



“Newgen Software Technologies Limited
Q4 FY2022 Earnings Conference Call”

May 04, 2022



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*Newgen Software Technologies Limited
May 04, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the Newgen Software Technologies Limited Q4 FY2022 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniket Pande from ICICI Securities. Thank you and over to you Sir!

Aniket Pande: Thank you Inba. Good morning everyone and welcome to the Q4 FY2022 results of Newgen Software Technologies Limited. Connecting with me today from the management side is Mr. Diwakar Nigam, Chairman and Managing Director, Mr. Varadarajan, Whole Time Director, Mr. Virender Jeet, Chief Executive Officer, Mr. Arun Kumar Gupta, Chief Financial Officer, and Mrs. Deepti Mehra Chugh, Head, Investor Relations. I now hand over the call to Mrs. Deepti for further proceedings. Thank you and over to Deepti!

Deepti Mehra Chugh: Thank you Aniket. Good evening everyone. I am Deepti Mehra, Investor Relations, Newgen Software Technologies Limited and I welcome you all for the Q4 FY2022 results of the company. I hope everyone is keeping safe.

Before we move on with the discussion, let me highlight that this call may contain certain forward looking statements, which concern Newgen’s future business prospects and profitability, which are subject to a number of risks and uncertainties and the actual results could materially vary from the forward looking statements. Past performance may not be indicative of future performance. The company does not undertake to make any announcement in case any of these forward-looking statements become materially incorrect or update any forward-looking statements made from time-to-time by or on behalf of the company. For any further details, you may please refer to the investor relations section of our website or connect to me. I would now hand over to Mr. Nigam for presentation of the results, post which we will have the Q&A with Mr. Nigam and Mr. Jeet!

Diwakar Nigam: Good evening everyone and thank you for joining us today for our Q4 results call. The year 2021-2022 was special for us in many ways. We complete 30 years of our journey with fostering a culture of product innovation. When we started in 1992 our goal was to create a connected enterprise, one world and one work place then. Today as we complete 30 years of our journey, we have achieved our goal and have become a trusted partner for our many customers digital transformation needs. Today we are serving over 530 customers across the globe with our products and platform. The next phase of our journey would be led by AI/ML and for digital automation. This financial year was a transition year bringing us back on growth track. Overall we achieved a 16% Y-o-Y growth in revenues during the year and

closed the year at Rs.779 Crores. Worldwide we saw signs of normalization for the first time post pandemic. We are seeing organizations accelerating their digital transformation and automation initiatives. We believe that Newgen has the most comprehensive and deep product for accelerating digital in the enterprises. We are constantly working on making our customers successful through our digital automation platform NewgenONE. Focus on subscription revenue. We have been able to achieve a smooth transition from license science to cloud and subscription revenues that are more long term and multiyear in nature along with accomplishing growth. Our cloud and subscription revenues have witnessed a robust growth of 23% Y-o-Y. We now have large cloud and subscription order booking leading to more assured revenue in the future. We are seeing increasing adoption of subscription in cloud across geographies with large order in India, EMEA, APAC as well as Australia. We got our first few cloud orders from Australian market this year and will start getting revenues from next year onwards. The year witnessed several expansions deals to the existing customers as well as addition of 53 new logos. Some of these logos are still in the process of being built currently. We are focusing more on large size customers with higher mining capability. We see a trend of growing average order size and billing from our customers. Of the 530 odd customers, 38 customers witnessed billing of over Rs.5 Crores in FY2022 compared to 26 customers in FY2021. Our overall annuity revenues were at Rs.456 Crores witnessing a growth of 18% Y-o-Y. They now comprise 59% of overall revenues. Our international footprint is growing. In terms of existing market EMEA and APAC continue to outshine during the year. In the US revenues have been stable. Revenues last year included revenues related to PPP logos of around Rs.25 Crores, which is not part of our **typical offerings**.

Moving to updates, our offerings and opportunities. Our products in banking have performed well with lending and trade finance accelerator picking up opening up opportunities for larger deal sizes. We believe we will be able to capitalize on the back of these accelerators in the coming years. We continuously invest in research and development activities to further amplify our customer's digital transformation initiative and keep them ahead of their competition. This year we have grown our patent portfolio across key content services technologies. We now have 23 patent grants in place. As we discussed last quarter, we also acquired Number Theory in January. This acquisition is expected to further strengthen our NewgenONE digital automation platform with AI/ML modeling and data analytics capabilities. We look forward to accelerating our journey in data size, signs and AI/ML domain with this acquisition. Reinforcing our strong position in the industry we continue to receive additional analyst recognition during the year from Gartner and Forrester. NewgenONE platform improves customer and employee experience, enables rapid application development and utilizes intelligent automation. It also enhances scalability, security, manageability, and deployability. We do not just offer a comprehensive

platform. We view all the deployment as a long term relationship and an opportunity to help our customer with their digital transformation journey. On the operational front, understanding the changing requirements of the work force and the need to provide safe work environment we have chosen a hybrid work model. Business travel has begun now and we have started hosting and participating in face to face meets. However collective safety and productive working remains paramount for us. At the same time, we continue to offer the required flexibility to our employees. Last year there has been elevated attrition which has impacted demand fulfillment across industry. At Newgen we are focusing on empowering our high potential employees with industry benchmark remunerations. We are also coming out with ESOP with wide coverage for enabling our employees to participate in growth of the company through continued service.

On the sales and marketing front, we are continuously working on building our direct sales channel along with a focused alliance with our partners especially the system integrators to expand our market footprint. We are driving joint sales and marketing activities and campaigns as well as joint solution development with our partner.

Profits and margins. We witnessed normalization of cost base compared to last year as well as increased remuneration to manage attrition. Still we have been able to deliver healthy margins. Our EBITDA was stable at Rs.195 Crores and profit after tax was up by 30% Y-o-Y at Rs.164 Crores. We continue to invest heavily in our global expansion, our products and in our people. During the year R&D expense comprised about 10% of revenue and sales and marketing expense comprised 20% of revenues. Our balance sheet is strengthening with every quarter. Our cash, bank balance and investment put together amount to Rs.462 Crores. The net cash generated from operating activities was Rs.143 Crores. Our net trade receivables were Rs.279 Crores at the end of March which is a net DSO of 131 days.

In Q4 our revenues were at Rs.232 Crores with a growth of 16% Y-o-Y. We witnessed acceleration in business from customers and healthy operating margins. EBITDA was stable Rs.67 Crores and profit after tax was Rs.57 Crores. Our key orders from new and existing customers during the quarter include enter and transformation deal for a leading housing finance company and leading private sector bank in India during the quarter. Large project win for a leading privately owned Philippines commercial bank, executing projects for a leading Omni channel and fintech company delivering digital financing solutions in Saudi Arabia, project for a federal government entity in UAE managing their federal budget and regulation, regulating the financial law and financial institution.

As we move to FY2023 we believe digital acceleration through AI/ML lead automation is the need of the hour. We continue to work with our customers to transform them holistically rather than phyllo. We continue to build on our growth momentum. Our subscription based model is showing healthy visibility of revenue. The year is expected to witness further cost normalization along with long term investments in R&D and enhanced sales and marketing. As we complete our 30 year enterprise journey and embark upon AI/ML lead digital automation of enterprises I would like to thank our customers who have shown faith in us, industry analyst who have recognized our products and platforms, partners who have invested in us and employees who have supported us at every step of the way. We continue to look forward to your support in the future as well. We are now open to Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Sarang Sanil from RW Investment Advisors. Please go ahead.

Sarang Sanil: Good morning Sir. So I have two questions. On the GSI side what is the GSI percentage of revenue because the last time we had a conversation it was about 16% to 18% and going forward we said it will approach towards 50% and how is the GSI environment looking like in the coming year?

Virender Jeet: Thank you for the question so the percentage of revenue from partners. It was not a GSI because GSI was more a recent initiative. It was roughly around 17% to 18% previous year. I think this year roughly around 23% if I am right but we can check the data so it has grown. The overall funnel of GSI has also shown improvement. I think last year end we were sitting at around 40 cases. Now we are more like 70 to 80 cases. The funnel has doubled but the GSI cycles of closure are much longer so the revenue accumulation will happen in the coming quarters and years so it is growing and we are still very far from the 50% but it is moving in the positive direction.

Sarang Sanil: A followup on that Sir? How many deals did we win this year because last year I think we were like eight deals out of 40?

Virender Jeet: I think the GSI deals this year has been spread across territories. Like last year they were localized more towards US. I think we have got some deals in Australia, we have got some deals in APAC as well as Europe and also in US. I think I do not have the exact number, but they are surely better than last year and we can send you the exact number if you wish.

Sarang Sanil: Okay Sir, so one more question, on the employee cost side so we saw a climb to 53% this year that is personal revenue from 49% last year, but we were expecting it to come down as

the annuity revenue increases right, so where can we settle on this in the medium to long term?

Virender Jeet: If your question is about employee cost, right now way the demand is accelerating pressure on the cost on the employees and I think all organizations are facing it. Last year costs were not the normal cost because a lot of activities were not happening in the business, so we think the employee cost further to go up even coming in this year by a few more percentages, but over a longer period of time you are absolutely right, a lot of our growth has got very little to do with direct cost involvement as you are rightly saying around 50% of our revenue has got no direct costs. We should be able to expand the margin, but in the near term right now we are working on the new reality of normalizing costs across all channels, so there is going to be some more pressure on the employee cost side.

Sarang Sanil: Thank you so much.

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

Mihir Manohar: Thanks for taking my question and congratulations on good execution. You mentioned about the cases last year there were roughly 40 cases of GSI and this time close to around 70 to 80 and what is the size of this case roughly size of inquiries if we can understand that?

Virender Jeet: Yes, right now unless those cases come to very close in the later stage of the funnel you do not determine the exact size because the buying behavior is very different, but generally for more typical deals since these accounts where the GSI deals are being pursued are slightly larger in nature, so they are slightly bigger than our average deal size so our expectation is that these accounts should have a potential to build from 500k of annuity to a kind of a million dollars of annuity over a period of time.

Mihir Manohar: Okay, got it and my second question was more on the conceptual side and how should we understand your operating leverage, because when I see travel cost FY2019-2020 that was roughly 9% to 10% of revenue and also the R&D cost which is also close to 10% of revenue, how should we see your operating leverage with improving the revenue, how should we understand that?

Virender Jeet: One way of looking at this business is predominantly you will see a lot of revenue heads have got no costs associated with it, but a lot of our costs are in two areas, one is sales and marketing we historically are spending roughly around 25% to 30% (of costs) on sales and marketing. We think as the business grows and as the business gathers more margins we should be able to spend higher for the growth. Our R&D cost may not change drastically

right now there are between 9% to 10% they can go up by a percent or so in the near term unless there is a huge opportunity I do not think they will move, but on the sales and marketing as the international travels open, the marketing travel expenses will go up so the sales and marketing costs can go all the way back up to 28% (of costs) so the operating lever is typically that any growth in the business beyond a particular historical trend rate for 15%, 20% significantly expand the margins for us. So for next year the operating margin expansion may not be practical, because the base costs are very high even the base cost we are running this year as well as there will be some additional cost next year, but we still should be able to deliver our PAT margins of between 18% to 19% and an EBITDA margin between 23% to 25% that should be sustainable.

Mihir Manohar: Sure got it and just to extend from a conceptual angle given the fact that we are product company, should we have a slight hockey stick kind of effect on our margins with revenue sizes going up? This question is more with reference to the fact that we are a product company?

Virender Jeet: Product company with always works with this hope that the hockey stick is just around the corner and I think the hockey stick has got nothing with margins if you look at the gross margin level we still operate around 70% gross margin, so which is as high as it gets, we can go up to 75% but I do not think that is worth it, but I think we are looking at growth coming from the top line and the expansion of the business and that is where we expect an hockey stick. We are investing in that growth in next three, four years we are hopeful that we should be able to substantially change the numbers for the company.

Mihir Manohar: Sure, got it. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Good morning and thank you for giving me this opportunity, so can you give some guidance on FY2023 revenues and EBITDA margins and the attrition level which we have faced for FY2022 and for Q4?

Virender Jeet: Sanjay thank you very much. First of all we do not provide any guidance I think we are still a small business and we are still in an aggressive phase of growth so it is very difficult for us to provide guidance, but as I said this business generates a significant gross margin and it depends on our own investments in sales and marketing and other things to determine the net margin for the company, so as I said earlier we are expecting to keep on our net margins above 18% and our EBITDA margins about 23%, but that entirely depends on the growth numbers we hit. On the attrition front last year we had very substantial attrition we almost

touched an attrition percentages which we have never seen in the history. We think that in Q3, Q4 of this year it will get normalized, but right now we do not have the absolute numbers in control, but I think as the situation it is getting slightly stable than last quarter there are signs this quarter that it has come back to slightly a lower level than what has been historically, but we are still running attrition levels above 30% which is very, very high.

Sanjay Awatramani: This was very helpful, so the attrition you mentioned of 30% is for full year FY2022 right?

Virender Jeet: Yes, so it is much more than 30% so it may be touching close to 40% for us, but for this year we are planning to bring it down significantly.

Sanjay Awatramani: Okay, thank you so much Sir. That is it from my end. Good luck.

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

Ankush Agrawal: Thank you for taking my question. Firstly I want to understand little bit on our product offering specifically the vertical solutions that we offer on the BFSI side, I wanted to understand how is it that our offerings are different compared to a core banking software provider, so we have this peer called Intellect Software right wherein they also offer a trade finance product and if I look at our product offering we also have a trade finance product so I just wanted to understand what is different between our product and this core banking products?

Virender Jeet: Ankush, thank you for your question and I would advise that to understand more detail it may be better to visit our website to understand our value prop but just to spend some time to answer your question. We are predominantly a horizontal product play company, we have products in the enterprise content management, business process management and customer communication management. We use these platforms to redefine products and challenge the existing solutions which have been built for purpose or built for need, so our next generation products in commercial lending, retail lending or trade finance are built on a low code platform, we provide enough flexibility have a lot of technology components so that they are more ready to change, more ready to adapt to the digital businesses and customers use them as the next generation of these products, functionally they do the same thing what the other product then but have a very different architecture and a very different principle and the underlying platform, our customers expect to use that platform for not only just one case, use case in the company but multiple use cases so that is our business but I will highly recommend that if you can go to our website and get more detail about the subject.

Ankush Agrawal: So just putting my understanding over here what you are saying that our platform that is very clear that our platform is very general in nature, a lot of use cases can be built over that so what you are saying is the specific use cases can be used to create specific functionalities which is similar to some of the products that these core bank and software products might be opening, would that be the right understanding?

Virender Jeet: Exactly so it is the next generation because the enterprises are finding ways to change their products very fast, have very agile products and there in their size they see the advantage of our platform and that is where they will choose the platform and build those products over there.

Ankush Agrawal: Okay, got it. Secondly Sir, again on this operating leverage that typically a software product company should ideally see operating leverage playing out on three side, first is on the growth margin front wherein over time as the A&P revenues built up, you ideally should see operating leverage is playing out. Secondly would be in the R&D where similar level of R&D could be spread over a larger customer base and same thing on the sales and marketing front, but if I look at Newgen over last four, five years our R&D cost has increased from about 6%, 7% to now 10%, the sales and marketing have expanded from 17%, 18% to 20%, so I wanted to get a sense why is it that Newgen as a company is not seeing that operating leverage play out on these cost spend, the argument that the investing growth is make sense but that would mean that you do not get an operating leverage but in our case we are seeing operating deleverage on this side, so some more thoughts on this.

Virender Jeet: Yes, you are right and one of the things as you said rightly, at a core of the business you see gross margin so the gross margins we are already at around 69%, 70% of the business so the business has enough operating, but whether we spend 6%, 10% or 15% on R&D is determined by the opportunity we see across the horizon, same is true with sales and marketing as we are expanding into more and mature markets we will keep on. If you look at an international benchmark of companies and products, their spend on R&D is more like 17% to 22% and their sales and marketing expense are roughly around 45% to 48% so we are far below the international benchmark, but as we are entering these territories, as we are getting into more mature markets, we need to enhance and increase our spend on these areas so we will continue doing that but having said that since the business has very high gross margins we should be able to still deliver good net margins at the end of the day.

Ankush Agrawal: Right, since our gross margin is already high at 70%, 75% what you mentioned and since we are looking to expand on our R&D and sales marketing investments, so ideally over the medium term we should still be around this 25% EBITDA margin and 20% net margin would that be the right understanding?

- Virender Jeet:** Yes, with our growth targets reaching we should be between 18% to 19% of PAT margins and around 23% of EBITDA margin for the next year.
- Ankush Agrawal:** This is the long term range right?
- Virender Jeet:** This is near term and long term we have not drawn that plan yet. It depends on how the company grows.
- Ankush Agrawal:** Lastly Sir just a feedback, would it be possible to start providing a functional P&L in terms of the software delivery expenses so that we are able to get the gross margins same for the R&D and sales and marketing that would be provided just to feedback on that?
- Virender Jeet:** Yes, right now we are still kind of a sub 1000 Crores kind of a company, we are at Rs.780 Crores, our second segment is the geography that is where we are looking at geography margins and geography P&L once we have a substantial size then we can have a product P&Ls and other things but right now in next to three years we are not planning to go there.
- Ankush Agrawal:** Thank you for that. I will get back in the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Homeyar Irani from Kotak Mahindra. Please go ahead.
- Homeyar Irani:** Basically it is a concern I was browsing the internet for my analysis purposes and I came across a company by the name of Newgen payments, it has a website called www.newgenpayments.com now if this is not a subsidiary of your company then customers are going to mistake that company for your company and this could be a trademark or copyright violation, what are you going to do about this?
- Virender Jeet:** First of all you are the first one to bring it to my notice, we are not seeing Newgen payments, we know there are some Newgen named companies across the globe and they are in different business areas and some may have a smaller overlap and we are having some kind of concerns with them we have raised those, but Newgen payments we are not heard and I think it is the new one.
- Homeyar Irani:** There is a website called www.newgenpayments.com they are in this area only. When I had spoken with the corporate office receptionist once I had called up and she had taken down the note I that raised his concern with her as well and she said they will look into us, but it seems she has not brought this to your notice.

- Virender Jeet:** We can take a look at it and if it goes to through legal and they are going their own time nobody is going to just close down their business just because I do not want them to use word Newgen, so Newgen is a very generic word, the way trademarks work if they have a different business and a different purpose of the business we should not...
- Homeyar Irani:** It is an IT company.
- Virender Jeet:** We will have a look at it.
- Homeyar Irani:** It is overlapping, you also have Newgen, you have a payment for the product right on your website which I have checked it out and they also have some kind of a payment product on their website.
- Deepthi M Chugh:** I think we have not yet looked at it so probably we will just have a look at the website and then we will have our team take a call.
- Homeyar Irani:** Okay, that was just a concern as a shareholder, so that was my concern.
- Moderator:** Thank you. The next question is from the line of Dipen Sheth from Buoyant Capital. Please go ahead.
- Dipen Sheth:** Good morning and thanks for the opportunity. I have a question on your segment reporting, consolidated segment reporting, which I think is on the 14th page of the results pdf, so I can see that almost all the revenue growth for the year has actually come from one segment which is the EMEA I am assuming that is Europe, Middle East and may be Africa or something?
- Virender Jeet:** Middle East and Europe.
- Dipen Sheth:** Okay fine so, Middle East and Europe, now is there a specific reason for this and how come the margins also, this is the only segment in which the segment margins have risen over the year rather than fallen which is surprising in view of your overall margin decline and your claim that manpower costs have led mostly to the fallen margin, so is there some specific color around the EMEA segment which I am missing?
- Virender Jeet:** No, you are absolutely right. As a business we have done far better in EMEA this year and there are two reasons for that. One is the market is looking very healthy depending on this market we have significant business in Middle East and depending on oil prices and if the environment is healthy, the market is strong and historically it has also been a strong market. This growth is also on the base of a very low growth last year which was because of

the kind of oil shock, the market did not respond. As the margins since most of our costs are attributed in India, generally the top line growth will expand this margin significantly so if the growth of the territory is higher than the average growth of the company their margins will continue to expand and historically Middle East and Africa have been a strong growth countries for us. Though other countries like APAC, India also this year have come back to the growth momentum and US last year we had a kind of a one-time PPP revenue of more than Rs.25 Crores so we have just maintained a kind of a momentum on that and compensated for that, so our growth has been broad-based but the margin you are right. EMEA margins because of the 40% kind of a growth, the margins are looking much better in India.

Dipen Sheth: Yes I do not want to sound stubborn here but actually your growth has not been broad-based last year, it has been led by the EMEA segment, but that is fine I can understand that the other segments will pick up in a bit. Now within EMEA you are saying the big thrust has come from the Middle East market not so much from Europe is that correct?

Virender Jeet: Yes.

Dipen Sheth: Okay, my second question Sir, is that I can see a rise in intangible assets on your balance sheet over FY2022 of a significant number compared to the last year's balance and the number is close to about Rs.16 Crores, can you kind of share some information on what this might represent?

Virender Jeet: This represents the acquisition we have a Number Theory as a company, towards last quarter last quarter we had acquisition of Number Theory and AI/ML platform, this is on account of that.

Dipen Sheth: So I would have thought it would reflect in goodwill on consolidation and not in intangible assets or maybe I should take it as the same?

Virender Jeet: Yes, it is the same, so there is a small amount of goodwill also I recognize.

Arun Gupta: Basically as for the valuation by the independent valuer it is coming out that product values are as intangible as well as the goodwill also, slightly goodwill also is there around 2.5 Crores and 16 Crores is the product valuation.

Dipen Sheth: So both these bump ups are on account of the acquisition which is perfectly okay.

Arun Gupta: Both are on account of acquisition only.

- Dipen Sheth:** Okay, will you be taking write-offs against these over a period of time?
- Arun Gupta:** Yes, it will be amortized in next five years.
- Dipen Sheth:** In the next five years, perfectly fine, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.
- Nilesh Jethani:** Thanks for the opportunity. My first question was on the margin only. Today our implementation share in the overall revenue is broadly 20% to 25% and going ahead we want to make the mix to GSI towards 50% from 23% currently, so I believe most of the low margin implementation work would be done by the GSI partners, but still we are guiding for a lower margin when our company would more look like a product company in next three to five years versus implementation?
- Virender Jeet:** Nilesh you are absolutely right. When we are guiding that is on account of what is happening today and what is happening going to happen over this year, so we will still continue to do implementation for our core customers which we already acquired while at the newer customers in mature markets, the GSI is going to be, so overall gross margin positions will improve and overall the margins would expand, but then we have a responsibility also to invest for growth for the company and will continue to invest for growth and those investments would balance it. So you are right the margin expansion should happen through that as well, but for next year we do not think that the implementation will move so much to GSI that it will change the overall dynamics of the margin.
- Nilesh Jethani:** Okay, got it. So on the investment side, today we are at 12.5% on the R&D expense the top line so what we aspire this number to be?
- Virender Jeet:** We are around 10% so as I said this will not move significantly in this year and next year it will remain around the same thing if you can go to 11% or 9.5% beyond that if we find great opportunities to further accelerate we will come back and inform everybody if there is an opportunity like that.
- Nilesh Jethani:** Okay, so where the other investments could be then?
- Virender Jeet:** Sales and marketing is a predominant one. Before the pandemic we are already 25-30% of costs, this will surely go back close to that percentage and even as we grow in mature markets this can even grow higher.

Nilesh Jethani: Got it. Our clients are always in the range of 550, 560 odd levels that number has come down to 530, so anything we should read through this decline or 20 clients or it is the tailwind or rationalization which you guys are doing?

Virender Jeet: If you look at our account growth in all accounts above 50 lakhs is significant, more than 5 crore accounts have grown from 27 to 34, 38, so there is a growth. There are two things which are happening. One, during the pandemic year lot of smaller customers the ATS/AMC renewals have not happened, so we take active customers who give us business that year, so there is a churn in the lower end. The other thing is lot of new businesses which we are acquiring this year, do not have direct revenue reflection because now we have shifted to the subscription model. So since they were previously licensed their businesses they would have been recognized and those, so now they are more on subscription based basis so that is between these two, there is some account of the number of customers contributing to revenue that year that is roughly around 530 now.

Nilesh Jethani: And on the overall very macro level, the three business line which we are into so broadly most of the industry consultants are guiding about a strong growth in the low-code, no-code venture but I believe our share in that is slightly lower when I compared to the other segments?

Virender Jeet: The low-code, no-code push has been for last two, three years from analyst, but we have been historically a kind of a company which deals with no code rapidly building applications, BPM, workflow then we added more low code capabilities so this is a broad market, so low-code is a technology which is now almost an expectation from all companies and there is a lot of other companies who are doing in the low-code area. We expect to be a company strongly working on automating all business processes of an enterprise through an approach of low-code, so our all installations which are today almost 70% of those end up using low-code in one form or the other, we are broadly in that business but the overall industry category of low-code that estimation keeps on shifting and that category itself keeps getting redefined.

Nilesh Jethani: So broadly with a three line item that is low-code, context and communication, what is the broad growth we expect on a blended basis next say three to five years and with the GSI catching up is there a scope for incremental growth and what can that number be?

Virender Jeet: Projecting numbers right now may not be possible, but we are expecting to escalate our historical growth rates of 20% by having additional growth momentum coming from larger Fortune 2000 clients from GSI. We have got some footprint in that, but it is has not gathered momentum, so once that gathers momentum we should be able to push our growth rates above 20%.

- Nilesh Jethani:** That was really helpful and thank you so much for replying to each one of them.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Thanks for the opportunity. Most of my questions have been answered. My question is that your subscription revenues have been around 31% this year of the total revenues, where do you directionally see it is going in the next three to five years?
- Virender Jeet:** Our estimates are that next three to five years, our subscription revenue should hit more than 60%, 65% of our overall revenue, this is the one head which keeps on going at a higher pace than our growth rates and as we are reaching more and more for subscription and removing the license based business organically we should further escalate.
- VP Rajesh:** Okay, so could you also share your backlog at the end of the year given there is a substantial subscription...
- Virender Jeet:** Right now we are not in the position to share those backlog numbers, but give us few quarters in next three to four quarters we should be able to give you numbers in terms of backlog, deferred orders as well as the ARR for the subscription request we have much higher backlogs this year compared to last year, but numbers are not in a position to right now to give you that.
- VP Rajesh:** Understood so would you say the growth in backlog this year is higher than your revenue growth this year?
- Virender Jeet:** Yes, our overall order book is much, much higher than the revenue.
- VP Rajesh:** Thank you. That is very helpful.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain:** I am actually referring to the data that you have mentioned in terms of the market we play in where you have mentioned across category, multi-billion dollar opportunity that we have what I am trying to understand is how our positioning in some of this play has been evolving given that our size right now is much smaller given the opportunity set, so how we think where we are in terms of the capability match and in terms of when we would try and take some meaningful piece of this market and where we are relatively better placed over the other, so any color on that would be helpful.

Virender Jeet: The question is these broad categories of market, our products address have been defined by different analysts in the industry and they keep on sizing them. Our position on the product portfolio side is quite strong because if you look at the analysis readings and their reports they will see that we are doing very well. One of our challenges we started with from our India and moved to the areas around India our presence in mature markets is significantly low compared to other players in that and that is where we are focusing, building the mature market sales ecosystem even the GSI initiative as part of that. We are pushing that we think that over the time in enterprise content management we have a very, very strong place. If you look at we are among the top three or four players and very good alternate for GSI to go and replace the older content management things, so that is one area we are looking at significantly, but on the low-code or the automation space that is another very strong area we are trying to build and it is going to be built organically over a period of time. What is going to be significant is going to be the success which we can drive through GSI and the sale we can drive mature markets. They will change the position substantially. You are right if you look at overall addressable market we are a small fraction of that but I do not think that that fraction will change unless you make a big dent in markets like US and Europe and that is what our investments in sales and marketing and other things are all about.

Rahul Jain: The question is also in the context what we have been articulating, has been very, very similar for last couple of years our leadership or our product positioning or banking has been quite strong in last couple of years and we have been trying to track this codes with this GSI channel also from last couple of years so I can say that of course we have grown in this period but story has been very, very same, so what are those meaningful initiatives that has been playing around which can possibly help us, is there anything that we could add there.

Virender Jeet: Yes, you are right. Though we have grown it does not change substantially the numbers for the company from the perspective of penetrating the mature market, but we cannot undermine the success we have already had in terms of we have now almost 30% of our revenue coming from US which is a big breakthrough for any Indian product company in enterprise space. Now planning from here to next step predominantly we have got multiple strategies in place which is predominantly centered around our sales and marketing. There is of course product is going on with augmentation of AI/ML we are strengthening our capabilities, but our focus is going to be on the sales and marketing and unless we are able to track the results I do not think our initiatives will make much of sense to discuss out there. They are hopeful in next two, three years we should be able to show a significant change in those.

Rahul Jain: Thank you. That is it from my side and best of luck for the year ahead.

- Moderator:** Thank you. The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.
- Saurabh Sadhwani:** Congratulations for a profitable year. My question is, can you please detail about the other expenses, they have risen on your income statement and so I was wondering why I have the rise, what is contributing to it?
- Virender Jeet:** Just give me a second. I am trying to locate where are other expenses are. As for SG&A expenses have gone slightly up on account of two things. Some amount of investments in sales and marketing towards the later part of next year, last year we did slightly more as the market opened up, also some amount of office opening up has started back so some office expenses are just opened up and travel has gone slightly up though it is nowhere and compared to what in last quarter we had some travel on events and some business travel across these three things it has gone back.
- Saurabh Sadhwani:** Travel is resuming right?
- Virender Jeet:** Travel has resumed, last quarter we had some travel this quarter we have significant travel on sales and marketing trend on events and other stuff. We expect this year to be a kind of a good traveling year which will lead to better sales for us.
- Saurabh Sadhwani:** Okay and about the USA business, there has been a sharp decrease in the profit before taxes in the USA business, what is happening there?
- Virender Jeet:** If you look at last year, US we had a one-time business of which was a parity program that was roughly around Rs.25 Crores of business, so that was a one-time business which we did last year and this year that has not been there and the most of the growth which has gone is to compensate that, but the base prices have gone up across people and other things so that is why there is some impact on the margin. The margin position is just the reflection of the top line not growing significantly out there.
- Saurabh Sadhwani:** Okay and just one last question about the Number Theory acquisition, are you planning a new product with the Number Theory AI/ML capabilities or are you planning to integrate into the current NewgenONE?
- Virender Jeet:** What we have got is a platform which is in sync with our philosophy of low-code, it is a platform to do AI/ML modeling on a low code approach. We are going to use the platform to augment our current solutions, which is vertical solutions and banking in other areas and also use the same technology to augment our horizontal products. So this is going to be a

kind of a stat which will get it will extend functionality in our existing products and also provide customer's additional horizontal product in AI/ML space.

Saurabh Sadhwani: Okay, just one more thing, about Gartner when I go and search on Gartner about low code application platforms, enterprise low code application platforms, Newgen is placed a little lower in the search results and it is because of by default Gartner places the products which have more number of reviews at the top, so will improving the rankings on Gartner some way help the business?

Virender Jeet: Surely, it helps but the way you can improve it is organically by having better business in mature markets, because the most of the inbound queries for products come in mature markets, so it should happen as the revenue of the US market improves, we are also working parallelly with Gartner on many friends to see it how they can contribute and help us build how they can put us in a better position on their quadrant. It is an ongoing process, but will help the growth in US region, it will really help us there.

Saurabh Sadhwani: Okay, thank you. That is all from my side. Best of luck.

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

Mihir Manohar: Thanks for giving the follow up. I wanted to understand that you mentioned about Rs.35 Crores kind of an impact, one time impact in the US business last year, so this is for the revenue side right and it will be just Rs.35 Crores last year on the revenue or on PBT?

Virender Jeet: It is Rs.25 Crores not Rs.35 Crores, Rs.25 Crores of revenue which we got out of paycheck protection program last year which was a one-time revenue coming from such accounts, so this year since that revenue was not there, the base was lower by 25 so whatever growth has gone into compensating that, does that clarify?

Mihir Manohar: Yes sure, that clarifies and also you mentioned with GSI we will be able to do 20% plus kind of a growth I wanted to understand that let us assume GSI traction does not build up to the extent that we are anticipating, what is the kind of organic growth that we are looking in for the next two years?

Virender Jeet: Our historical growth rates we have been able to push about 20% and GSI is one of the plans. We have our own plans of expanding and going directly to the customers and meeting, so one or the other way we are planning to expand this 20% growth rate which has been a historical growth rate for us and now whether we can touch 25 or 35 depends on how successful we are in executing our plan.

Mihir Manohar: Okay, got it and I had just one follow-up your travel and convenience expenses and that particular line item was like Rs.60 Crores, Rs.65 Crores in FY2019-2020 and which is close to 9% to 10% of revenue, I do not see such a high number for other IT companies or even product companies for that matter, what was line items are there here and what kind of savings can we have learning from the COVID period, 9% to 10% of the revenue looks to be a quite big number in that context.

Virender Jeet: You are absolutely right. First of all our travel predominant large part of travel is sales and market, because lot of organization is about servicing Middle East, APAC, India even part of Europe and US is happening out of India so the travel is based out from here and the second part is going back to 10% or 11% of revenue I do not think that is practical so a lot of optimization some part of travel is going to be more permanent, the optimizations about POCs, demos, studies can be done very remotely but some amount of travel in terms of events, business travel, closure meetings will keep on happening so we expect travel cost to go up here but I do not think we expect in next two, three of them to ever touch 10%.

Mihir Manohar: What percentage of revenue should we build for FY2023 and 2024?

Virender Jeet: It should be around 3% to 4% of the revenue.

Mihir Manohar: Got it, basically these also include the even hosting cost and all these that the case?

Virender Jeet: No, that is the market, that is a very separate one, it is just travel for business.

Mihir Manohar: Understood and last thing we are having cash on books of Rs.460 Crores and we are having the P/E ratio, they will be out ratio of only 20% what are the plans of usage of this Rs.460 Crores kind of cash it looks quite a substantial number in that context.

Virender Jeet: Over the years we have been increasing the payout now it is 45%, not 20% this year. The other thing is also our whole idea of purpose is deploying this cash for growth and we are looking at both inorganic and organic ways to use that and in the next we think this the current cash on books can be deployed better for business over next few years and in maybe next one year or two years if we have further access cash then we can look at increasing the dividend payouts.

Mihir Manohar: So, 2023, 2024 we should build your same number?

Virender Jeet: Next year that the board will decide at the end of the year. I will not be able to comment on that but we will be looking at the reserves to be deployed for growth of business and looking at also increasing the payout for our investors.

- Mihir Manohar:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.
- Sanjay Awatramani:** Thank you for giving me a follow up opportunity. Sir, my question was that the previous participant asked that you have some plans for using this Rs.450 Crores and in the opening remarks you mentioned that we will be moving ahead with some acquisitions, so can you highlight what is the amount of expense we are focusing on acquisitions and which are the geographies we will focus more on?
- Virender Jeet:** Sorry, I have never said acquisitions, I said that inorganic and inorganic can be done in many ways and once we have any firm plans of acquisition we will come back to you, but right now you are right both we are looking at using this cash to accelerate growth and we are finding ways. We have not drawn out any firm plans or we have got any further company to acquire so that I cannot give you any exact number and major of the cash, so once we have those plans we will surely come back and share with you.
- Sanjay Awatramani:** Okay Sir. That is all from my side. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now have the conference over to the management for closing comments. Over to you Sir.
- Deepthi M Chugh:** Thank you so much everyone for participating in the call. For any further questions you can connect with me or go to our website. Thank you. Have a good day.
- Moderator:** Thank you members of the management. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.