"Newgen Software Technologies Limited Q4 FY 2021 Earnings Conference Call"

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MODERATOR: **MR. HARDIK SANGANI – ICICI SECURITIES LIMITED**

Please note that the transcript has been edited for the purpose of clarity and accuracy.

Moderator: Ladies and gentlemen, good day, and welcome to the Newgen Q4 FY 2021 Earnings Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Sangani. Thank you and over to you, sir.

Hardik Sangani: Hi, everyone. Thank you, Malika. Good evening, everyone, and welcome to the Q4 FY 2021 results of Newgen Software Technologies Limited. I hope everyone is keeping safe and are well. Connecting with me today from the management side is Mr. Diwakar Nigam – Chairman and Managing Director, Mr. Varadarajan – Whole Time Director, Mr. Virender Jeet – Senior VP (Sales & Marketing and Product), Mr. Arun Kumar Gupta – Chief Financial Officer, and Ms. Deepti Mehra Chugh – Head, Investor Relations.

I now hand over the call to Ms. Deepti for further proceeding. Thank you and over to Deepti.

Deepti Mehra Chugh: Thank you, Hardik. Good evening, all, and welcome you to the Q4 and full year results of FY 2021. I hope all of you are keeping safe in these difficult times and following the COVID protocols. Connecting with me virtually is the Newgen management, Hardik has already introduced them to you.

Before we move onto the discussion, let me highlight that this call may contain certain forward-looking statements concerning Newgen's future business prospects and profitability, which are subject to a number of risks and uncertainties, and the actual results could materially vary. Past performance may not be indicative of future performance. The company does not undertake to make any announcements in case any of these forward-looking statements become materially incorrect in future or update these statements made from time to time by or on behalf of the company. I would now hand over to Mr. Nigam for presentation of the results. Thank you.

Diwakar Nigam: Good evening, everyone and thank you for joining us at our Q4 2021 post results conference call. These are difficult times as we witness the second and the third wave of COVID-19 across the world. I trust you and your family members are safe, and hope that you are all following COVID protocols. Such times test the strength of people and enterprises, and we need to collectively work towards overcoming the situation.

Safety and well-being of our employees and their families is our first priority. During this last year of COVID, we have had our share of setbacks. But our COVID volunteer team have done an exemplary work in supporting each and every member of Newgen family, from providing medical and financial assistance, arranging doctor consultations, and beds, and especially taking care of the family members and loved ones as well. I appreciate and salute their spirit. Further, we are also collaborating with multiple hospitals and other agencies to organize vaccination camps for Newgenites and their family across multiple locations at our cost.

We are continuing our operations in a remote working environment since the past one year, and also designing our organization to become more resilient and agile. We are also working on building an efficient hybrid organization that will bring forth increased productivity and yet provide better work life balance for the employees. We are transforming complete work culture to a more result oriented one, and HR and admin to become touch-less but more responsive to Newgenites' needs.

Our focus has been on ensuring uninterrupted and quality service to our customers, and we have a comprehensive and foolproof program in place to ensure this. It includes synchronized cloud-based continuity strategy, product-based implementation framework and development of support zones with direct presence in multiple countries. During these COVID times, we have not only supported our customers remotely, but also built new solutions for them to fulfil their fresh requirements. We have received encouraging appreciation from our customers across the board for our continued support.

Results of FY 2021.

Coming to the results in FY 2021, we have shown a resilient performance and clocked revenue of Rs. 673 crores. We are supporting about 550 active customers across 72 countries for their mission critical mode applications. We continue to witness business momentum with expanded customer engagements. We are happy to share that US is now our largest revenue contributor and one of the fastest growing markets for us growing at 16% Y-o-Y.

Our subscription revenues witnessed a growth of 19% during the year. Our overall annuity revenues remain consistent, contributing 57% of the revenues. However, our support services revenues have been impacted due to the shift from on-site model, as we have mentioned in the last few quarters. But still margin profile of offshore support is better.

The important thing is transitioning to subscription model. I think we have been transitioning from our existing model of new license revenues and ATS to subscription-based revenue with most of our new customers. Even for our existing customer, wherever possible, we are building additional annuity-based revenue model. This model will start revenue optimization/maximization over next few years.

We believe, in time, we would be able to transform most of our existing customers also into cloud/on-premises subscription models. This transformation is expected to lead us to faster growth rate in coming years.

Last year, we added 67 new logos under our umbrella. Many of our new logos are based on cloud subscription and hence their real effect is expected to be reflected in the coming years. This year, some of our customers have requested for deferment of annuity payments due to financial difficulties in the country. We hope that they would come back once the normalcy returns.

Enhancement of product platforms.

I think, this year we worked very hard on our platforms - Newgen Enterprise Content Services, Low-code Application Development, and Omni-channel Communication Management Platform, all are achieving better industry recognition from customers, analysts, and most importantly, our GSI channels. Our natively developed product platforms are ideal for digital transformation. They complement each other for building end-to-end digital solutions for enterprises. They continue to be leading in their categories. Prominent industry analysts have taken notice of our product and innovation.

During the year, the company appeared for the first time in the Gartner's Magic Quadrant for Enterprise Low-Code Application Platform as a niche player. We also had been positioned as visionary in Gartner's Magic Quadrant for Content Services Platform. While most of our competition is with companies that have accumulated products bought from different companies at different times on different technologies and refurbished to mix and match. Newgen product platforms are built on a unified architecture, ensuring compatibility and seamless integration. Our customers, as well as GSI partners, are appreciating our offerings because of multiple reasons. Homogenized cloud offering of combined solutions as needed, easy integration in two or moew platform, flexible and comprehensive support, availability on AWS as well as Azure platform.

Newgen makes continuous investments in R&D, and has a strong team of about 470 employees, which constantly focuses on various research and product development initiatives and enhancement of product portfolio. We have been granted three patents during the year, taking our total patent grants to 18. In the past year, we have made various enhancements on our low-code development platform with improved user interfaces. We have also worked on our new content services-based ECM platform for cloud deployment this year.

As an organization, we have been using a named account approach for enterprise sales. Majority of the sales traditionally has been through our direct sales team comprising of about 300 people, supported by large network of channel partners.

In terms of verticals, banking and financial services, government and PSUs, and insurance were the key drivers throughout the year. We have more than 15 accelerators in these areas that are mature and are being used in many organizations. This year as well a new accelerator for trade finance system in banking has been added. Over last five years, Newgen has successfully implemented over 500 accelerator-based solutions for our large customers. They have achieved the desired results for our customer and are working in mission critical mode 24/7 at our client organizations.

We are going to build a powerful new Newgen brand and enhance our marketing and sales organization. We are making aggressive investments in branding initiatives to enhance visibility of our product platform in mature markets. This year, we are planning to substantially increase our marketing budget and spending on digital events, digital presence and analyst engagements.

As we move deeper in the mature markets of North America, Europe and APAC, we are targeting Fortune 2,000 Enterprises through partnership with global system integrations.

Our initiative in enterprise markets are bearing fruits. Our products have found traction in these enterprises. We have also built acceptance from some of the largest GSIs. Their large customers have chosen our platform and GSIs have successfully implemented the solutions using that. We are supporting these GSIs in modernizing solutions and building their IP using low-code application. We are working extensively with sales and delivery leaders and consulting arms of GSIs. We have also developed a world-class portal to educate, train and support our GSI developer community. We have developed internal GSI and enterprise team and ecosystem. ,A senior sales leader has been added to orchestrate the enterprise and GSI sales support. We are also adding experienced and relevant sales teams in all major geographies.

This year, we have won eight large orders to GSIs, including a large deal win of the world's largest investment management company, managing about $6.3 trillion in global assets. We have also won a deal for a global life insurance group focusing on acquisition and managing portfolios of life insurance. We are developing a strong and increasing GSI based sales funnel. We currently have 40-plus cases in different stages of discussion with GSIs valued at around Rs. 140 crores.

During the year, the company has also adopted a strategic approach to cost management and cash flow optimization. Our EBITDA was up by 83% Y-o-Y at Rs. 192 crores and profit after tax was up 74% Y-o-Y at Rs. 127 crores. Net cash generated from operating activities was Rs. 216 crores, driven by our consistent focus on liquidity, cash management and strong collections. We are optimizing our execution capabilities while continuing the long-term investments in R&D and sales. Currently R&D expense comprises about 10% of the sales. Seeing growth potential in coming time, we will continue to increase our efforts and investments in these actions. As we continue to work on our debtor days, our net trade receivables have been reducing. As on March 31, 2021, is Rs. 239 crores, which resulted in net DSO of Rs. 129 crores.

Coming to the Q4 results.

In Q4 our revenues witnessed strong sequential growth, reaching Rs. 200 crores. EBITDA was up by 28% Y-o-Y at Rs. 66 crores. Profit after tax went up by 27% Y-o-Y at Rs. 53 crores. We made 17 new customer logo additions in the last quarter. Some notable successes include seven new logos in Americas region, largely in banking and financial services and insurance domain, strategic project win for license and implementation at one of the leading private universal banks in the Philippines, and a midsized project for a statutory board of Government of Singapore.

Given our product capabilities, a motivated and experienced team, our renewed sales approach and continued investment, we believe we are well poised to capitalize the opportunity in the digital transformation space. With a strong balance sheet and cash position, we are now ready to make deep investments on various fronts across technology, sales and marketing for long-term growth. We remain agile to address the challenges of the current environment and drive consistent and cash accretive growth over the medium to long-term.

We are now open for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hardik Sangani from ICICI Securities. Please go ahead.

Hardik Sangani: I have a couple of questions. So, in terms of first, primarily as the US economy has opened and travel is in place right now, so how do we see in terms of our offerings or in terms of revenues going forward in FY 2022? And secondly, as Mr. Nigam earlier mentioned about revamping for the GSI initiative, so incrementally what are we changing in terms of our approach by partnering with GSIs? And thirdly, in terms of the investments needed, so will it be more of an inorganic approach as we have a strong balance sheet in place? And what areas presumably will we need to invest in next year to get towards the growth, which we had for 18% or 20% earlier? That's it from my side.

Virender Jeet: You asked three questions. I think in US and the rest of the mature markets, things seem to be much better, and the markets seem to have opened up. And you can see that as part of our results also, even last year the US for us has performed well, it has grown at 16% with a lot of cases. One of the issues which Mr. Nigam mentioned that most of the orders in mature markets are in subscription basis, so revenues are slightly back ended. So, we think that the momentum of that growth, both in our banking and enterprise space, both will continue. We will keep on investing in our digital channels, keep on investing into our direct sales effort out there, as well as the GSI effort. So, we do expect that for the coming year US will be one of the primary growth drivers for us.

On the GSI initiative, traditionally we have focused on typically the top tier accounts in emerging markets, which is India, Middle East and APAC. And in US we used to primarily focus on the mid-tier banks. Now, with the GSI initiative, we have gone aggressive, and we are focusing on the Fortune 2,000 companies globally. Now, Fortune 2,000 companies, their sales cycles if we go through direct sales, is going to be much longer and more complicated. While on the other hand, all the major GSI have got great success stories with Newgen platform. Over the last five, seven years, we have implemented, we have gone jointly to customers, but they have been more tactical. Now, I think there is a strategic push to create that as one of the top growth drivers and as the sales driver. And last year, we got our success stories, we got eight wins. And coming this year also we expect this to be a big part of growth this year.

On the investment front, I think our predominant investments are still on the areas which we are concentrating on, that's about getting the brand up in front of Fortune 2,000, getting the investment in digital channels, ramping up sales structures for GSI, as well as the product portfolio. So, investments are still in the organic shape. Whenever we consider inorganic, we will let you know. But right now, there is enough leeway, and enough scope. So, we can come back quickly to our 20% growth. And even then the idea is to push it further to more than 20% growth. Does that answer your question, Hardik?

Hardik Sangani: Yes, that actually answers. And secondly, in terms of India centric business, so as we are seeing COVID second wave, so are we seeing any additional stress in terms of our receivable, or in terms of conducting our businesses, especially within government and PSU side?

Virender Jeet: So, I think last three years we have been very conservative on the order quality and when we are pursuing the government businesses, we don't take undue risks. But the overall market, you will see in India we have not witnessed any growth. Most of the growth, small single-digit growth has come from our existing accounts. And on the new logo acquisition, things have started moving up. But again, we are in this middle of kind of a very big crisis in the second wave. As the year unfolds, I think over the next third and fourth quarter, India should start picking up. Because inherently, there is a huge demand for our kind of products in the digital area. So, the opportunity is there on the table, but I think we need to have the market still to realize.

In terms of any risks on the collections and other things, I think we are taking care of that by the better business practices. And you will see, in spite of the territories like Middle East slowing down and India slowing down, we have still done much better on receivables and bought down the DSOs significantly as committed.

Moderator: Thank you. Next question is from the line of Agam Shah from Large Trading. Please go ahead.

Agam Shah: Two questions, sir. I think you just said to the previous participant's answer that India has relatively not grown that much, and you are seeing much of demand. So, can we say that now going ahead India might outperform vis-à-vis this year?

Virender Jeet: Agam, sorry, if I get your question right, I think we still see the mature markets outperforming as part of our overall growth strategy, because that's where the larger market space is available. But we do expect India to revive back and come to its traditional growth rates. It may take few quarters, as soon as things start improving, I think things in India will improve. But broadly for us, as a company, you will see higher growth rates coming from more mature markets.

Agam Shah: And margins will be sustainable at these levels?

Virender Jeet: I think this year, there were two large heads, there was kind of an optimization in SG&A and there's a huge optimization on travel - sales and marketing and service delivery travel. I think some of that optimization will carry forward and will remain as the business model is transformed. But the EBITDA margins and the PAT margins, EBIDTA of 28% is not sustainable, because we will have to invest in growth, we have to increase the manpower salaries, there are cost pressures, etc.

Agam Shah: What will be the sustainable number?

Virender Jeet: I think we have been always projecting that we should be able to come to a sustainable number of between 23% to 25% EBITDA margins, and somewhere between 18% to 19% PAT margins. And that's what have been our projections before the last two years of COVID. And I think we will attempt to be around that number.

Agam Shah: From a top line on the business front, we should be able to grow by 15% to 20% at least this year, right?

Virender Jeet: So, I think it may be very difficult to predict an exact number, but I think this year we are projecting for a growth year, it's not going to be like last year where we were looking at more about managing business and preserving cash. I think this year we are investing in growth and the early signs are we should be able to show growth in coming quarters.

Agam Shah: And as a percentage of revenue, SaaS is already let's say around 7%, so where do you see it going in next two to three years?

Virender Jeet: I think rather than the SaaS, I think we should look at the subscription, because that's the nature, it is kind of annuity, whether it's an in-premise annuity or a cloud annuity. So, we have roughly around Rs. 200 crores of subscription revenue. And we think that this will start growing higher at least about 20%, while the SaaS may grow at more than 30%-40%. But overall subscription will grow above 20% year after year, and even can accelerate.

Agam Shah: So, can it become 50% of your revenue by next three years for subscription?

Virender Jeet: That's what we are trying for. Today, I think, if you look, our annuity revenues are at 50%. But those annuity revenues do also have a component which is called support, which is support services, which has got the service margins profile. But while subscription revenues have got product margins. So, together we at 57%, but the idea is the subscription part should reach 50% in the medium term.

Agam Shah: So, when this happens, the margins will also expand?

Virender Jeet: Yes, I think it also means higher investments in sales and marketing, higher investments in product and R&D. So, we should target around 25% EBITDA margins, and beyond that we should keep on investing in growth, that’s the idea.

Agam Shah: Okay. And any new hirings or all done? I believe you did two new hirings last quarter at the senior management level.

Virender Jeet: See, I think it's not the end of it. Continuously as we are going, we will keep on looking at it. But they are not substantial, they are part of organic budget which can be incorporated in the year, there's nothing drastic. But we will keep on hiring some more senior people as the year goes by.

Moderator: Thank you. The next question is from the line of Jitendra Chawla, an individual investor. Please go ahead.

Jitendra Chawla: Sir, a couple of questions. First is that we have been generating very strong cash flows last few years. As a result, including our financial investments, our cash pile is almost like Rs. 400 crores, if I am not mistaken. And our business doesn't require a lot of investments to grow, but yet we are paying very small dividends. And I am not sure whether you have considered any buybacks. But if you are not doing any acquisitions, is there any plans of doing buybacks or increasing the dividend payouts? That's number one.

Number second is, on your US business, last year we benefited because of this paycheck protection program, and I am sure we acquired a lot of customers through that. What has been the engagement after that with these customers? Are we seeing new opportunities with these clients? Thank you.

Virender Jeet: Thanks, Jitendra. First on the cash flow. I think we are not at Rs. 400 crores, we are more at around Rs. 250 crores, Rs. 280 crores. See, I think we had given this direction that overall, for our kind of a company, we should build a reserve roughly around six months of our cost. So, we are almost near that now. And I think in this uncertain time, which was like this year, we did increase the dividend payout ratios. But going further, you are right, if we don't have any plans for inorganic, we will be considering looking at ways of getting the money back to the shareholders. So, that's the first question.

For the second, you are right, on the PPP side, most of the logos on PPP side we have already started generating opportunities. In fact, we are in the process of closing few of them. All these banks are showing further potential of giving us opportunities. So, the business we got last year on the PPP account was predominantly on acquisition. It was not a large number, it was less than $1 million, $1.5 million which would have been the total business value on these accounts. But there potential over this year can be few more millions.

Jitendra Chawla: Okay, great. If I may ask one small question again. In your earnings reviews, you mentioned about a large transformation deal with a PSU bank. Can you give some more colour on this?

Diwakar Nigam: We did one with a US investment house.

Virender Jeet: So, basically when we are talking about these clients, these are typically Fortune 2,000 clients which were outside of our purview of direct sales, it was very difficult to get in that. Now with the GSIs, we have been able to break into those accounts. And the idea is that once you break into that, the per account potential realization over the next three, four years can be much higher than our traditional account base. So, I am sorry, I can only divulge that much.

Jitendra Chawla: If I may get a clarification on this front. Mr. Nigam mentioned, I think we have some Rs. 140 crores of orders under discussion under the GSI route. What would get this number last year, if you can share that?

Virender Jeet: I don't have the number, but you can get in touch with Deepti, and she can share that number.

Moderator: Thank you. The next question is from the line of Shalabh from Snowball Capital. Please go ahead.

Shalabh Agarwal: This is Shalabh from Snowball Capital. Sir, I have a question on the GSI sales that we are trying to achieve. I would believe that these GSIs are not exclusive, and they would be carrying products from our competitors as well. So, what makes the GSIs put forward our products compared to our competitors when they are pitching to a client? How does that work, if you can give some colour on that?

Virender Jeet: Shalabh, thank you for asking that. So, it is true, GSIs traditionally they have been carrying products, the ones we have, like, they have products from Appian, Pega, Open Text and they have been caring to these global customers. What has changed over a period, first of all, organically over the last five, seven years, we have generated a lot of success stories with the GSIs on different accounts across the globe. So, their confidence in our product and platform has really grown. We have excellent success cases. Finally, the GSIs also are looking at a great piece of technology. But beyond that, they are also looking at the customer success, because they have a surety that the use cases will get fulfilled. So, what are the happened, as a part of that our relationships have really grown. So, we are concentrating on four to five GSIs where we are having more strategic tie ups when they are taking our products to their practice areas, having kind of sales targets on our products.

And now why should they take our product vis-à-vis competitors? You know, as Mr. Nigam clarified in his call, because of the value proposition. We are one of the few players who have multiple products from the same stable build on the same platform and technology which are used in a single digital transformation case. So, what happens is, the complexity for the end customer and the GSI drastically reduces, and thus their cost of ownership. Very, very compelling value proposition. Some of the cases which we have done is around ECM modernization, implementing low code for new application and digital solutions, customer communication, transformation of those projects. So, we have got good stories. And it's not an easy journey to say why GSI would take our product, but I think the hard work has been done over five, six years. Now, we are seeing the green shoots of that, what we have invested over five, six years with these GSIs, building the credibility. So, we are one of the few companies who are consistently in Gartner and Forrester Magic Quadrants, that gives the comfort both to the customer and the GSI. And then with our assurance and a strong relationship in India, which is the backend tie-up we have, I think that is what is helping. I hope that answers your question.

Shalabh Agarwal: Thank you for answering that. So, a related question to that is, so if you can also provide us some colour in terms of how does the revenue get shared or what are the charges that we end up paying to GSI when we go through that route, how does that work?

Virender Jeet: See, it's many multiple reseller models or reference models. So, predominately, GSI's interest is not on the sale of licenses or the revenue over sales of licenses. GSI's interest is around the services around that. Because in a global company if they roll out licenses for $ 2 million, they may have a $50 million service around that. So, their prominent business is around their larger ecosystem of supporting infrastructure services, global rollouts, while our interest is around subscription and licenses. So, it is a clear-cut win-win. Finally, our billing is to the GSI or to the end customers in certain cases. So, we realize our part of the revenue.

Shalabh Agarwal: Okay. And lastly, if you can give us an estimate of how much of our sales currently or last year would be coming through GSIs in terms of percentage?

Virender Jeet: I think right now it's very small. I think just last year we have eight orders coming from this bucket, which is a very small part of the business. But coming in few next three years this can be a substantial part of our business. In terms of values, you can write to Deepti or investor relations, they can provide you more information.

Moderator: Thank you. The next question is from the line of Ashit Kumar, an individual investor. Please go ahead.

Ashit Kumar: Sir, I have a couple of questions. Actually, the first question is on the number of active customers. So, when I look at the trend of the number of active customers from FY 2019, so FY 2019 we had active customer of 540, and FY 2020 we have 560, and FY 2021 we have 550. So, if I see the trend, actually, in spite of adding the new logos of 81, 71 and 67, during the last three years, still, we see the number of active customers as on date, we are more or less there where we had started FY 2019. So, isn't it reflecting that the customer attrition rate is going out of control instead of adding the significant amount of new logos every year?

Virender Jeet: Ashok, I think it's a good point you made. So, I think you have to understand there are two things one is, when we are talking active customers, we are talking of customers who provided us any kind of revenue in last 12 months. I think what has happened in fact this year and some part of last year is that the customers who were smaller customers with smaller ATS renewals, so ATS could be anywhere from Rs. 2 lakhs to Rs. 10 lakhs to Rs. 5 lakhs, there has been a higher churn this year, as Mr. Nigam also put up in his call that there has been a kind of a churn where a lot of these ATS renewals could not happen. So, there is a drastic drop in the customers whose revenues are really like in less than Rs. 20 lakh range.

But if you look at customers who are above Rs. 50 lakh, we have hardly any churn out there, we have almost a customer retention rate of 90%, 95% around anywhere between Rs. 50 lakh. And when it comes to customers about Rs. 2 crores, then there is almost 97% retention rate. So, on the business side it has not hurt us but on the net customer churn, you are right that there are smaller customers who have not been able to renew their ATS', and some of these customers have been very partner driven in territories like Africa or Middle East, where we have not been able to access and even push for renewals of these guys. So, when we look at as a company at the churn rate, we look at customers above Rs. 50 lakhs and what are the churn rates out there, and out there the churn rates are very negligible for us.

Ashit Kumar: Okay, thank you very much. So, if I understand it correctly, it's basically on the number of customers side we may see that the customer attrition is there, but if you look at the value then actually there is no real churn in terms of the customer.

Virender Jeet: Exactly, on the revenue side there's hardly any concern.

Ashit Kumar: Okay. Sir, my second question is on the debtors or the trade receivables which Mr. Nigam has mentioned at the introduction of the call. Actually, there is a note that some of the customers have requested for the payment delay. So, can you give some kind of basically, is it just a payment delay? And in terms of the percentage of the total trade receivables, how much it would contribute something around in that?

Virender Jeet: So, none of those amounts are any material amounts right not to be bothered about. These delays have been all in case of these minor customers of ATS renewals, which I was just talking about, where the churn rates have happened. For our major customers we don't have any concerns about either ATS or renewals or payments, because these are typically larger enterprises, banks, insurance companies. I don't think those have issues. Of course, some customers have requested for adjustments, breaking a single payment into two payments or three payments, or taking a discount of 3%, 2%. So, nothing of a value which is material which I can share with you.

Ashit Kumar: Actually, this we have got a sense by looking at the DSO, but just wanted to know specifically if there is anything to know on this front.

Virender Jeet: No, nothing..

Ashit Kumar: And then the last part of my question is basically on the revenue growth. And of course, when we talk about the revenue growth, obviously, it majorly depends on our sales efforts and also our relationships with the GSIs. And as of now, we do understand, based on your previous statement that, as of now, the GSI contribution towards the total sales of the reported numbers of FY 2021 is very small. So, going forward, can we say our sales effort can draw the similar kind of revenue, and whatever the revenue we expect from the GSIs will be incremental to over and above the existing sales efforts?

Virender Jeet: Absolutely. That's the idea. So, we have our own direct sales channels on which we have been able to sustainably deliver 20% growth. So, our plan is quickly to come back, both in India, Middle East, Africa and APAC, and the mid-tier enterprise bank in the US to over 20% or slightly more than that growth rate. And all other channels should keep on adding to that growth rate. So, the issue is, we are still slightly on an uncertain time for next one or two quarters. But I think as somebody else mentioned in the call, the other markets are opening up, we should be seeing progress out there. And we should see the GSI channel as an additive channel to the overall traditional revenue growth.

Ashit Kumar: So, if I understand correctly, the direct sales channels target itself, and we are keeping it around 20%, in line with our historical efforts. And over and above that, the GSI channels would add to that number. We understand these are tougher times, but fortunately the mature markets are already out of or maybe they are mostly coming out of the crisis, so I think that should work.

Virender Jeet: Yes, absolutely. Only one rider you have to understand, most of the revenue, in these cases is slightly back ended because of the subscription. So, actual effect on the revenue side may take at least one and a half years to two and a half years, three years to start reflecting. Because even if you book a $10 million order book, your revenue for that year maybe only $1 million, $1.5 million.

Ashit Kumar: But on an overall basis we are confident that the current year we should be coming back to the growth trajectory of Newgen where we are in the industry?

Virender Jeet: See, right now it's very difficult to comment. I think the only thing what I would like to say is that this is planned for a growth year and we will have to see how close can we reach over 20% or near around that. But I think right now, this is going to be more of a growth year plan.

Moderator: Thank you. The next question is from the line of Sachit Motwani from Param Capital.

Sachit Motwani: I just wanted to understand a little more on your GSI strategy, which others have also been asking on. So, you have mentioned the GSI based sales funnel of Rs. 140 crores and 40 cases. So, that works out to be just like $0.5 million, let's say, per account. So, is this more because of the subscription revenue or like these are only the subscription amount you have mentioned here, and the actual deal size could be much higher than $0.5 million?

Virender Jeet: Yes, Sachit, you are absolutely right. I think typically the order booking values for every GSI case is much larger than that. So, what happens in some early stages of certain order wins, the numbers are not very accurate, unless we know whether the customer is going to sign a single year deal, multi-year deal. Generally, on the subscription side, you will have two-to-three-year deals. So, these amounts may be initially the sales guys' reflection of the first year's revenue which he can get from that.

Sachit Motwani: Okay. And what could be the average duration of the deal that one can assume?

Virender Jeet: Well, what matters predominantly is the perception, the planning on the customer side is around six to seven years when they are looking at investing in this kind of a system, at least, to begin with. But the orders are generally released from two to three years. In some cases, for all five or six years.

Sachit Motwani: Understood. So, potential revenue could be $4 million, $5 million, but one year of revenues probably could be $0.5 million, $1 million dollar, like that?

Virender Jeet: So, the initial subscription deal could start roughly around between $300,000 to $700,000, and then grow to around $1 million of annuity in one year's time. That's the kind of potential we are looking at larger GSI deals.

Moderator: Thank you. Next question is from the line of Hardik Sangani from ICICI Securities. Please go ahead.

Hardik Sangani: Sir, just two questions. Sir, in terms of our employee base, so incrementally we have not added any major headcount this year. So, if you are expecting growth back to what we used to earlier, so just wanted to know what would be the typical hiring plan? And secondly, in terms of increasing attrition even among the IT services or technology players, so what steps or will we need to hire more than what we used to earlier to manage those attrition levels?

And secondly, due to the second wave, is employee absenteeism or not availability of them becoming an issue in servicing our clients? That's it from my side.

Virender Jeet: Hardik, a couple of things. So, one is that there are a couple of things which have happened, one is, the operating model of doing the business has changed. So, there has been some amount of inherent efficiency which we have been able to drive. So, for next year, though, we will look at the growth rate, but the net addition in manpower, maybe more flattish, or maybe within the range of 100, 150 people, overall, addition of people, not beyond that. On theattrition, I think every industry, in fact, the whole IT industry is facing that challenge right now, there are higher attritions and higher cost pressures. So, we have already taken actions about that. We are also looking at that, in November we have upgraded salaries, of some people again in April, we will be going for another upgrade in some time in the middle of the year, this year. So, we will keep up to make sure that our talent is protected on that. And from the hiring construct, we are focusing a lot on campus, because we need a specialized skill, which is around our products and services. So, that's where we are concentrating. We will be looking at increasing the kind of hiring intake at the campus level so that we have a lot of capacity over the years of both growth and managing the business.

Last part of your question was about the concern about the COVID. In the month of April, I think there have been a week or 10 days where there was kind of an impact on day-to-day operations of business, but especially for the projects which are long running projects, not on the cases of supporting customers. So, I think all the customers across the whole globe have been very sympathetic about that. They have asked their teams to take time, they have advised, tried to help us in many, many ways. We have been positive; those three weeks have been difficult for everybody. I think now probably those couple of weeks will be difficult in places like Chennai or Bangalore. But I think beyond a few weeks of impact, which also customers do appreciate, and we have been able to recover most of it over the coming weeks, we don't see that as a lasting issue.

Moderator: Thank you. The next question is from the line of AK Garg, a shareholder. Please go ahead.

AK Garg: This is with regard to the comparative ROE which the company's earning. And the other companies like Tata Elxsi and **Tanla** Platform, their ROE is about almost twice and thrice. So, what is it that they are doing and what is it that we are doing wherein our ROE is not coming to their level? And we have a cash of about Rs. 250 crores in hand, so whatever issues your company has, the same issues the other companies must be also having.

Virender Jeet: Okay, I am sorry, I am really not educated on to the ROE question. I will ask Arun to probably answer that.

Arun Kumar Gupta: So, I think as far as the return on capital employed is concerned, so I think currently we have talked about also that currently we are conserving cash for next six months expenses, and that is how we look at it. And in the coming year, obviously, we can look at different ways to distribute cash.

AK Garg: No, that is alright. But what I am only saying is, that those companies, we are a part of industry, so how is it that they are able to get a better twice and thrice ROE, whereas we are only able to get only one-third or one-half of it. That is my question. So, I think we need to look at that, is the company looking at it?

Deepti Mehra Chugh So, just to add out there, the return on capital employed this year, we had around 27.9%. And I don't know about the other organizations, but each is at a different stage, etc. But we internally keep looking at how to improve the return levels, both at the capital employed and the equity levels for the future years.

AK Garg: Yes, because it's a total financial management, which is the work of the CFO of the company, and I think the company needs to look at that as to what is happening. And I think that is the point only that I wanted to make. Thank you.

Moderator: Thank you. The next question is from the line of Sidhant Singhi from Lucky Investments. Please go ahead.

Sidhant Singhi: First of all, congrats on the grant of patent for the new image processing system. I think that's interesting, because I believe image processing is still a largely unexplored territory with widespread day to day applications, and it's got a lot of potential. My question is, which are the type of projects or client base and geographies that we will be targeting? More importantly, what is the revenue visibility as far as patent monetization is concerned? Thank you.

Virender Jeet: Yes, Sidhant, thank you. So, if you look at, most of our content management technologies will have a strong image processing components on that, and lot of our IPR generation activities are around that area. So, when you look at image processing, the current patent around binarization is about how effectively can you extract information about mobile data. So, this is one of the patents. And of course, we have many more patients in the same area. Probably they end up becoming a part of our portfolio stack, wherever we are able to protect our long-term interest in technology, as well as differentiate the product in front of the customer. There is no direct correlation between patent and monetization of payments, that not a monetization tool. It is typically over a longer period of time to be able to stand, differentiate in the market and protect our interests against vis-à-vis the competition. So, the image processing technology comes in our content management suits, it comes in our mobile capture systems, our scanning systems, which are sold across the globe for almost all our solutions. I hope that answers your question.

Moderator: Thank you. Next question is from the line of Anirudh, an individual investor. Please go ahead.

Anirudh: Congratulations on good set of numbers. My question is on the SaaS and subscription. I wanted to know, if there is a non-recurring engineering charge, assuming that there is this low-code platform which still has to be customized for every customer. So, how is that accounted for, is that baked into the cost in terms of the total term of the contract that you have? And in that line, I would also want to know, from that angle I wanted to know, generally what is the term of the contract and things like that.

And second thing, in your global system integrator kind of business, so the system integrator takes care of the NRE or you take care of the NRE?

Virender Jeet: Thanks for the question. So, when we are talking about facts or subscription part of the revenue, we are talking about the revenue streams which have got no service components attached to it, these are typically high gross margins. So, you are right, for some complex applications, whether they are or low code, they still need to be customized, integrated for the platform. And there may be service orders coming for updation of that, but those revenue streams we treat outside our SaaS and subscription revenue. So, contracts could be more complex with a customer that it could have an element of SaaS revenue as well as element of service components or an implementation component. For GSIs, we are predominantly focusing on only the subscription and the license part of that.The implementation as well as the long-term support and enhancement is handled by the GSI.

Anirudh: Okay. In general, your GSI part, so the billing, you bill to the GSI or to the end client? Like, who would be your customer? I don't want a specific answer, but I want a general answer about that.

Virender Jeet: If you look at for any product company, the end customer is the end customer. So, there is a direct visibility of Newgen's products and platforms, because they are implemented by the customer apart from the GSI. So, GSI is also helping the sales cycle, but the decision maker is customer. So, the contracting sometimes is through GSI, because the GSI has got the whole sole outsourcing engagement. But sometimes also the customers see that the product life cycles are even beyond the GSI life cycles, so they end up having direct contracts with the customer. So, we have both models today in the market, where eventually GSI is carrying us to the customer, but customers are finally contracting directly with us, or the contract is getting routed through the GSI.

Anirudh: Okay. And second thing I wanted to know, generally on the SaaS business, more in terms of how we do the infrastructure cost. In fact, there is that cloud infrastructure cost, right. Now, is it directly linked to the contract term or are we weathered to that particular cost? I mean, maybe you can give an idea about whether you use public cloud or your own cloud infrastructure

Virender Jeet: We are hosting on AWS. Broadly, we want to make sure that the overall underlying infrastructure cost is less than around 15% of the overall subscription cost.

Anirudh: Okay. So, that's still variable then, so if the contract allows you can always reduce the cost.

Virender Jeet: Yes, it is a variable cost directly. And then there's an economy of scale.

Anirudh: I understand. And congratulations on good set of numbers.

Moderator: Thank you. Ladies and gentlemen, this was a last question for today. I would now like to hand the conference over to the management for closing comments.

Deepti Mehra Chugh: Thank you so much, everyone, for joining us for the call. For any further queries, you can visit our website, or you can connect to me. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your line.