



Newgen Software Technologies Limited

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Date:

BSE Limited	National Stock Exchange of India Limited

Sub.: Outcome Transcript -Conference Call – Q3 FY'23.

For Newgen Software Technologies Limited

Aman Mourya
Company Secretary

Encl.: a/a



“Newgen Software Technologies Limited
Q3 FY '23 Earnings Conference Call”



Ladies and gentlemen, good day, and welcome to Q3 FY '23 conference call of Newgen Software Technologies Limited. As a reminder all participants line will be in the listen-only mode and there will be an opportunity for to you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepti Mehra Chugh. Thank you, and over to you, ma'am.

Thank you. Good evening, everyone. I'm Deepti Mehra Chugh, Investor Relations Newgen Software Technologies Limited, and I welcome you all to the Q3 FY '23 results of the company. Wishing you all a very happy New Year. Joining with me today on our call is our management, Mr. Diwakar Nigam, Chairman and Managing Director, Newgen; Mr. Varadarajan, Whole-Time Director; Mr. Virender Jeet; Chief Executive Officer and Mr. Arun Kumar Gupta, Chief Finance 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 actual results could materially vary from these 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.

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

Good afternoon, everyone and wishing all of you a very happy New Year. Thank you for joining us today for our Q3 financial results call. 2022 has been an exciting year for us. We completed 30 years of Newgen. We had a new look with the new logo launch. Most importantly, we were excited to interact, engage and celebrate with our customers and stakeholders in person through various events, leaving behind the phase of COVID. We are happy to share our progress and performance in the third quarter.

This is our first quarter with revenue exceeding INR 250 crores at Newgen. We witnessed a strong revenue growth of 26% year-on-year. All our geography witnessed growth for us. Our traditional markets continued to be the drivers of our growth. India, EMEA witnessed a growth of 40% and 27%, with good business from both existing and new customers. APAC and US region witnessed a growth of 18% and 13%. We are seeing continued adoption of subscription-based business model.

The overall subscription revenues have been growing, steadily at a healthy pace of 37% Y-o-Y and were at INR 84 crores in Q3. These are the building blocks of our long-term sustainable revenues. The annuity revenues for the quarter were INR 154 crores, witnessing a growth of 38% Y-o-Y. The annuity revenue comprised 61% of our total revenue in Q3.

It is noteworthy that these growth numbers incorporate the continuing transition to subscription from license-based model and is expected to result in faster growth and higher revenue visibility

over coming quarters. The quarter was marked by 16 new logo wins spread across geographies. We had significant deals in existing as well as new accounts during the quarter, including a cloud deal with a full-service financial institution in the Southeast region in America; a license-based project for a financial institution in America providing offerings for life and health insurance; annuities, pensions, real estate, banking and investment wins.

In India, Newgen won a large-sized project from a leading public sector bank and a private sector bank, a mid-sized project in Singapore for a global financial services group, a project for one of the fastest-growing banks in India currently.

Moving to update on our offerings and opportunities. Our platforms are well equipped for handling large varieties of complex processes and use cases, helping our customers in meeting their end-to-end digital journeys. NewgenONE platform has capabilities for automating complex processes and content services at scale. The AI/ML capabilities of Number Theory are now fully integrated with our product platform and philosophy. Our trade finance platform is also receiving a good response from our customers.

As mentioned in our press release earlier during the day, we are excited that for yet another year, we have been positioned as a niche player in 2023 Gartner's Magic Quadrant for enterprise low code application platform. While many platforms are offering more citizen and simple low-code application development, our low-code application development platform provides the enterprise-wide large-scale applications development that needs to be scalable and robust. We will continue to work on our long-term platform and cloud goal.

On the operational front, attrition has stabilized now. We continue to invest in strengthening our team wherever required, including campus recruitment and lateral hires. Our focus is on adding such talent, working on their development needs and making them productive in a short period of time. A lot of emphasis is put across on training and developmental work of our employees, with regular training across various aspects, including product, business management skills, team development, etcetera.

We are trying to build large capacities at a reasonable cost to deliver large business opportunities we are seeing in our geographies. On the sales and marketing front, business travel has fully resumed, leading to in-person customer interactions. Following the customer meets in Mumbai in September, we had successful in-person customer meets in Dubai and Delhi after a break of three years. The response received was tremendous, participation included existing and new global customers, system integrators and large consulting firms.

It served as a good platform for showcasing our products road map and customer success stories as well as enabling customers, system integrators and consultant networks to provide their input, understanding and product capabilities, collaborating and exchanging with us. In the long term, we believe partners will strengthen and drive our growth along with the direct sales channel. We are rigorously working towards enabling these channels.

Our profit after tax for the quarter was stable at INR 48 crores compared to Q3 FY '22. During the year, R&D expenses comprised 10% of revenue and sales and marketing expense comprised 22%.

In the first nine months of the year, our total revenue was INR 669 crores, witnessing a growth of 22% Y-o-Y. Our profit after tax was INR 98 crores.

On the cost front, this year is marked by the continuing impact of elevated employee costs, higher costs on account of increased go-to market initiatives, return in-person events and gradually normalizing travel expenses. We are continuously investing in widening the employee pyramid by higher intake at bottom of the pyramid and working on their training and

development to make the products sale through. We see large-scale development needs in the future.

On the cash flow and balance sheet front, our net cash generated from the operations activity was INR 100 crores for the nine months. Our net trade receivables were INR 283 crores at the end of December, which resulted in a net DSO of 115 days.

Our compelling value proposition in the market includes our low-code platform approach, which is capable of handling complex content and process requirements at scale as well as the growing opportunity for digital transformation across organizations. We are thankful for the continuing support and faith shown by our customers and for giving us newer opportunities to show cause the immense value our solution can bring to their organizations.

Our cloud and subscription revenue continued to grow at a fast pace, helping us in developing a long-term sustainable business model. We will continue with our investments in our people and their development to build a future-ready organization. We are now open to Q and A. Thank you.

The first question is from the line of Mihir Manohar from Carnelian Asset Management.

Congratulations for a good set of numbers. Sir, I just wanted to understand your traction on the trade finance platform, I mean, given the fact you launched this platform in September. So how is the traction over there? And what kind of inquiries or what kind of conversations are you having over there?

And my second question was on the GSI. How did GSI pan out this particular quarter? And my third question was on the margins. I mean we have seen sequential improvement in margins, but the fact that since travel cost has normalized or still on a Y-o-Y basis it is down 500 basis points. So as you know, we as investors, how should we see margin for the balance part of the year or even for the next year earnings? Yes, those were all my questions.

And I'll try to answer them one by one. See, on the trade finance, what we launched a few quarters back, I think we have developed a very promising funnel across all regions, and especially in Middle East, India, APAC the funnel is. In fact, we have also got some interest in US in certain customers. So, we are going slow, because, right now, we're looking at also our capability to execute on that front.

We closed a deal on trade finance in this quarter as well, and we have at least two or three more closures left for the quarter to come. So broadly, these deals are substantial in size and are very different in size and execution compared to our traditional size. So we are looking at potential to close three, four, five deals a year. This also gives a substantial jump to our revenue. So we're very hopeful and we are running it very aggressively.

On the GSI front, we continue to invest in that. And I think we are happy that the funnel overall keeps on improving out there. This quarter, we have been able to close three deals with GSI, in the US and Australia. It's still a very long way to go in terms of what our expectation for GSI is, but it does continue to grow at only an organic pace rather than a state which could disrupt the market for us.

On the margin side, you're right. I think we have come back to that previous margin which was prior COVID area on account of normalization of travel and normalization of also operational costs. And also as Mr. Nigam said, I think there's a lot more of cost pressure on -- in terms of talent management, wages, and that seems to be one of the most important challenges still we are facing in terms of managing the talent.

So what we had indicated was that last year's margins were not a sustainable benchmark because a lot of our operational and business activities were not being conducted. But even in near term in Q4 as well as next year, I think we aim to achieve a margin percentage of net margin between 17% to 18% and EBITDA between 22% to 23%. Now we are at roughly around 14.5%, 15% for 9 months. Q4 is generally a very strong quarter for us. And if we are able to meet the historical trends of Q4 and meet that growth rates, we should be very close to our estimates of what we have estimated at the beginning of the year. Does that answer your question?

Sure, sir. That is really helpful. Just on the trade finance side, I mean, you mentioned that the deal sizes are higher here. So I mean, if you could throw some more light. I mean, what kind of deal sizes are there? And just on the differentiation side, there are several players offering this particular platform. So what is the differentiation over here? What is our right to win in this particular offering?

Generally, for trade finances, eventually -- while the traditional deals which we are close between 400k, 500k, the trade deals are roughly between \$1 million, \$2 million upfront. But the long-tail revenue in them is very strong because these projects take a large amount of teams, a large amount of engineering activities to manage them over the lifetime. So the lifetime account value may be multiple times than the traditional size for us.

So upfront revenue is \$1 million to \$2 million?

Yes.

All right. Sure. Yes. And just on the right to win side.

Yes. So I think -- see, like we are the challengers in this market. And luckily, we have got some of the best cases and customers eventually. So we have seen that there's a lot of activity on the trade portal and trade origination which has not been completely addressed previously. And our technology of process of automation, low-code and content -- complex content -- so it's a very compelling value prop to the customer out there. This is an area which people are finding a lot of interest in and coming back to us. We've been lucky to get first four, five customers which are the marquee names, and that is building strong credentials for us. But every market we'll have to really discover. I think we have touched so far on India and Middle East. We have not really got deals still in Europe, US or UK So I think we'll have to go and discover that as we enter those markets.

The next question is from the line of Harsh Shah from Dimensional Securities.

My question is on the Indian market. So this quarter has seen a sort of sharp increase in the revenues. We were around INR 65 crores sort of run rate. And this quarter, we saw around INR 86 crores, INR 87 crores. So just wanted to know is there any one-off in this quarter or is this the run rate going ahead for Indian markets?

Harsh Shah, this Indian market keeps on surprising us. Every time we say that it's going to slow down, it keeps on bouncing, and every two, three years, it delivers very strong performance. I think last year and this year, we are in that cycle that India market is delivering performance about 30% for us. Though in a particular quarter, a steep jump can be because of some license deals coming in, which could have upfront revenue realization. But overall, if you look at the whole nine month period, it's a substantial growth. So nine months period is also close to 40% growth.

So we think right now the market in financial services and also in other product side is really strong. People are investing very aggressively for growing their businesses. And that's where we are able to get a lot of renewals of large contracts from existing accounts as well as penetrate new logos. So I would not call it one-off. There is no one-off major deal which could disrupt the

revenue but yes, some amount of fluctuation in quarters can happen because of large license deals.

But on a year -- I think for us to look at regional -- I keep on saying that it's very important to look at an annual result for a regional performance rather than a quarterly because the numbers are still small-- when the numbers are in the range of INR 30 crores, INR 40 crores, INR 50 crores, a single deal can change all percentage gains. But if you look at a nine month result, India has been very strong, which concludes that this year is going to be very strong for India.

Okay. Just if I may follow up on this. Is the investment coming from the fintech side, the smaller emerging companies? Or the investment is in across all segments and the larger banks and NBFCs are participating?

Predominantly, banks and NBFCs, not fintechs, because fintechs are generally IT shops on their own. So the automation platform which we provide to banks and financial services, fintechs are generally creating most of the technology in-house or having a very alternate way of doing that. So customers in public sector, customers in NBFCs, private banks are our primary drivers of this growth.

Okay. And what is the outlook for the SaaS companies now globally? I mean, post-COVID the industry was gung-ho, there's a lot of funding coming around. But with the funding squeezing a bit, a lot of companies going out of the business. And even the employees cost has gone down quite a bit. So is the buy versus build narrative still going on? I mean SaaS segment will continue to be strong or people are shifting towards building their own team and building their own software?

Yes. So I'm not probably the expert to comment on what's going to happen globally to SaaS companies, but I can tell this buy versus build narrative has been there for last 15, 20 years. More and more customers depending on the nature of business and more and more complex things are coming into a buy phase rather than build, because just the time to market and the advantage to get something quickly launched for their customers is very, very important.

So I think broadly if I can answer on that, there is a huge interest to look at products, look at ready-made things which customers can absorb. And really, customers want to focus on their business rather than large engineering cycle. So that way, we find the same traction. And it's true for our own offerings as well. More and more customers are taking our ready-made solution escalators and deploying them for complex businesses around that. But SaaS companies is a very different business. I would refrain from commenting on that.

The next question is from the line of Ankur from Jefferies. The current participant has left the question queue. We'll move on to the next question from the line of S. Chatterjee from AS Capital.

So annuity is now currently 60% of our business, so SaaS, ATS and support. So if one of our clients in this segment wants to cut cost and switch to a different vendor, what is the switching cost? I mean, what is the type of problem they will be facing if they switch their vendor? How sticky are they?

So you're absolutely right, the annuity keeps on growing. We have a constant endeavor to grow the annuity business. But to understand, we are still in the enterprise business space, where cost of engaging for a vendor or just engaging with the customer is very high because these systems are very deeply integrated in customer ecosystems, integrated with core banking, ERPs, multiple vendors running core business activities. So technically, everything can be switched, but we have seen almost negligible switching over last 15 years.

So what we sell to customers are their primary business solutions. I think in banks it will become probably the second most important system after the core. Same is true in insurance, same is true in financial services. Our shared services, we are the core shared services platform. Technically, it can be switched, but enterprise products if they are running fine and the customer's technology is not obsolete, they continue to be used.

So I don't think the switching happens to get a better deal or an offer. The switching only happens that if your technology stack becomes obsolete or you're not able to meet the customer business requirement. And so far, I think we have been ahead of the curve over there. That's not been the challenge.

My question is, today, we are a \$100 million company and we had an aspiration to go probably \$500 million in probably next five to seven years. So what are the challenges in it and what will be the growth drivers, I mean, whether that's GSI, corporate finance platform or anything else?

See, we are very confident with the products and the solutions and customer reference ability we have. The potential is there. Of course, there are a couple of strategies which we need to execute. And one of them has been what we've been working over some time over GSI, where we have built the ecosystem, but on the results, it's still slow. I'm not saying that the results are not there, but they're coming at a slow pace.

The other part of it is really getting a strong foothold in mature market and Fortune 2000 clients where GSI is a strategy, but we are also augmenting that with our own go-to-market, whether we are opening subsidiaries in Australia, UK, US. Now, of course, it's a very organic process. I think things start picking up. Last two years on COVID, I think we have been slightly less behind on that initiative, not able to execute really on those business plans. But I think this year, we have started showing the business momentum. And if we are able to keep this momentum for next six, seven quarters, we should be able to really create a direct linkage between the time line by which we can reach there.

The next question is from the line of Ankur from Jefferies.

Yes, I'm sorry for the last time. So could you provide some color on your various markets that you have and the outlook for each of these markets? Especially US, I see that there has been a 13% growth this year. So what has been the growth in terms of constant currency? And there's been a doubling in terms of your SaaS revenue. So what has led to that? So my first question is this.

Yes. On the various markets, I think you can see through the results clearly what's happening in the emerging markets, which have been strong for us, continue to be performing very strongly. India is driving that growth. But also Middle East on the value terms, if you look at on nine months and year base, will become the primary growth driver for that. APAC also is becoming very strong. I think from hardly being 4%, 5%, 7% of our business, it has started growing to more like 14%, 15% of our business.

And with Australia subsidiary also kicking in from next year -- we should be able to build a much more stronger impact. US, we have pivoted in strategy a couple of times. We are deliberately working out on some amount of business which was not really leading to long-term growth and margins. So we are pivoting on that. So we have recorded a growth of 13%, but it's very weak compared to what we have been able to traditionally do from US. So US is one of our bigger challenges right now which we are trying to solve.

Coming back to the SaaS and growth of SaaS. One thing we started last year in November. Now it's almost like four quarters. We started deliberately shifting a lot of our deals to subscription-based deals. And s which also led to -- we didn't have a lot of revenue realized in those quarters. Now that, that revenue is coming in slowly, you will see the subscription and the SaaS-based

revenue growing at a much more compounding speed. In fact, in this quarter, out of 16 logos, 9 logos which we have won are completely subscription-based logos. So they will start adding into future quarter revenue.

So on the order book side, we have a far better performance than what is reflecting on the top line because of the deferred revenue coming from subscription deals. So it's very natural on the SaaS growing at this speed, and we think that we can continue to grow the SaaS at a much higher speed over next four, five quarters. Does that answer your question, Ankur?

Yes, yes. That's very helpful. And on the other -- I see the other expenses have risen quite sharply this quarter. Anything around that, like what led to that? I understand business travel is one part of it. But do you expect it to go further -- higher incrementally or sequentially for the next quarter and also for the next year? How do you see that line item?

Yes. So I think generally our other expenses will have significant growth compared to last year because on account of normalization of travel, operating costs and also more marketing activities which we are starting. Other expenses will go sequentially up slightly because -- for next quarter, they will not go substantially up. In fact, as we grow and start investing more in travel and marketing, they may sequentially go up. They will keep pace with the growth of the company.

But the base is pretty large. We do expect to spend more on marketing, more on travel next year. It will go up, but the jumps will not be comparable to this year's jump, because this year's jump is on a very artificial base.

All right. And if I did catch your earlier comment right, your EBITDA margin that you expect, 22% to 23%, was for next year, right? That is the kind of number that you're looking at, right?

Yes, surely for next year. Yes, next year also, our attempt for this year was also around the same percentage. We are having some amount of challenge because we're at 14%, but -- although historically Q4 is always a larger quarter for us and more -- because the costs almost are recurrent. Q4 on the cost front is not going to be substantially different from the Q3. But any increase percentage of top line growth will completely reflect in the margin side.

So the cost would be flat and you are planning to -- and the revenue would be, hopefully, competitively higher. That's what you're saying?

Yes, and that has been the tradition. If you look at last five year's data, this is exactly -- most of the margin actually comes in Q3 and Q4, and predominantly in Q4.

The next question is from the line of Devang from IDBI Capital.

Congratulations on a good set of numbers. So I have a couple of questions. One is, what is your CC growth in the quarter? Second, will you be able to surpass the Q3 performance in Q4 and FY '24? What led to the dip in government revenues? I have two more questions, but I'll come after your answers.

Okay. Then let me see on the constant currency, our Q3, we're at around 19.5%, if I'm right. So around 19.5%. That is -- on the Q3 versus Q4, historically, Q4 has been always stronger than Q3. But Q3 since we have delivered at 26%, we do expect the base for our business keeps on improving because of the subscription revenue we are building. And our attempt is to have a stronger Q4 compared to Q3. But how strong? I think that will come when the results unfold. But yes, it's not that the Q4 can be weaker than Q3. So it will be strong. On the government revenue, I think right now government for the 9-month period -has grown by 70%. And for the period of Q3, it's minus 6.4%. That's why I said, the quarter numbers when you break further into verticals and segments and regions, they become so small that a single deal makes the percentage look odd. So it will be better to look at either nine months or a 12-month number. So

this year, I think the banking, government and insurance are still performing strong. We are slightly becoming weaker on the shared service and manufacturing side, which we are trying to recover.

And on the FY '24 side, will you be able to maintain the FY '23 revenue growth?

See, our endeavor is to even exceed that, because as we said, we have aspiration of investing aggressively for growth. And depending on if the market is favorable and we are able to execute our plan, there is no reason why we can exceed the growth of this year.

And how much was travel as a percentage of revenue this quarter or nine-month basis, whichever is? And with increase in direct sales, how much the cost will increase? Despite that, you will be able to maintain that 22% to 23% band?

So I think this year, you should look is what has happened in terms of whatever additional cost of INR 20 crores from travel or SG&A or manpower cost, has all got into eating in the margin. But historically, since now the next base of margin has been set up. We have a travel of roughly around INR 30 crores to INR 40 crores is going to be this year. And also, SG&A costs have been -- we are operational on almost 80%, 90% of our capacity.

So now the cost growth for even historical -- for any x percent of growth, our cost only grew by almost half of x on the manpower side. That has been traditional. Because as we generate high gross margin business, roughly, around 60% to 65% is our gross margin historical as well. So there is a lot of operating leverage in terms of multiple revenue streams, ATS, license, SaaS. We don't have any direct costs associated with. So for getting 25% growth, we don't need to spend 25% more cost. We need to spend incrementally more like 13%, 14% of the cost. So there is going to be operating leverage at gross level. And I think next year, even as growth rates similar to this year, we should be able to expand the operating leverage.

What was the contribution of GSI to revenue? And is your US margins which you did this quarter, is that sustainable going forward?

I think quarterly margins, again, is not the right way to look at. I think annual margin is what -- I think we should be able to do better in US because our US Q1 and Q2 were weak. Q3 and Q4 if they become strong, we should be able to restore some margin. But next year, we don't expect US to be weak at all. We expect US to be the growth driver for the company. And once it's a growth driver, there's no reason why the margin contribution will not be happening there.

And what will be the contribution of GSI this quarter?

I think this quarter, see, GSI percentage revenue is still very small. We look at partner revenue, which is roughly between 20% to 25% of our revenue. But the GSI is -- we look at number of deals which GSI has really brought in. So this quarter, three deals were brought in GSI out of 16 deals we got.

The next question is from the line of Deepak Poddar from Sapphire Capital.

Sir, first, I just wanted to understand, I mean, the comment that you made in the -- to the last participant, that for -- I mean a 25% revenue growth, our cost will grow only at 13%, 14%, right? It will not grow proportionately?

Yes.

So ideally, but then if it stands today, if we take this quarter as a base, already our PAT margin is 19%. So ideally, then our PAT margin if we have to look at maybe three years down the line,

it should cross 22% to 25% in that range ideally if our revenue grows at 25%, whereas our cost grew at only 13%, 14%?

Yes, Deepak. You're absolutely right, the business keeps on expanding margins at gross level as we expand and scale but then what happens is, though direct cost would grow at the same level, but we keep on growing our cost in sales and marketing and R&D, because as, if you want to compete at the global space, right now, our sales and marketing costs are at 22%. If you look at global product companies, they go all the way up to 40%, depending on if we can hit the high growth.

So when you look at net margins, it's also a function of business: Am I trying to pre-invest in growth? Am I trying to match it along with the growth rate? So sometimes when we see clearly that there is an opportunity to grow and invest in markets, then we go and invest in those markets. So we increase our sales and marketing and R&D expense. And that's why we are saying that being listed in India we endure to at least meet that kind of a margin, but then as a business, of course, can deliver much higher margins.

So the net margin of 17% to 18% which you mentioned is considering all these factors, right? I mean, in spite of...

Considering all those factors, yes.

And \$500 million in next five to six years effectively means you have to grow at a CAGR of 25%-plus for next five to six years, right? So that's what we are looking at?

I think much higher than that. And for that, multiple things have to kick in. And I think the GSI has to kick in, sales percentage contribution from US and Europe has come to almost 60% of the revenue because the larger addressable market is in those areas. And that's what we are spending on marketing for expanding regions out there, investing. And those will be the investment activities which we will do over next three, four years.

So that's a very high growth we're talking, I mean, much higher than 25%, maybe if I have to assume 30% CAGR over next five to six years. So what can go wrong according to you? I mean it's a big growth we're talking sustainably for next six years, right?

Yes. See, the only thing which can go right is we end up doing it. And everything else can go wrong. So I think our ability to penetrate mature market clients, our ability to build brands in mature markets. See, I don't see there's a challenge on the technology stack. Our products are very well recognized globally for last 14 years. And depending on the kind of customer base we have, we are able to stay ahead in the market and really prove our credentials.

We keep on updating the product at that investment. Our ability to sell, market and position ourselves is the biggest challenge. And especially, we have to pivot from emerging market player to a mature market player. And there are multiple activities associated. GSI is one initiative and we are also looking at multiple initiatives. And at some time maybe we'll have to look at also inorganic steps to complement that.

So any kind of inorganic steps also kind of factored in this \$500 million that we have taken as a vision in next six years?

So it's a vision. So nothing is left out of it.

So that is kind of, I mean, included in it?

Yes.

The next question is from the line of V.P. Rajesh from Banyan Capital Advisors.

The first question is just, you called out about the Indian business being very strong on the growth side. So if you can just elaborate a little bit more as to why we are winning in the Indian market? Is it because the banks, etcetera, are becoming more automated, or are we replacing somebody else? Some color on that will be helpful?

Yes. So one thing is clearly, so India we have been traditionally very strong in all the banks, insurance companies and most of the shared services. So almost all enterprises end up using us in one way or the other. So what happened basically over the last few years, especially in financial services, there's a lot of money being spent on digitization, automation and also transforming their business models to digital. So we have been one of their prominent players and we are getting our share. Also on the other hand what we are doing, as we are getting into any vertical, we keep on extending our portfolio of products in that vertical. So like in banking, we started with digital onboarding and lending origination. Now we have gone more-and-more into these. Now we are doing complete digital lending journeys from major banks and those projects are substantially different sizes.

And that opportunity is opening in multiple areas at the same time. And we being an incumbent out there and having a good relationship with customers, we end up getting an advantage out there. So we are competing with the SIs out there, we are competing with international players, all financial services players. So it's not that, the competition is quite wide. But I think in Indian market, Middle-East market, in financial services we are very-very strong depending on the kind of engagements we have done or the kind of relationships we have out there.

But the market is really opening up and the digital lending is one of the drivers and any other area in enterprise where they could digitize which has not been digitized traditionally. Service request management is another large area. Trade Finance we've recently launched, and that's another area which is picking up. And so these are some areas which are developing the traction. Does that answer your question, Rajesh?

So just if I can summarize. It's not necessarily replacement of other vendors. It's more about either the processes being automated or new things or new way of doing business that is coming up which is flowing to you, is that a way to understand this?

Exactly. Yes.

And then second question is, as one of the participants here was talking about that the funding has come down for the start-ups. So globally, are you seeing your competitive landscape changing, where some of these start-ups who were coming into your space either have become less aggressive in the marketplace or have gone away?

So I don't think they will go away. I think the ones which are worthwhile and have a sustainable business model will stay and will disrupt the market. And then at some places, we partner with them, some places we complement. And one of the things what I have seen at least in the financial services, as soon as a partner or an incumbent or a challenger becomes sizable, he gets the same, he gets hit by regulation as other structured financial institutions. So all of a sudden, the business model again comes back to the same area.

So I think there is a challenge in terms of smaller entities always disrupting the market. But we always find our space either complementing them, augmenting or substituting the same capabilities. I don't think that they're going to vanish. I think this change of -- the challenger ecosystem, also keeping everybody on the toes, is going to be there in the market. That's what I feel. And it's healthy also. They also end up providing us a lot of other ideas what can happen.

But incrementally, if you go back one year or 1.5 years back versus today now, would you say it has come down, or is it same as what you were experiencing a year ago?

See, on the business side, I don't think it was material at least for our business right now. But I could say, the noise is less maybe. But yes, I think it has not changed too much for us. The other thing is, we are still -- in US and Europe, we are on the fringe. We are not still in the core. We are a very small part of the market. So that's where there is a lot of action happening. In traditional markets, we are very-very strong and I don't think so far these guys have been able to challenges us in larger areas of what we do.

And then finally, on the US side and the European side. So what is not going right in the US, for example? You said that you are making some changes. Is it the product set that is lacking in some ways, or is it the sales and marketing capabilities? What is the thing that you need to fix to start increasing the US business because that's the largest market?

So I think its presence and sales and marketing. Presence in terms of localizing your organization, but predominantly sales and marketing, and marketing-led sales rather than sales on that. Because it's a product brand. At the end of the day, somebody is buying a platform which he's going to use for 20 years. So his ability to be comfortable, knowing the company, analysts, recognizing that company in a better shape, a lot of people talking about it is very essential to close deals for them. So I would say, the number one is our marketing-led sales, and number two is going to be typically much more deeper presence in markets.

And in terms of your retention, what is the retention you're experiencing in the subscribers in your SaaS business?

Yes. So I think what, the way we look at retention is any customer which is above INR 50 lakhs of annuity to us, whether it's a SaaS or non-SaaS. We almost have 95-99% retention in those cases. There's a churn if customers which are smaller come into channel partners and all. So SaaS, since US customers were smaller size, some of them, so there has been an element of churn. But still we have more than 90% retention on that level. But globally if you look at non-SaaS customers and our enterprise customers, larger ones, we almost have 100% retention. We don't have losing too much out there.

The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Congrats on a good set of numbers, sir. I have a few board questions. Last five years, what strategically we changed in our business model, like coming into -- since we listed in market to streamline the processes which earlier were not there? In conjunction to the ballpark vision of reaching \$500 million turnover we have in mind. So can you just throw some strategic highlights on that?

Yes. So Chirag, last five years or more continuously what has happened, but I can tell you specifically what we have done slightly in last three years, and that is the time line when we started working on the GSI. And the idea was not working on GSI. The idea was to find a way to enter Fortune 2000 market, and that could not be directly only sales-led.

I think we have invested a lot on creating the GSI enabling ecosystem, which is typically a GSI sales team out of India which is working with relationships, competence center, practices sets of software. And we have augmented those sales teams out there, so it's whole enablement, training, certification model for that. So a lot of investments has happened in that. And that's a framework which will continue to give us returns over next many-many years, because at whatever speed the GSI grows or the partner ecosystem grows, we'll keep on leveraging that framework.

The other thing is we have started increasing our investment in mature markets. We're opening up the Australia subsidiary, strengthening the UK subsidiary. Extending the enterprise sales team

in US, those will need some other initiatives. And third have been predominantly about looking at positioning, branding and the product, which is typically to look at how the product, so we are recently coming up with the next, very happy that probably we'll be releasing it in this week, one of the products which is typically to address a lot of concerns around or opportunities of our mature markets in terms of what people expect of the product, both of the user interfaces, compliances, regulations.

So I think a lot of -- so I will say if you summarize, more-and-more preparing ourselves for mature markets and finding ways to really succeed out there. That is where the investment. On the other hand, to protect ourselves and to grow strong in our traditional markets we have gone deep into the creating multiple verticals within the same business segment. So banking we came and prepared digital lending products, collection, service request management. Insurance we got more deep out there.

So working on two things. One is wherever we have a named account strategy, we know what we are selling, we are going very deep in those verticals and trying to protect our market share out there, expand within the same accounts and get more accounts. And on the mature market, really investing in sales, marketing, GSI ecosystem improvement, product, brand. And I'll stop there. Yes. Does that help?

The current participant has left the question queue. We'll move on to the next question from the line of Sarang Sanil from RW Investment Advisors.

My first question is, in general, how the situation in US and Europe right now considering the ongoing macro events, apart from us walking away from the deals of long-term focus in the US. And on the same line, if you could provide what percentage of EMEA, Europe?

Yes. Sure. I think I'll answer the second one, it's easier. So EMEA for us actually is predominantly Middle East, Africa. Europe is very small. I think we just grew roughly around \$3 million of revenue in Europe just that too also in London with a few clients. So Europe, we are completely starting our journey. US is roughly around 27% to 30% of our global revenue.

So first of all, generally, in Europe, we have seen there is a slowdown. And especially coming, the feedback coming from our system integrators or partners, we are finding it challenging. They're really looking at how to optimize right now their operations. US, I would say, we are still in the account profiles which are very small, and I think they have been sleeping in the pandemic era and they have not even come back after that. And so that area.

But on the larger account size, where -- I think there has been a -- at least last three quarters, there has been a kind of conversation about that there is probably a recession around the corner. They need to optimize. They need to go slow on that. Has it affected our business? I wouldn't say that, because our share of the business is so small. And I think our own actions right now determine our outcome rather than the overall global market.

So my second question is, when can we see the net DSOs going down, because in the last quarter it was told that it could stabilize soon, right?

Yes. So I think we have done that journey of taking it from 200 days to 110 days, 115 days. And next phase of our endeavor is to bring it to sub-90 days, roughly around that. And what you're - - so when I break this problem into multiple regions, we have sort it out for most of the geos apart from Middle East and Africa. These are the only geos. Since it's a large territory, it's affecting us still.

So I think slightly, it has slightly shifted on the upward because of -- one is, of course, the higher revenue being clocked in last two quarters, but also on account of some amount of inability to travel in those regions. And again, the currency fluctuation is happening in Africa over last 1.5

years. I think we are looking very strongly on that and I'm sure as soon as we are able to get the EMEA under control, I think we should be able to get a much stronger number all across. I would say in next two years, I think we should be there.

Probably in two years, is it 90?

Yes.

So my last question is, also what is your exposure to UAE in general? Just to understand the impact you could potentially have in case corporate tax is imposed in the region. And any comment on that? Are we in tax-free zone or anything of that sort?

We are in tax-free zone out there. I think there is none right now because most of the building, it's a branch office in UAE. So right now in the existing contracts, there is no taxation. But we are also looking at localizing in both UAE and Saudi in a period of time and we should be able to come in the taxation. And if there's a taxation, we don't think there's a substantial impact on that. So right now, see, our UAE and Africa region is quite distributed. There is no single region which is giving us. So we are having business in Dubai. We are having large business in Saudi, Qatar, Oman and then other territories as well. But I don't have the numbers of exactly which territory. Maybe if you can contact Deepti, she can send that details.

The next question is from the line of Rohit Balakrishnan from ithubought PMS.

Sir, just a couple of questions. One was, sir, can you share, what are your gross margins in nine months FY '23?

Yes. I think it should be around 65%.

Is it possible to probably share that, I mean, in the presentation as well? I mean, you shared the employee costs, and that would also include R&D and also I think some bit of sales and marketing. So if it's possible to separate that out and just to because as you explained earlier, probably as more subscription business becomes greater, then probably gross margin, it's easier to track that gross margin evolution for us from the outside. So if you can share?

Sure. I think we can, okay, I'll ask Deepti to look at that and see that we can present it. Yes, I think you're right. Historically, see, we have been in this range of between 60% to 65%. And you're right, as we get into more in subscription and more annuity businesses, it will keep on expanding.

And sir, second question was on your US and more advanced market strategy. So in these markets, I mean, how are we going, how are we trying to go after the markets? And you mentioned that marketing is something that you need to work on. But in terms of the customers, are we targeting the Tier 1 customers, or you're first going after the smaller customers and then eventually going to those larger customers? If you can share a bit around that, that will be also useful?

Yes. So I think US, we don't have one strategy. We have multiple strategies. So in certain core verticals where we know exactly what the customer wants, we go directly to the end accounts, which is what we call a direct sales strategy. So like in banking, typically Tier 2 and Tier 3 banks, we have a direct sales strategy. So we go and we know exactly whether we are going to do a digital lending journey out there, an origination or any other solution out there. So this is where we have a direct sales team which is distributed across different regions in US and they're trying to enter these accounts.

For Tier 1 accounts, other accounts which are larger accounts, we are going through the GSI strategy, where we are saying that the GSI is already an incumbent, they have worked on

multiple projects with us across geos. Now if there's an opportunity either which they bring in or we are able to sense, then we can always go with the partner. So between, enterprise sales of GSI strategy, and other is the banking sales strategy. So we have these two strategies going on in parallel, and we are continuously refining them so that they deliver.

And sir, on this GSI one question was that you mentioned a couple of times in this call that it's going a bit slower than what your expectation was. So one question is why is it slow? And second, is there something that you can do to change, or is it just a normal evolution that it will take some time for it to deliver?

Yes. So question is, first of all, why? If I had answers, I would have sorted it out. But what we are doing, we are not happy with that doesn't mean that we'll reconcile to that. So we recently did a exercise with a lot of consulting companies to look at outdoing, borrow a GSI strategy. We're adopting those changes. We are also looking at complementing the whole strategy with our own brand presence, our own aggressive marketing in US.

See, what happens for product companies. It's a general trend that at around size of \$300 million, \$400 million, 60%, 70% of the revenue is partner-led or what you call GSI has been partner-led. So we'll have to go and replicate that. So whatever we are investing is the right path to grow. So there's no way that we can slow it down. We have to find ways of aggressively pursuing it and getting returns out of it. So this is not in one of the strategies. So this is the more prevalent sales go-to-market strategy coming in next three, four, five years. So we'll have to find a way to really escalate it.

Now we do get roughly around nine to 10 logos a year. Now we could be very happy or disappointed. That depends on whatever end aspirations are. So our aspirations are very high. That's why we are not happy with that. But getting 10 logos to GSI is also a good feat.

Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Ms. Deepti Mehra Chugh for closing comments.

Thank you so much, everyone, for joining in. For any further queries, you can connect with me or you can go to our website. Thank you.

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