"Newgen Software Technologies Limited Q2 FY'22 Financial Results Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Newgen Software Technologies Limited Q2 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 Limited. Thank you and over to you, ma'am.

Dipti M. Chugh: Good evening, everyone. I am Deepti Mehra, Investor Relations, Newgen Software Technologies Limited. I welcome you all to the Q2 FY'22 Results of the Company. I hope all are keeping safe.

Joining with me today from our management is Mr. Diwakar Nigam – Chairman and Managing Director; Mr. Varadarajan – Wholetime Director; 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 may vary materially 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 differ materially or updates any of these forward-looking statements made from time-to-time on behalf of the company. For further details, you may refer to the investor relations section of our website.

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

Diwakar Nigam: Good afternoon, everyone and thank you for joining us on our Q2 FY'22 Earning Call. I am pleased to present another quarter of profitable growth with margins and cash improvements.

To begin with, I am glad to announce changes in the management structure; Virender Jeet has been promoted to take up the role of CEO and Tarun Nandwani has taken up the role of COO in the organization. Both have played key roles in shaping the company over last 25-years and have been pillars of Newgen. With this transition towards a professional structure, I firmly believe this would bring in new energy in the company and position us strongly to tap significant global opportunities. These internal promotions also reflects the company's core philosophy to invest in developing leaders in the organization and bring up Newgen as a family. We all continue to be enthused by the same vision, focus and strategy with renewed vigor.

On the operational front, we continue to work on a hybrid model; the senior management is now coming to office, two, three times a week; projects teams are now coming to work together as and when needed; face-to-face meetings are happening; trainings in person are taking place for new joinees; our sales and business people have started to move to customer locations as things are opening. We hope that by the end of this quarter, this would get further streamlined.

In terms of performance for the quarter, revenue witnessed a growth of 20% to reach Rs.186 crores during the quarter.

All the geographies have performed well and continue to grow steadily during the quarter, especially EMEA region which has witnessed a growth of 59% and India has witnessed a growth of 14%.

We continue to help our existing and new customers in creating digital capabilities across the modern-day business needs.

The quarter marked significant additional business from our existing customers again.

We also added nine new logos during the quarter. Some of these logos are in the process of being billed currently. Some key orders during the quarter included providing a solution for our subvention system to government organization in Singapore, providing iBPS platform upgrade for a leading private sector bank in India, rolling out our commercial loan origination system solution for a leading bank in Kenya, offering full range of financial solutions, providing an enterprise-wide banking solution supporting amalgamation of banking entities in a nationalized bank in India.

Our annuity revenues continue to grow stronger; were at Rs.115 crores, witnessing a growth of 17% YoY. This represents 62% of our business now.

We continue with our transition towards subscription revenues which witnessed a growth of 23% YoY, reaching to Rs.61 crores. On SaaS, we witnessed a growth of 35% YoY.

Banking and Financial Services and Insurance continue to be our key growth verticals.

Our offerings and opportunities:

On the product front, our NewgenONE platform is receiving good acceptance from the customers and system integrators. Newgen's market differentiation is based on our breadth of capabilities for automating complex processes at scale. Our platforms manage rapid application development, business complexity, enterprise-wide data access, customer experience and integration with back-end applications.

The future belongs to simplifying the way we work, simplifying complex, content, and process requirements for our customers. This includes offering enhanced self-service experience, handling business complexity with full context and simplicity, automating processes, eliminating paper and manual intervention as much as possible, and using data insights to offer personalized services and products and our platforms do just that.

Reinforcing our strong position in the industry, we have featured in the 2021 Gartner Magic Quadrant, a Low Code as a niche player this quarter. This is our second time in a row that we have appeared in the Low Code Quadrant.

The key focus areas of our platform direction from here on are – to improve customer and employee experience, enable rapid application development, facilitate intelligent automation, and enhance the platform scalability, security, manageability, and deploy-ability.

Companies are fast adopting digital first business practices and ways of working to withstand the changes caused by pandemic and ensure their long-term success. Newgen is the right long-term partner in this journey for the companies. As an organization, we are taking all the necessary steps for creating a solid foundation for continued and sustainable business momentum.

Low Code development is becoming a large wave in the world. With our iBPS platform, we are one of the front-runners in Low Code offers development. We are enhancing it for rapid app development as well. We see unlimited opportunities worldwide in this field.

Profits and Margins: We have maintained our growth momentum on the profit margins. Our EBITDA was up by 13% YoY at Rs.47 crores and profit after tax up 28% YoY at Rs.37 crores.

We continue to invest heavily in our global expansion, our products, and our people. During the quarter, R&D expenses comprise about 10% of sales and marketing expenses comprise 21%. Our balance sheet is strengthening with every quarter. We have cash and bank balance of Rs.298 crores and the net cash generated from the operating activities was Rs.104 crores for the first six months of the year. Our debtor days continue to show improvements. Our net trade receivables were Rs.174 crores at the end of the quarter which resulted in net DSO of 87-days on the back of robust sales and collection.

At the half year ended September 30, our revenues were Rs.345 crores, witnessing a growth of 20% YoY and a profit after tax was Rs.59 crores, growing at 54% YoY. We are happy to be back on track on our historical growth path and hope that the uncertain environment is behind us and markets open up quickly.

On the GSI relationship, our partners are stepping up and taking greater interest in working with us.

Our pipeline is strong and growing over the last year across markets in APAC, EMEA and US. We are seeing action in newer geographies like Australia as well.

With this, I end my commentary on the results and wish you a safe and happy festive season. We are now open to Q&A.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Kunal Shah: Congratulations on good set of numbers. I had one accounting query basically. So, while going through the accounts over the years, I had an observation where bad debts what we book in the accounts forms almost like 17% to 20% of our PBT. So, just wanted to understand how do we go about revenue recognition and collections, if you could help understand the revenue and collection cycles that would be of great help?

Virender Jeet: I will try to answer and probably you can see more data from Deepti. So, you are right, in terms of any kind of a product business, we do expect some amount of provisioning and write-offs. Generally, they should remain in the range of between 1% and 2.5% depending on the markets we are operating in. Generally, we will have more cases of default in markets like India and EMEA predominantly government and other territories. Right now, the provisioning is happening through the ECL method. Just quickly looking at the past trends, what has happened during the years where the currency issues were predominant in Africa, we have higher provisioning on those years. And as the times have changed in the last two years, they have substantially started getting reduced, in fact, this quarter we had almost negative provisioning in terms of having collected also what has been provisioned. So, it is improving, but also going forward there is going to be some default, could be between 1%,-1.5% of the overall revenue. That's the way we look. We don't look at the PBT level. On the revenue realization front, I think the realization practices are the ones which are quite standard in the industry. On a license business, we have realizations as soon as the economic value is transferred as soon as the license get transferred and deployed at the customer site. On the services side, the revenues are realized as the services are rendered to the customers in terms of the milestones as well as realization of the effort we have put in.

Kunal Shah: Also, how does the collection part goes, right, because outstanding greater than six months, also forms a very good portion of the overall debtors. So, while revenue recognition I could understand, but how does this collection goes, is it linked to milestones on the basis when we receive from that 90-days, how does that part work out in both the segments of the business?

Virender Jeet: So, on the license, generally, the collections are not linked to any milestones. They are realized as part of the advances or on deployment of the software, on the services, predominantly on milestone. And those are the cases where sometimes the milestone delays do occur more significantly because there could be an acceptance of milestone which will take more time or a dispute in payment, after the milestone even issue with the customer. And if you look at 180 and above days collection, that amount has reduced substantially. More than 80% -85% of debtors are less than 180-days now. And a small part will be roughly around 37 crores is something which is above 180-days, this has become a very small amount. And out of that also, more than 50% will be provisioned in some ways.

Kunal Shah: If I understood correctly, we book the revenue on reaching that milestone that would be very much in lines with the time when the amount becomes due. In that case, there should not be any impact on receivable delays, right, because you are eventually booking the revenue also when the amount is kind of becoming due, that is achieving that particular milestone, right?

Virender Jeet: You are absolutely, right. You have to compare historically. We are in product license business. If you look at product license-based companies whether it is an India and a US company, generally DSOs are very high because irrespective of the revenue realization practices, customers do end up holding payments because you are delivering product as well as services. Sometimes because of smaller issues, you end up holding payments for a longer period of time. That's why average DSO of product companies generally is high. Now, it has started becoming better as the licenses are shifted to subscription or more annuity-based licenses, then you have lesser of such problems. So, you will see where companies have shifted majority of revenues to annuity, then their DSOs will be more closer to the service companies, but in a traditional sense, significant part of our revenue still is a license, still operate in a DSO range of around 100-110-days and over last three years it has come from roughly around 200-days to 100-days, now it's almost at 88-days. As the contribution from mature markets and subscription part of revenue grows, this keeps on improving.

Kunal Shah: Historically, what is the amount that we have written off, where we might not have provided but we will have to write off, you said that it is in the range of 1%-1.5% of the overall revenues, is that understanding correct, that is what something which eventually one has to write off?

Arun Kumar Gupta: Deepti can send you the historical data and in future we look at that ways, around 1%- 1.5% of the future revenue maybe affected by provisioning. Actually, last two, three years, basically there is a change in accounting standard also which has also impacted this number, major part of provisioning is done because of change in accounting standard also in last three years, especially earlier two years. So, that has also impacted but we can come back with the data more on this.

Kunal Shah: We work with a lot of system integrators and we are seeing good traction out there as well. So, how does the revenue recognition and the receivables work with the system integrators, I mean, we directly get from the end clients or basically we are due to receive it from system integrators, how does that work, if you could shed some light, that would be helpful as well?

Virender Jeet: On the system integrator business, predominantly, our focus is on transfer of licenses or sale of subscription. So, since the service components are lower, so the realization of license and subscriptions are more cleaner. And also our contracts can be both; they can be through a system integrator or through a direct end client. So, both models do exist. So, we will have revenues coming in directly from end clients or they may be coming through system integrators.

Kunal Shah: But the DSOs more or less would be the same, about 90-120 days or with system integrators, again, it would be a little on the higher side?

Virender Jeet: We expect it to be much lower because as there is no service component to it, but I think this business is still firming up, we have established this in last one or one and a half years. So, I think as the time goes by, our expectation is that DSO figure in system integrator should be lower than our **traditional** business.

Moderator: The next question is from the line of Ashok, an investor. Please go ahead.

Ashok: Congratulations on a good set of numbers. Sir, my first question is regarding your travel expenditure. Could you please throw some light whether we are back to the pre-COVID levels in terms of the travel expenditure or not? And I have a follow up on that.

Virender Jeet: The travel expenditure right now is very small; it's almost negligible, our traditional expenditure would be in the range of around Rs.8-10 crores a quarter; right now it may be less than Rs.2 crores. We expect them to improve in this quarter and next quarter to grow but not to come to that level in next one year, one and a half year at all because part of the changes in that model are more permanent. But while as the markets open and the business picks up momentum, the travel will grow in size, but may not be at the same level as it was historical level ever.

Ashok: So, if I understand it correctly, even if you take the best-case scenario, the max expenditure of the travel side would be another Rs.8-9 crores of delta, right?

Virender Jeet: What I am saying is that for us the travel cost will increase over next quarter and quarter after that and also next year they can substantially grow from the current number. But I think that will also result in growth in the business momentum because the travel predominantly is for the business.

Ashok: I would like to know if the same run rate is going to continue into our strongest quarters of the year which is Q3 and Q4? And are we really heading to beat our estimates of 18% to 20% growth which you have guided in the previous call?

Virender Jeet: Ashok, right now what we have seen in Q1 and Q2, we have almost come back to the growth rates which we had traditionally. For Q3, Q4, as you are rightly saying are much larger revenue quarters. So, maintaining growth momentum is more challenging than what is in Q1 and Q2. But right now, looking at the funnel and the way the margins are going, we hope to continue the growth momentum. Whether it's going to be 15%, 20% or 25%, I think we will not be in a position right now to comment on that.

Moderator: The next question is from the line of Venkat G, an individual investor. Please go ahead.

Venkat G: Sir, I have gone through the data region wise revenue numbers. We have done exceptionally well in India, APAC and EMEA but on the US side, the numbers are a little lower compared to year-on-year or quarter-on-quarter. Can you throw some light on the US business?

Virender Jeet: You are right; the US growth is not at our expectation level. There are predominantly two reasons: Last year, I think for Q1 and Q2, we had significant jump in quarter revenues on account of one-time business which was more on Paycheck Protection Program of US. So, we had a substantial number in revenue in Q1 and also a follow up number in Q2. So, maintaining a growth momentum over that number was a bit of challenge, but however, on the other things, we have also compensated a lot of things in terms of GSI initiatives happening in US and other things. And we hope to fix the issue in coming next few quarters.

Moderator: The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: My question is pertaining to this US as an end market. So, if you could give me a broad thought process? Of course to the previous question, you alluded that there was a one-time kind of an opportunity that we benefited from last year and now we are kind of not following on the same run rate. But if you have to draw one year, two years, three years to five years kind of a picture, how do you see this geography shaping up and what is the area of focus that would drive that kind of a number for us?

Virender Jeet: Rahul, the way we look at US geography, we have two initiatives on the go-to-market going on there. One is our traditional market which is the mid-tier banks in US where we are capturing between 6 and 15 banks depending on which year we are. And that is the space of roughly around 1,000 accounts where we are going and penetrating that market. We already have around 30 such banks as our customers and that's what we are growing. Of course, last year, as you rightly said, PPP was a one-time initiative, but beyond that also last year getting new logo acquisition was a challenge and it is to an extent even this year has not completely opened up, it's a bit of challenge. But over two to three years horizon, we think this is an area where we have a potential to get 20 to even 40 accounts a year and grew that business. Beyond this, there is a significant investment we are doing in our horizontal sale of products to global system integrators. That's what we are investing deeply right now. There is enough product recognition from Gartner, Forrester, system integrators have started recognizing and we are forming deep relationship with a few of them. And that is in the US market where we are focusing on Fortune 2000 clients. And this has not been our traditional customer base; we have been going on for tier-2 accounts in most of the mature markets. With this, we should think of a further acceleration of sales. For us to realize our long-term ambition, the US has to become the primary market and has to become a significant growth driver. So, in short-term, we could always have higher growth rates in APAC or Middle East, but in the three to five years horizon, we expect US to do much higher growth rate than 20%, 25% for us to reach the goals where we have set for the company. So, I expect that in next one year, two years, the US would become the largest growth driver for the company.

Rahul Jain: I would like to prod a little bit more on the two key drivers that you have identified, so first of all, if I heard you right, you said you have 1,000-odd banks in the mid-tier space which is your key target market and we already have 30 customers and 25-40 customers is what we can tap upon. So, what could drive this client acquisition foray for us in that market, is it simply more foot in the ground or improved referenceability is what is going to drive it? And secondly, on the SI side also, we have this relationship for a couple of years and we are seeing all this popular SI companies are doing fully well on their own BFSI revenue growth in this market. But somehow this has not scaled up for us. So, what is stopping us in this SI channel per se?

Virender Jeet: See, on the bank side, you are absolutely right, the acceleration comes from two facts; one is if you have more referenceability and you have more penetration in banks, the more you are able to sell because it's not a single market, its quite wide markets. So, especially in the mid-tier banks, you need a lot of local referenceabiilty, solution referenceability. So, the acceleration will come as we become larger and larger in that market. Of course, beyond that it's our own ability to execute on the sales and marketing side. On the SI side, there is more than referenceability, it's about brand, and it’s about the penetration into the GSI client base as well as mapping up their accounts. So, this is what has started recently. I think we have been very lucky to get very good wins in the early stage; we got six, seven, eight wins. I think we are having roughly around another 60-70 cases which we are pursuing with the GSI globally. There is some amount of delays in terms of order cycles because some of the order cycles have larger timeframe than our regular cycles of six to seven months. Their contracting is taking much more time. But we hope that as we establish ourselves and once we get the initial run rate going, then we should be able to address the universe much better as there are three or four system integrators who can cover this 2,000 accounts very well for us. So, we are hoping on the banking side, our organic model should suffice with more acceleration in sales and marketing. And on the GSI side brand building, some amount of getting better recognition from more GSI and penetrating these larger accounts will help.

Rahul Jain: When you said these 2,000, 3,000 identified banks, I think this is the subset of some 5,000-odd community banks US have. My understanding suggests that India-centric GSI do not have a very deep penetration when it comes to these community banks, they are more in the top-100 universe. Correct me if I am wrong on this part. So, does that also mean somewhere we need to partner more domestic, local service provider which can add to the momentum?

Virender Jeet: Rahul, let me clarify. The strategy which is for the 1,000 entities on banking and credit union is a direct sale strategy. We are not using the global system integrators for that. As you are right, they have no interest in that business. The ticket sizes will not service that. We have already successfully executed it. We got our first 30 banks out there and we are going to extend that on our own direct sales. The GSI is only focusing for Fortune 2,000 clients. That's very different.

Rahul Jain: So, basically, you are referring to Fortune 2,000 customers. I was more thinking from a 2,000 bank. You said this is more like horizontal approach for you, not limited to one particular vertical. Got it. Thanks for the clarification and best of luck for the time ahead.

Moderator: The next question is from the line of Raunak Vora from OHM Advisors. Please go ahead.

Ronak Vora: Sir, how do you see the order pipeline for the Low Code application space?

Virender Jeet: Ronak, Low Code is a huge interest area right now globally and it's not kind of a business opportunity on its own but the kind of approach or a strategy or a product capability which most of the digital initiatives are expecting from their vendors. So, products and platforms which have strong Low Code capabilities, have better chance of winning those digital initiatives. So, the way we see this is a very-very large market globally, but also there is a lot of competition in this market. With Newgen being very strong on the process-centric application and the content-centric application, and our Low Code capabilities end up providing a very big, differentiated value to the customers. On the funnel side, all our cases are Low Code cases for us because this has been the strategy we have been selling. Of course, it's been sold through process-centric, process automation sometimes, sometimes intelligent business process management, sometimes digital process automation. Low code is a new terminology by which you are driving. So, all our pipeline will be based on products which are Low Code products.

Ronak Vora: So, in terms of capabilities, how do you differentiate ourselves from the others, can you just throw some highlight in case if you could give some case study for better understanding?

Virender Jeet: If you visit our website, you will understand that we have a very compelling offering for digital solutions which are process-centric and content-centric. Anybody who wants to develop a digital process, which is process-centric and content-centric, we are one of the best companies in the world to do because of the inherent capabilities that we have. And that's where we are very strong and we are able to differentiate. And then with certain verticals in banking, insurance, government, we have our history of servicing customers and the use cases makes us very compelling for customers in these segments. But a lot of information is available on our website. I would recommend that if you can visit and see that.

Raunak Vora: Can you give numbers of how much currently GSI would be contributing towards sales and where do you see GSI being a total part of our revenues in the next three to five years?

Virender Jeet: See, right now, our partners which are including GSIs and small partners are roughly between 16% and 18% of the revenue We expect that in next five years this should become 50% of our revenue. While we can grow aggressively on our own, but with GSIs can almost reach 50% of the revenue, but that would also mean we can drive higher growth rates to that.

Moderator: The next question is from the line of Heenal Gada from ICICI Securities. Please go ahead.

Heenal Gada: Just one question is on with the India business. We saw a strong growth during the quarter. Are we expecting the same momentum going forward as well or was there a one-off this quarter?

Virender Jeet: Right now, the growth which is on account of a lot of penetration into selling the new solutions and new products. We think that part of growth momentum will continue as existing accounts are giving us good business. I think we are also expecting it supplemented by some more new logo businesses as the markets open in areas. So, far, India, the government business, for us was one of the big drivers of sales, is completely slowed down. We think over next two quarters, some part of that can restore back and push. So, long-term, we are hopeful that India business can maintain a 20% momentum but on short-term and near-term we are not very bullish about India business but a single digit growth or a slightly lower double-digit growth is what we expect.

Heenal Gada: Secondly, on margins as well. How much do you think can be our exit rate in this year given that the situation is normalizing and some of the costs are expected to come back…not like a perfect guidance, if you can give like a range kind of how much do you expect?

Virender Jeet: Broadly, we have already said that the business should be able to deliver roughly around 19% to 20% net margin and between 23% to 25% EBITDA margin. I think this year we expect to be close to those numbers because in Q1 smaller for us, but in Q2, we were already close to that number and Q3, Q4 should significantly expand that. So, we should be close to that. But you are right, on the cost front, some of the costs which are more employees and travel costs are going up for whole of industry, we have also taken those costs so far. There could be half a point or one point difference because of that depending on how the market turns.

Moderator: The next question is from the line of Nilesh Jethani from Envision Capital. Please go ahead.

Nilesh Jethani: Wanted to understand what is the difference in the margin profile when we do sales via GSI and when we do our direct sales?

Virender Jeet: See, margin profile is dependent on the line of product which we sell like for our licenses, whether we sell them in subscription or licenses, these are generally high gross margin because there is no direct cost associated with that. And on the service components which are like our software implementation and software support, margin profiles are like service company margin profiles. So, two parts of our business which is the license and subscription and ATS/AMC. These are high gross margin business. The expectation in the GSI business is that GSI would be doing predominantly most of the services on their own. We should be able to enhance the kind of business which is of higher margin business. So, the high gross margin business will grow faster than the service business. So, the margin profile should become higher. But also it depends on how the deal structures will be valued and other things. But for us the GSI business should be a higher gross margin business.

Nilesh Jethani: So, on this itself, so we expect GSI to contribute around 50% to our revenue and you clearly mentioned that a strategy going forward would be focusing on the Fortune 2000 clients. So, one clarification I wanted. So, in the earlier concall, you had guided that per annum we are targeting around 60 new clients and per customer billing is expected to be around $300,000. So, probably 60 customers per annum in next five years we can add around 300 customers. So, to add 300 new customers for next five years say in the Fortune 2000 we already have 30, in the BFSI sector 40, 45 in the other?

Virender Jeet: Nilesh, you are right partly because when I said we will do 50% of our revenue, I said over five years we should be able to reach there. On the Fortune 2000, we have organically some clients, but that don't count because they are part of our traditional business. Our target for this year is to get between 12 and 15 new logos and next year it will grow like 30, 35 and in fourth, fifth year it can become 60 to 100 logos a year. That's a journey we will have to take. And you are right, on the revenue realization per annum, revenue rates could be anywhere between 300 to 700k per account. That’s how it gets build up.

Nilesh Jethani: So, continuing on the same, so today say we have 550 customers and our top line is around Rs.6,730 million, say FY'21, so our per customer billing is approximately Rs.12, Rs.12.5 million. So, by what year we can reach substantial revenue of say a Rs.6 million or a Rs.12 million?

Virender Jeet: Unfortunately, we don't see that way in the same model. The way we see is that between those Fortune 2000 accounts, if we get 300 accounts, each account has a potential to give between $1 million and $2 million kind of an annuity. We should add roughly around $250 million of revenue per year to us. And then on our organic side which is we do a direct account sales in banking, insurance, government that should add another $200, $250 million over next five, six years. This is how we want to tap.

Nilesh Jethani: So, we have been trying to enhance our revenue on the annuity side. But in Q2 again, growth from the sale of products was say northwards of 55% and annuity business grew only by 17% on YoY. So, how should I read these numbers?

Virender Jeet: We are in the transition. See, we have not shifted from license to annuity. We are still focusing on our traditional license business in most of the parts, which is the market which have got a lot of business in terms of new sales is license-based sales. I think the change has started. We are getting into a more aggressive phase of changing, I think from next quarter onwards, we are going to more aggressively pursue only annuity sales. And that should increase the growth percentage of annuity much higher because right now we don't see the same way but you are right, by the year-end, we expect the annuity part to still grow at a much higher rate than the traditional growth rate. So, right now there may be some differences between how this revenue is realized for ATS and other things, but at the year-end historically we have always maintained a 2%, 3% higher growth on our annuity side than our other business and that momentum should continue.

Nilesh Jethani: So, we work on the three platforms that is ECM, other is the BPM that is the low-code, process automation and third is the CCM that is customer communications. So, today in the Newgen's top line, what would be the significant contributor amongst these three? What are your aspirations for these three segments to grow? One understanding what I have currently is that probably the BPM would be having a higher margin versus the CCM and the ECM having a lower margin. Is the understanding correct?

Virender Jeet: No, not on the margin side, but most of our business use cases are going through BPM and do have ECM as part of already. So, our 60%, 70% of our cases will be a combination of ECM, BPM combined. So, on margin side, because they are both license products they would have similar margin profile. On other hand, we will have another 25%, 30% use cases which are ECM alone. And CCM is much smaller, is less than 10% as of now. So, all have similar margin profile and all have their own growth potentials. Like with GSI, we are thinking that should substantiate the ECM sales much faster. And on the banking and our vertical direct account sale, the BPM sale will continue to grow and CCM we are finding new markets in insurance and other use cases which we can push the CCM sale. They are all three different products. In most of the use cases, we are using under NewgenONE, we are using one or two platforms together and in some cases all three platforms together.

Moderator: The next question is from the line of Harshil Parekh from Alfaccurate Advisors Private Limited. Please go ahead.

Harshil Parekh: My question was on our license business. I just wanted to understand whether the margins in our license business and in the subscription business, are they having similar kind of margin profile or is there any difference in that?

Virender Jeet: I think they are absolutely same. Generally, in license, it's more perpetual, followed by ATS, but on subscription, it is more revenue in every year, so you get higher annuity every year. But inherently, both are right of license which is transferred to the customer, no other cost is associated with that. So, their margin profiles are exactly same. Only when you are selling them in cloud, you have slightly another 10%-15% overhead as the cloud service cost, but then the pricing accommodates that.

Harshil Parekh: So, the realization would be higher but the margin profile is similar?

Virender Jeet: Yes.

Harshil Parekh: So, historically if we see, we have almost 10% of our revenues as travel cost, right. So, I just wanted to know what could be the travel cost going forward, I mean, it won't be reaching the 10%, but indicatively what would be the travel cost as a percentage of revenues?

Virender Jeet: See, in coming next two quarters, we don't see it going substantially into a number where we can talk of percentages, it may remain a couple of per cent likely. Next year I think if the market completely opens up, we can almost reach 50% of that earlier number, we can assume 5-6% as our travel cost, but very difficult to predict right now, we will have to wait for a few more quarters to see how it goes.

Harshil Parekh: Sir, if we see historically, we have around 48-49% of our revenues as employee cost. Since we are increasing our contribution from the annuity businesses, so do we see the employee cost as a percentage of revenue going downwards?

Virender Jeet: Yes, as our percentage of business which is higher gross margin which is in terms of license and subscription grows as an overall part of the revenue, the employee cost as a percentage of revenue should come down, that's a normal expectation.

Moderator: The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Kunal Shah: I want to understand on the global system integration part. So, you started this approximately in last two years. If you could help understand, right now you are working with two, three system integrators, how can we scale up working with more system integrators, what plans we have, what different we offer to the system integrators for them to start business with us in the first place and then to scale it up from there?

Virender Jeet: Kunal, first of all, most of the product companies once they reach a particular size, their products are carried by global system integrators and it's a world-wide phenomenon. For us it has taken a considerable time to reach roughly around $100 million revenue, we have global recognition from all leading analysts. I think that was already there. What has happened over the last six, seven years, we had a lot of success stories with them in the emerging part of the market, we have a lot of success stories with Infosys, TCS, HCL in India, Middle East, APAC and now that they have realized with the recognition from analysts and see our product perform, they have got the faith and the credibility on the products that they are ready to take it to their customers. That's what has taken time and that's where we are right now. On the other hand, we have established ourselves as a different sales channel, it's completely GSI-based sales channel where a lot of work is happening on mapping up GSI globally, mapping up the accounts across multiple GSI, and also working a lot on the GSI enablement side. Because at the end of the day, GSIs have to be very comfortable selling those products, they have to know how to implement it, how to service it. So, a lot of investments are happening on the enablement side as well as the GSI-enabled support. Why they take us to the market is, see, we are in the ECM and BPM space, we are one of the four, five companies who have consistently been in the Gartner's and Forrester's over 10, 15-years. They take our product to a global Fortune 2000 customers. They don't have to explain who Newgen is. Now that recognition is there. Second is they have a very high degree of reliability that with Newgen they can make the client successful because they have seen the success stories. And third, I mentioned that we have one of the most compelling stories in the industry when it comes to content-centric process automation using Low Code. We are the number one in the world and that's what the GSIs have realized slowly. It will take still time to establish the brand in the market, build the credibility, have more GSIs interested in us and meet our larger funnel. That's what we are working on right now. Does that answer your question?

Kunal Shah: Yes, to a larger extent, but just a follow up on this particular factor. Global system integrators probably would be working with somebody, so do we have cost competitive advantage for them to shift to us, how should one look at that particular aspect is basically more what I am trying to understand sir?

Virender Jeet: You are right, absolutely, I think they have all the partnerships with all the major players and we are a competing landscape. Two things we bring to the table, as I said, first of all, more than the cost, the high degree of reliability will make the project successful because our licenses could be 500K or a million. GSI account on that is based on 20 million, 50 million. For them the stakes are much higher. So, they always get a partner with high degree of reliability. That's what we have built. And the second is also on the cost advantage. Since we have a very aggressive integrated product suite of ECM and BPM combined, which we call the NewgenONE, it provides a very compelling value proposition in terms of total cost of ownership. Our speed to implement is much better, our systems are much integrated and GSIs have realized that for certain areas which are contextual content process automation, we are the best to implement.

Kunal Shah: So, you would be basically taking the market share away from the existing players if I understand that correctly?

Virender Jeet: Partly and partly the market itself is growing. The low code is opening huge market space, digital process is opening, CCM is a fast-growing areas in the market. So, market is expanding and also we are entering and tracking the market in areas where the other operators used to be.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Deepti Mehra Chugh for her closing comments.

Deepti M. Chugh: Thank you so much. For any other queries, you can connect to me or visit our website.

Moderator: Ladies and gentlemen, on behalf of Newgen Software Technologies Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.