, if I see your employee costs as a percentage of revenue, they've actually dropped sequentially. So, if you could give some color on that? And also just for understanding, please correct me if I'm wrong, do we give wage hikes during quarter three itself or is it some other quarter?

Virender Jeet: Yes, Heenal, thank you for the question. So, one part of the employee costs will drop as we scale out, because a lot of our revenue streams have no direct costs associated with that, especially the license, the subscription ATSs. So, it's a natural phenomenon of the business. But having said that, I think there's a huge cost pressure in the whole industry about people and last year, this cost was not the realistic cost because the costs were less. This year, the costs have slightly rationalized back and we are looking at increasing the cost of manpower. So, the salary wage hike, generally the cycle hits us in the July month. So, it was part of Q2 as well as will be part of the Q3.

But then that's not the end of it, I think we'll be further looking at improvement of compensations to manage our attrition and manager our people and talent. So, there may be further some increase in the cost in this quarter. And that would increase the base cost for the next year.

Heenal Gada: Okay, okay. And if I see your nine months EBITDA margins, they come to almost the lower end of our guided range for 23% to 25% that we want to achieve. So, given that we're already at the lower band, and we still expect some of -- I mean, as you said employee cost to increase. And once the situation completely normalizes we'd expect further cost as office travel resume. So, can we say that the 23%, 25% aspiration band that you have might take a bit longer, for us to see that?

Virender Jeet: No, I don't think so. I think you know, as you are rightly pointing out, we are already in near what we had already anticipated for the whole year. But what happens is typically, since our revenue is lopsided, the margin expansions happened more in Q3 and Q4. So in spite of taking higher costs we should be able to deliver further small amount of expansion on the margin for Q4. Next year, generally, again, in Q1, Q2 you will not see the numbers as at the same level, but on Q3, Q4, again, they will expand. So, I don't think we need to revise our guidance on the net margin and the EBITDA margin. We should be able to meet around 19%-20% on Net Margin and roughly around somewhere between 23.5% to 25% on the EBITDA for the year.

Heenal Gada: So, would this expansion in my understanding, is it just based on the fact that we will have better deals going forward? Or is it some operational levers that will also improve if you could give some colour on that as well?

Virender Jeet: So, the one of the simple fact is generally our Q3 and Q4 are larger quarters, compared to other quarters. So, if you look at independently the Q3 margin, EBITDA and net margins are at 28% and 22%. For, Q4 would have similar, even if we takes some amount of cost, it will still deliver higher margin. So as the overall for the whole year, the margins will be in the range which we have projected.

Heenal Gada: Right. No, no. Like I'll put it in the other way. So, I understand that your Q3, Q4 is always strongest in terms of margins but going forward, as travel costs and all will come back, are we depending solely on the fact that Q3 / Q4 will have better revenues which is why the additional costs will be absorbed or are there any other operational levers in terms of reduction in some other costs that we see might help us?

Virender Jeet: So, 2-3 things, I think, one you are right, I think the cost basis will increase and normalize. So, travel cost will normalize, but it will never come to that percentage which was before because some part of the travel, some part of the operational efficiency which has come is going to be retained irrespective whether the market opens or not. The second part is what you see in our business model, you will see that the higher margin revenues which are typically around annuity, which are around subscription, keep on growing always at a much higher speed than the overall company speed because they have a cumulative effect of that. So, year-on-year, irrespective of the growth rates in terms of -- if we have the same growth rate we will still keep on expanding margins because that's the nature of the business unless we deploy more in the sales and marketing and our R&D. So, the business on a normal growth rate keeps on expanding margins because more than 55% of the revenue does not have any direct costs associated with it, and that keeps on compounding. So, the way we are projected right now, I think next few years as we grow, we will keep on investing more aggressively in sales and marketing. And then only we can maintain the margins and EBITDA margins and PAT margins around 23-25% and 19-20% respectively. I hope that answers it.

Heenal Gada: Yes, thanks a lot.

Moderator: Thank you. Participants you may press the press star and one to ask the question. The next question is from the line of Sushil Sharma from Edelweiss Wealth Group. Please go ahead.

Sushil Sharma: Good evening, sir. I had just one question around SaaS revenue. This quarter SaaS revenue is INR 14 Crores, 7% Y-on-Y growth

Moderator: I am just worry to interrupt. Your voice is coming muffled.

Sushil Sharma: Yes, can you hear me now?

Moderator: Much clear. Thank you.

Virender Jeet: Yes, much better.

Sushil Sharma: Yes, sir my question is around SaaS revenue. This quarter INR 14 Crore revenue, 7% Y-on-Y growth, 15% Q-on-Q decline. What I understand is that SaaS revenues built, I mean, the new SaaS revenue is built on the existing SaaS revenue. So, what I'm missing here? Why on a post-pandemic start of – post-pandemic 4Q FY '20 first time we are seeing this Q-on-Q decline. So, is there something in delaying or we have seen some cancellation in this quarter?

Virender Jeet: Yes, I think it was a term readjustment of one of the large contracts. So, if you look at nine months, our SaaS has grown at around 23%. So, we had to readjust a term by which we have to readjust revenues for a particular client which is a larger client. See what happens, even at INR 14 Crores - INR 15 Crores if you have to do an INR 2 Crores adjustment, it makes a huge impact on the quarter, but if you look at the nine month period, we've still managed to grow around 24%. And this quarter change which will only be adjusted, I don't see that happening from next quarter onwards.

Sushil Sharma: Sure, Sir. Thank you. That's very helpful. That's it from my side.

Virender Jeet: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI AXA Mutual Fund. Please go ahead.

Nilesh Jethani: Hi, sir, thanks for the opportunity. Sir, first question was on the GSI business. So, I'll break it down into few parts. So, currently wanted to understand what portion we do from GSI. Currently, when I say, in nine-month period, what we have done? And also, when we do ex GSI, my understanding is whenever we enter a client, our minimum revenue what we get from them is around USD 2 million to USD 4 million. But in case of GSI, what's the typical initial revenue we get from those GSI partners? So, I wanted to understand the business model on that site first. Thank you.

Virender Jeet: Yes. Thank you Nilesh. So, see, GSI itself is new, I think last year we started it, and right now, as an overall percentage, though our overall partner based revenue (including local partners) is roughly around 18-20% and it changes between 23%, 25%, 18% depending on what quarter we are, but GSI as a percentage will be very, very small right now. On the number of deals which we have won through GSI, I think last year, we had around 8 deals, if I'm right, and this year, so far, if I'm not going, we will have 5-6 deals so far, but Deepti can get you better data on that. Our deal sizes with GSI will matter, it could be as low as initially around USD 400,000 to USD 500,000 and as high as couple of million dollars. But we don't enter into $2 million to $4 million as our regular business. Our regular businesses also are even at smaller range than this. So broadly, if you look at most of the GSI funnel which we have right now, is around 60 cases to 70 cases which we are pursuing in the market, which are typically in U.S., Europe and Australia. That's what we're focusing. And we do expect that over the coming years, this becoming a substantial part of the funnel, so, this overall in next 4 years to 5 years contributing roughly around 40%- 50% overall of business from these large customers. But right now, it's a beginning and we are working on it.

Nilesh Jethani: So broadly today, there is not much difference in the initial business we get either from our own sales team or either GSI business? And it ranges from USD 300,000 to say USD 500,000, USD 600,000.

Virender Jeet: Yes, initial deal sizes can vary but that depends on the kind of customer [Technical Issue] with GSI, our objective is to go to Fortune 2000 customers. So, the potential of getting a USD 1 million, USD 2 million of annuity from that is very high compared to a mid-tier bank or a smaller account in other geographies. So, when we enter that account, the entry can be at USD 1 million or it can be at a USD 500,000 or USD 400,000 but the potential of those accounts are much better. So that will be realized over two three years after you enter

Nilesh Jethani: Got it. And sir, would there be any difference in the margin profile via GSI? And what is the difference number?

Virender Jeet: So the margin profile is based on the revenue stream. So, since it's a subscription or a license, these are generally at high gross margins, roughly around 80% to 95% gross margin, but it does not have to do with the GSI or non-GSI team, since most of the revenue from GSI would be coming as licenses or subscription, so, it will just add only higher gross margin business to the company.

Nilesh Jethani: Got it. Got it. Sir second question was on the segment wide revenue. So, we have been off-late focusing on the banking and the insurance space, trying to enter into small banks or insurance company or wealth business or lower USC revenue terms. Just wanted to understand on a YoY basis, the net compare because our business is more comparable on a YoY basis growth doesn't seem to excite us. Is there a lot of churn happening of clients at lower levels, or what is happening exactly? Just wanted to understand that on the banking and insurance space.

Virender Jeet: I think last year we had a flattish year and so there was no growth. But I think our banking insurance are the fastest growing segments, even for this year for first nine months, the revenue growth in banking is more than 26%, whereas government and other ones have squeezed. So banking has still continued to give us momentum. So, I don't see the reason that there's a concern on the segments and they are doing very well for us in fact they're doing very well for the whole industry right now. We do expect that in coming years, this becoming even stronger, as we are getting more strongly positioned in banking both on our solution or vertical side as well as horizontally carrying our platforms to larger customers, we will see that growth momentum continue into that. The challenge probably, I may be speculating, that you are thinking about the net logo acquisition. In net logo acquisition, a lot of logo churn happens in small partner accounts. And that is where I think you don't see net addition of logos. But on the revenue side in financial services we have always a very healthy revenue addition. If you want, we can send you the banking, banking financial services even this year, while the company has registered around 16% growth. Banking has grown by 26%.

Nilesh Jethani: Got it. And so, on this -- am I audible?

Virender Jeet: Yes, sure.

Nilesh Jethani: So, on this banking piece only, I remember in the earlier discussions we had, there were some opportunity which was laid down where there are around 900 banks out there in this revenue category of $2 billion to $50 billion of the asset size. So, wanted to understand how well are we penetrated, what number of clients we have? I remember last time, we discussed we had around 30-40 clients in this segment. So, wanted to understand how has been the growth on client addition side, or the number remains same?

Virender Jeet: The amount of clients we expected to do around was 20 to 25 clients a year. But so far, we may have done only 4, 5, 6 clients in a year, we may add another 4 to 5 in this quarter. So, there is a drop in the overall addition rate in U.S. So, on that segment you're addressing which is typically around 900 accounts of asset size, $2 billion to $50 billion assets size. So you are penetrating that market but overall what is happening, while there is a huge boom in the overall IT industry but the market, which is typically in these small banks in U.S don't respond the same. Most of these accounts have been either working on the lending/ paycheck protection program for last year and this year, they've been struggling with COVID. They don't have the same traction and same kind of a momentum. But I'm very sure as the market stabilize and the market opens I think they will all restore and come back to that healthy growth rates.

Nilesh Jethani: Got it, got it, sir. And the last on the clarification I wanted our EBITDA margin guidance remains at 23% to 25%. Am I right?

Virender Jeet: Yes.

Nilesh Jethani: And any guidance on growth?

Virender Jeet: See growth, -- this year was to come back close to our historical levels around 20%. I think Q1, Q2, we did meet around that number and Q3 was slightly larger quarter and also, we had some issues in some Geos. So, we're still trying to push back the last year, previous year's growth. And let's hope where we are, right now we are around 16%. Let's see where the year closes. Maybe difficult to predict right now.

Nilesh Jethani: Okay, got it.

Deepti Chugh: So, I think travel also hasn't started to the extent that you would have otherwise planned.

Nilesh Jethani: Yes, makes sense. Makes sense. Thanks, Sir. Those were my questions and thank you so much for patiently replying to each one of them. Thank you so much.

Virender Jeet: Thank you.

Moderator: Thank you very much. I request all the participants please restrict to two questions per participant. The next question is from the line of Rahul Jain from Dolat Capital Markets. Please go ahead.

Rahul Jain: Yes, hi. Thanks for the opportunity. I have a question which is related to spin up, we've been hearing this demand traction for SaaS based/ low code offering in many companies, especially on the Indian IT services side as these are very strong tailwind from the implementation opportunity perspective. And as a result, we have already seen the growth rate for this companies have significantly increased versus what they've been doing in the past. So, with that background, do we see that thing to be visible for us, where we can say that our growth for the next couple of years can exceed the growth rate that we might have delivered in the pre-pandemic period.

Virender Jeet: Rahul, I'm sorry, you're not very clear towards the last part of the question, but if it's about the growth, overall growth rates of the low code SaaS based companies, then I can take up, is that what you're asking?

Rahul Jain: Yes.

Deepti Chugh: Can you repeat the question once please.

Virender Jeet: Could you just repeat the question once because I lost your voice?

Rahul Jain: Yes, is it any better now?

Virender Jeet: Yes, thank you.

Rahul Jain: Yes. So essentially, if I have to rephrase it, basically I'm asking, do you see any reason to think that our growth rate can be substantially better than what we used to do pre-pandemic as the same thing we are observing for the IT services players who are basically more on the implementation side of the business and leveraging adoption of SaaS/ low code kind of event. While we being the product side of it, it is not reflecting that growth now. But is there a reason why it can happen in any time future, where our growth rate of past could be exceeded in next couple of years?

Virender Jeet: So I think it's a very fair question. And you're right, there's a huge traction on the low code play. And low code is not only on SaaS, but across all business lines, customers are expecting that to solve their digital journeys or to solve their digital problem, low code is always deployed as an initiative. And Newgen being one of the top four or five companies in the world to play in this low code area and it's a market getting stronger. The second phase is -- should we expect growth coming out of it, I think, surely, and I think one of the most important things which we keep on repeating that, for us, since we are a smaller company, and our coverages and accounts is limited to our product portfolio for us new logo wins, or acquisition of new clients is very, very important. And that is not easy to do completely remote, since most of our sales strategy was India based or India supported sales strategy. So, we'll have to go and win new logos, and I'm very sure, as soon as the momentum in the travel starts back, I think the acceleration of our use cases, because of low code or because of our own vertical in financial services, and other verticals where we are strong, we should be able to push back the growth momentum, and it should translate into demand for our kind of products. But I think we are more hopeful than the low code SaaS, we are more hopeful about the overall GSI initiatives and the partner based sales which is picking up and that should push us to a higher growth momentum than what we used to traditionally record before COVID.

Rahul Jain: Okay, just an extension to the same question and I have a follow up. As you said, low travel and I can understand the constraints. So, can you say that this advantage or disadvantage does not exist for people who are serving the same market, let's say for us U.S or European company, being more local is still taking advantage of adoption of low code solution, since there is a limited travel constraint to them being a local or is it different natures where the kind of customer that we are chasing are now -- in a non-decision mode given that they are working remotely that is a bigger concern. And if the concern is point number one, then is not since it's almost like two years, we are in pandemic, have you identified ways to address this, assuming this situation remain like this for let's say, another couple of years. So, do we continue to see this as a challenge or we have rectified the ways to solve that issue?

Virender Jeet: I think surely companies which are competing very close to the mature markets and have a substantial presence do find an advantage. And that advantage comes not only from the presence or way to operate, but it also comes from their existing customer base around those areas. Because in this period, most of the growth has come around accounts which people already have and those accounts are demanding more work and more resources and more software solutions. But if you have to acquire and start a new initiative, it's been all challenging whether you're close to the market or remotely. Having said that, we have also shifted a lot of our sales -- in fact, this year, so far, we have done around 37 new logo acquisitions. Now, this is almost two years down in the pandemic. So, all these accounts have been operated, acquired through a very different model than the traditional model of face time. So, we're also picking up the game out there, but I think there's two points to it. One is the advantages more surely they're able to capture the market who are already the customer base, especially, the larger customers in mature markets. And second is surely your direct presence, your ability to be close to the customer, have a relationship with the customer, so the customer trusts you for placing new orders, those things to help. So, I think both play a part.

Rahul Jain: Okay, okay. That's helpful and just lastly, if you -- you mentioned somewhere that you have a funnel of 60-70 cases in this three market U.S, Europe, Australia just wanted to understand because is this more like a qualified pipeline versus a total pipeline where we could be like L2, L3 kind of a thing, last to last year kind of thing. Because if we have mentioned in the past that we work with multiple GSI, plus we are in multiple product as well as we are in multiple markets. So, if we just have a pipeline of 60-70 which would mean that per salesperson for the GSI, it could be just chasing 4 or 5 customer at max per client. So how serious opportunity it is, from the partner perspective?

Virender Jeet: You're absolutely right. So, I think the overall funnel, roughly is around 69 cases. And that's a complete funnel, that's all from prospect to the advanced stage of engagement and closure. So, the funnel is thin, and the predominantly we have been able to penetrate or do better work with some GSIs. Almost 50% of the funnel is coming from a single GSI and other GSI are starting and exploring. So, the funnel, you're right, the funnel size is small right now, it is not really do justice to kind of potential the overall market has. That's what we have been trying to grow in that area. Though we don't have too many front end sales teams for GSIs alone, because most of our traditional sales have been on our own named verticals that is banking, insurance, government shared services. So, the GSI sales teams also in regions are a very, very thin teams right now. They are not expanded. So, 70% of our team is still working on the businesses which we were doing traditionally, which is selling to banking, selling to insurance companies, selling to governments across these territories. So, right now they have cases, but this funnel needs to grow to a substantial side over next one or two years.

Moderator: Thank you very much. Rahul Jain we request you to come back in the question queue for a follow up question. The next question is from line of Rohit Balakrishnan from ithought PMS Management Service. Please go ahead.

Rohit Balakrishnan: Am I audible?

Virender Jeet: Yes Rohit. Please go ahead.

Rohit Balakrishnan: Yes, thanks for the opportunity. So, just one or two questions, one very basic. So, in your split of revenue pie that you've given, there is something which is called support which is 25%. And then there is an AMC also which is 23%. So can you just explain what is support exactly, or what exactly involved support.

Virender Jeet: So Rohit, what we look at is one we sell our software licenses, most of these customers would start, we would charge them and what you call a annual technical subscription, or ATS or an AMC, which is kind of an insurance to keep the license updated, contemporary. So, it's a kind of, annuity generated over the license. So, what happens is some of these customers they have very large implementations, because this part of revenue does not have any direct manpower as stated, it's kind of an insurance, they do contract additional support, where they have basically a team of maybe 5, some people have a 10 or a 20 people team to implement these projects to keep on running and executing these projects over a larger period of time. So that kind of an extended support. So, the nature of this business is more annuity, since it's more renewed, since they're already having these installations. But the profile of this revenue is more typically, their margin profile is like a supporter or service profile. So, that's why we call it support. Does that answer?

Rohit Balakrishnan: Yes. That answers the question.

Rohit Balakrishnan: Yes, that answers that question. So my second question is, I mean, you've been talking about your partnership with GSI and that sort of open up more doors for you in the Western markets, rightly the US. So just want to understand, and please correct me if I'm wrong, maybe my reading is wrong, but in terms of -- I mean this from a GSI point to what is what is in, working in there, -- I mean what is in it for them to go for somebody like Newgen when you have others probably as you were explaining earlier that you have other players who work closer to the customer itself. That is present in the wester market or in the home market as well for them. So, in the overall balance of power or to put it differently, why would a GSI want to go a player like Newgen versus somebody who's already well established, making it much more, slightly more difficult for them to sale us versus or a more established player?

Virender Jeet: So, you know, I think this this is a very a typical question - we always keep on facing this question and the answer is very simple. So, see there is the market for our kind of products and solutions. And this is a $20 billion market. So, there is a demand.

Of course, when GSIs are with customers, they're also competing for these values. So, it's not that these orders are available to them, the customer has a demand. So GSI is providing a solution and he institutes one of the players. Now the two most important things for the GSI out there are, one is that customer's acceptance for the product, now this customer acceptance comes from the brand. So, with our presence in Gartner and Forester for last 12-15 years, I think that would surely qualify that. No customer can ask, who is Newgen because we are among the top three, four players in the world around these areas. Now, the second most important thing for the GSI is the probability of succeeding and the support he gets. That is where we score, since most of these GSI over last 8-10 years, we have extremely successful cases, they have been in India, they have been middle-east, APAC and they have now taken these initiatives outside India. And with some of these successes, it has been kind of, a marquee win for the GSI also, they have realized that with Newgen, the potential for success, the value they get to the customer and the surety they have about delivering solution is very, very high. And that's why they are able to take you. That doesn't mean that we don't have to fight, we still have to convince the product, we go and sell to the end customer, we have to convince both GSIs and the end-customer about the product. But there's a clear-cut choice, given a choice to start certain GSIs in certain areas. They would prefer Newgen today. But that doesn't mean they will always put 100% times always push up Newgen, but we don't need that, we need if most of cases they're able to push we should be able to succeed.

Rohit Balakrishnan: Got it. And Sir, just, are you sharing the names of the GSI that you're partnering with or you're not?

Virender Jeet: No, we don't have disclosures about that. But I think we can surely, Deepti can work out about details, whatever permissions they've got for which deals, we can share those names.

Rohit Balakrishnan: Thank you, Sir. This was very helpful. Thanks so much.

Virender Jeet: Thanks so much.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference to Ms. Deepti Mehra Chugh for closing comments.

Deepti Chugh: Thank you so much everyone for joining in the call. For any further queries you can connect to me anytime or go through our website. Thank you.

Moderator: Thank you very much. On behalf of Newgen Software Technologies Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.