"Majesco Limited Q2 FY-18 Earnings Conference Call"

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**MODERATOR:** **MS. ASHA GUPTA – CHRISTENSEN INVESTOR RELATION**

**Moderator:** Good day, ladies and gentlemen and a very warm welcome to Majesco Limited Q2 FY18 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. 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. I now hand over the conference over to Ms. Asha Gupta from Christensen. Thank you and over to you, ma'am.

**Asha Gupta:** Thank you Ali. Good morning and good evening to all of you. Welcome for joining Q2 FY18 Results ended 30 September 2017 of Majesco Limited. Please note the results are being mailed to you and you can also review it on our website at www.majesco.com.

To take us through the results and answer your questions today, we have with us Mr. Ketan Mehta – Non-Executive Director of Majesco Limited and Founder and CEO of Majesco US and Mr. Farid Kazani – Managing Director of Majesco Limited.

We will start the call with the brief overview of the quarter which will be given by Mr. Ketan Mehta and that will be followed by Mr. Farid Kazani who will go into detailed financials. We will then follow up this with Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement it must be viewed in conjunction with the risk and uncertainties that we face. This risks and uncertainties are included but not limited to what we mentioned in the prospectus filed with SEBI and the subsequent annual report that you can find on the website.

With that said, I would now like to handover the call to Mr. Ketan Mehta. Over to you, sir.

**Ketan Mehta:** Thank you, Asha. Good evening everyone and welcome to Majesco's fiscal 2018 second quarter conference call.

I am happy to announce that after four quarters of declining revenue our revenue in this quarter were up 8.8% sequentially demonstrating the growth in our cloud business and the addition of revenues associated with the previously announced IBM MetLife contract. Majesco's cloud business has begun to show the momentum that we have been speaking about in the last few quarters.

The total revenue from cloud segments stood at Rs. 60.7 crores, a growth of 28.1% sequentially and growth of 42.3% on year-on-year basis. As a result, the cloud business now represents 30.5% of our business compared to 20.3% of our business a year ago. In addition, we experienced sequential improvements in profitability as adjusted EBITDA margin stood at 3.4% to Rs. 6.7 crores as compared to an adjusted EBITDA loss of Rs. 1.2 crores last quarter. We are encouraged by these favorable financial trends over the past 3 months. We expect momentum in our business will continue as we profitably grow our revenues by enhancing our cloud based business executing our order book and expanding our market share throughout the Insurance market place.

Insurance carriers are increasingly focused on innovative growth opportunities through new products, new geographies and new business models. However, we also see a tightening of insurance budget. It is in this context that Majesco's cloud offerings are gaining traction in the industry.

Majesco is proud to partner with IBM and MetLife for the landmark IBM Insurance Industry Platform. Majesco provide the core component including policies, billing and claims which will be integrated with IBM Solutions including cognitive capabilities and other third party solutions. This platform will be hosted on IBM Cloud and we will allow insurers to consume these capabilities "as a Service".

Industry trend and the transition Majesco is making to the cloud were further confirmed during our recently hosted annual customer conference Convergence 2017. We have had a record number of participants at the conference. During the conference we made a number of announcement of our current and new solutions. We announced version 10.0 of Majesco's P&C Suite and Majesco L&A and Group Suite which provides the next generation of core systems as a part of our platform portfolio that have the ability to scale in public could and are architected for seamless and frequent upgrades. It is important to note that Majesco's P&C Suite and Majesco's L&A and Group Suite are the foundation of the new version of 2.0 Majesco Cloud Insurer.

During the quarter we also announced Majesco's Digital1st Insurance, the first digital engagement and micro services based platform as a service for the entire insurance industry. I am very excited about this platform as this further differentiates our offering and expect that this platform will be a driver for our growth in coming years.

During the conference we recognized over 24 clients who went live with Majesco Solutions last year.

Together Majesco's offering represents our platform strategy encompassing solution that support modern core system initiative, digital and data strategies and a new generation of insurance business models and products. This breadth of services and solutions combined with Majesco's holistic and client centric approach creates a differentiated platform. Looking at new sales, our pipeline of opportunities remains strong and includes exciting deals across all tiers and lines of business. It is further encouraging that about 80% of the opportunities in the pipeline are for Majesco's Cloud offerings.

In summary, I am pleased with the movement we made towards the cloud during the quarter, improved financials, strong product and platform announcements and opportunities we have in hand as we enter the second half of the year.

Now I will turn the call over to Farid to discuss the financial drivers for the quarter.

**Farid Kazani:** Thank you, Ketan and good afternoon to all and welcome to our second quarter conference call.

We are pleased with the progress of the transitioning of our on-premise business to a cloud-based model. While you will see the reflection of this in the second quarter that we announced, we do expect the accelerated momentum in the coming quarters as the new business model benefits from higher recurring revenue and improved profitability.

The operating revenue for the second quarter ended 30th September 2017 was Rs. 199.1 crores as compared to Rs. 183 crores in the previous quarter ended 30th June 2017 reflecting an increase of 8.8% in rupee term and an increase of 8.6% in constant currency terms. The total revenue for the quarter was Rs. 201.8 crores as compared to Rs. 184.7 crores in the previous quarter, reflecting a growth of 9.2% on a quarter-on-quarter basis mainly driven by the build-up of our cloud based revenue.

The operating revenue for the six months period ended 30th September 2017 in rupee terms decreased by 11.4% to Rs. 382 crores as compared to Rs. 431 crores for the corresponding six months period last year. The decline was due to the subscription based cloud programs with low implementation revenues replacing a large number of on-premise P&C programs moving from implementation to support mode. We are confident that we will reduce this gap by the end of this fiscal as sales grow in the second half of this fiscal year.

Turning to expense and profitability.

During Q2FY18, the product R&D expenditure stood at Rs. 27.7 crores up by 8.3% as compared to the previous quarter and was 13.7% of the Q2 FY18 total revenue as compared to Rs. 25.6 crores which is 13.9% of the total revenue in the previous quarter.

As mentioned by Ketan, the quarter marked the release of the version 10.0 P&C Suite and the Majesco Digital1st Insurance Platform. So, for the six-month period ended 30th September 2017, the product R&D expenditure was lower by 13% as compared to the same period of the last fiscal.

The adjusted EBITDA which is before the ESOP impact and excluding the onetime exceptional item for the second quarter ended 30th September 2017 was Rs. 6.7 crores or 3.4% of the operating revenue as compared to a negative Rs. 1.2 crores or negative 0.7% of the operating revenue in Q1 of FY18. The improvement in the margins by 402 basis points is aided by growth in the cloud based revenue during the quarter. The adjusted EBITDA for the six months period ended 30th September 2017 was Rs. 5.5 crores or 1.4% of the operating revenue as compared to Rs. 18.6 crores or 4.3% of the operating revenue during the six months period ended 30th September 2016.

The net profit for the second quarter ended 30th September 2017 was Rs. 10.7 crores as compared to a net loss of Rs. 5 crores in the previous quarter reflecting a growth of 312.5% on a quarter-on-quarter basis mainly aided by a onetime exceptional item during the quarter. Net profit for the six months period ended 30th September 2017 was Rs. 5.6 crores as compared to net profit of Rs. 2.4 crores for the corresponding six months period ended 30th September 2016.

From a geographic standpoint in the North America, the UK and the APAC regions represented 88.9%, 4.7% and 6.4% respectively of the second quarter's total revenue as compared to 88.4%, 5.3% and 6.3% respectively of the previous quarter ended 30th June 2017.

In terms of business split, the P&C business represented 79%, the Life and Annuity represented 18.2% and Non-Insurance was 2.8% for the second quarter of fiscal 2018 revenue as compared to 80%, 19% and 1% respectively in the previous quarter ended 30th June 2017.

The total revenue from cloud based customers were Rs. 60.7 crores which is 30.5% of the revenue for the quarter ended 30th September 2017 as compared to Rs. 47.4 crores which was 25.9% of the revenue in the quarter ended 30th June 2017 reflecting an increase of 28.1% on quarter-on-quarter basis and up by 42.3% as compared to the Rs. 42.7 crores which was 20.3% of the revenue in the corresponding quarter ended 30th September 2016. Total revenue from cloud based customers was Rs. 108.1 crores which is 28.3% of revenue for the six months period ended 30th September 2017 as compared to Rs. 82.8 crores which was 19.2% of revenue for the corresponding period ended 30th September 2016 reflecting a growth of 30.6% on a year-on-year basis. The recurring subscription revenue from Cloud business itself grew by 12.7% to Rs. 18.5 crores which was 9.3% of the revenue in Q2 of fiscal 2018 as compared to Rs. 16.4 crores which was 8.9% of the revenue in Q1 of fiscal 2018. The total recurring revenue which includes license revenue, recurring cloud subscription and maintenance support increased to 26.8% of the total revenue in Q2 of fiscal 2018 as compared to 25.7% in the previous quarter of fiscal 2018. The total professional services revenue which includes the on-premise IP based implementation revenue and the IT based services in the nature of consulting, data, digital, testing and ADM services. The said revenue was at Rs. 103.6 crores which was 52% of the revenue as compared to Rs. 105 crores which was 57.4% of the revenue showing a decline of 1.3%.

In terms of client concentration, the top 5 clients constituted 28.6% and the top 10 constituted 43.7% for the second quarter of fiscal 2018 as compared to 23.4% and 39.5% respectively for the previous quarter ended 30th June 2017. The total client count as of 30 September was 168 (LTM) and the total number of Cloud customers stood at 32 at the end of 30th September 2017.

The 12 months order backlog stood at Rs. 518.4 crores which was $79.4 million as of 30th September 2017 and in constant currency it stood at Rs. 512 crores as compared to Rs. 510 crores which was $79 million at the end of Q1 FY18.

Quickly turning on to the balance sheet, there was a marginal improvement in the overall net cash position in the quarter as compared to the previous quarter. The consolidated Majesco Group had a cash and cash equivalent of Rs. 176.9 crores as at 30th September 2017 as compared to Rs. 164.3 crores at the end of 30th June 2017. The total debt as on 30th September 2017 was Rs. 115 crores as compared to Rs. 104.7 crores at the end of 30th June 2017.

DSO stood marginally low at 79 days as compared to 82 days in the previous quarter of fiscal 2018. The total headcount was 2,423 marginally up as compared to 2,395 at the end of previous quarter of fiscal 2018.

This concludes our remarks. I will now pass it on to the operator, please open the call for questions and thank you very much for participating on the call.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Harit Shah from Reliance Securities. Please go ahead.

**Harit Shah:** Farid, just a query on your LTM order book, even that has fallen down by about 12%, 13% on a sequential basis. So how does that typically reflect there as far as the second half of the year is likely to shape out? if you can give us just a small perspective on that aspect?

**Farid Kazani:** You would understand that last quarter had a significant good order booking and that was reflective of the IBM deal that happened, and that's why you could see that drop reflected in this quarter. We expect to see good momentum in the order book in the second half. So, hopefully you should see an increase in the next coming quarters.

**Harit Shah:** But that does not imply any kind of decent rationale or anything as far as your growth is concerned, in 2H is that the right way to look at it?

**Farid Kazani:** Yes, that is right.

**Moderator:** Thank you. We have the next question from the line of Roshan Patnaik from Edelweiss Asset Management. Please go ahead.

**Roshan Patnaik:** Just a quick question in terms of the on-premise business, in terms of license revenues what is the outlook for the next forthcoming quarters, I mean where do you see the on-premise business going forward? And second question would be that Professional services showed a decline of about 1% on a sequential basis so is that going to remain stable for the next couple of quarters or is there going to be a larger amount of de-growth in that because the reason why I am asking is that if on-premise business is slowing down, and we are moving our business to Cloud, we would eventually see a lot of the amortization of the revenues from on-premise to Cloud? So, I was just wondering what would be your outlook on that?

**Farid Kazani:** The large part of the drop on these on-premise professional fees which is the IP implementation revenue has already seen a decline as I would see it is almost declined 30% on a year-on-year basis and what you see in this quarter is a very marginal decline of 1.3% on total professional services and I did mentioned in my remarks that the professional services include two components - it includes the on-premises IP based implementation revenue and it includes IT based services in the nature of consulting, data, digital testing and others. So, while the first part has seen drop, the second part has seen marginal increase. So, net-net what you see in this quarter are net result of a 1.3% drop. Now we do expect that the IT based services would see some growth going forward. I would not be able to give you exact view of the coming quarters, but I would stand to believe that the drop in the total professional services has almost come to a natural steady level. And we would not see a great amount of decrease in this component of the revenue. And on an overall basis while Cloud is going, we expect that our overall revenue should grow based on the growth that we see on the Cloud side.

**Roshan Patnaik:** So basically, what you are saying is that as the business gains tractions with more and more Cloud customers coming in, the IT based services such as the consulting and the value-added services that you promote will maintain a steady state of revenue, is that my correct assumption?

**Farid Kazani:** Yes, if you look at the combination of these two components, I am assuming that my IT based services will grow to that extent, the other parts of the business which has already de-grown substantially will not further de-grow so much and therefore the net result will not be as high as you have seen in the last year and what you have seen in this last quarter is just been a drop of 1.3%.

**Roshan Patnaik:** Okay, would you be just kind in giving us a breakup in terms of the professional services, what percentage is IP based revenue and what percentage is IT based services, out of the Rs. 101 crores that you have registered this year?

**Farid Kazani:** The IT base is roughly around 29%, the insurance based service is roughly 23%, so I am just giving you a ball park numbers.

**Moderator:** Thank you. The next question is from the line of Harit Shah from Reliance Securities. Please go ahead.

**Harit Shah:** Farid, I just wanted a clarification on what is happening as far as your L&A business is concerned especially in the UK. We have obviously seen about five or six quarters of revenue decline out there in that particular geography. So, can you just give some sort of understanding of exactly what are the trends that are taking place out there and is there any scope for recovery on that aspect?

**Farid Kazani:** UK actually, had a large program that was getting implemented and which has gone live in the last quarter and in fact the components of that has gone live in the last two quarters. So, what you saw is the decline on the back of that project and it was the last component of that project. So, it has come down. There are other businesses that are quite steady right now and we see good traction of the business expected to build from the next quarter onwards. There have been projects that we have executed successfully and that project name is actually Unum UK. So, we have got a good feedback from client and over a period of time we will see further business coming from this customer, and as we pick up new business in the UK region you would see even UK growing going forward.

**Harit Shah:** Sir, the Unum part that was also cloud based deal mainly, is that right?

**Farid Kazani:** It was an on-premise deal.

**Moderator:** Thank you. We will take the next question from the line of Ankit Pandey from Quant Capital. Please go ahead.

**Ankit Pandey:** My first question would be whether we have been able to deploy the extra hiring that we did in the previous quarter where all the ramp ups are planned as we expected?

**Farid Kazani:** Yes, if you look at it we did mentioned that we did a fair bit of hiring in the period of June quarter anticipating that we will have to work and deliver business starting 1st July for IBM and we kicked off that pretty well. It has gone into production, people are working on the project. That project is ramping. Hopefully it will ramp a little bit in this quarter also. So yes, we have completed and have got people hired put them on to the project.

**Ankit Pandey:** Also following up on a couple of comments that we did make on the US conference call. One of them being that obviously the US insurance industry is going through all kinds of turmoil. So, we did make a comment a sort of negative comment there. First of all could you explain that? And second thing, we also mentioned that we could hit a double digit margin next year or sometime next year. So, could you just clarify that if some kind of assumption or some kind of a good growth that we can expect from Majesco as the industry growth being about 15%, 20% and say could we expect something on that or do you have some kind of visibility on that?

**Farid Kazani:** We are not specifically guiding for numbers next year as we do not give any forecast actually but yes we did mention that we are getting traction on Cloud business and getting quarter-on-quarter growth and hopefully that growth is coming from the cloud based revenue. And within the Cloud as customers move into the subscription stage, and start building the business on a platform the tail on this particular business is pretty good and starts building up, and as that builds the profitability starts improving. Beyond that we are looking at a few customers that we have been operating them on our private cloud, we are moving them to a public cloud which in fact will give us an improvement in the margin. There are other steps that we are taking in terms of improving the profitability like converting some of our outsourced resources into in-house. So, there are fair bit of measures that we are taking to improve profitability. I did mention that in the next twelve months we can get into double-digit EBITDA margins. So, it was based on those factors keeping in mind our top line to grow in line with our expectations.

**Ankit Pandey:** I am sorry just that last bit could you repeat that keeping in mind?

**Farid Kazani:** Ankit, I did say that our expectation to get into double digit margin in the next 12 months and this is all predicated on our expected growth on the top line.

**Ankit Pandey:** Okay, so is it somewhat fair to assume that the margin improvement is pretty much equally prevaricated on outsource to inhouse move or not internal operation efficiencies, number two on the cloud movement and number three on a better growth traction?

**Farid Kazani:** Yes, so it is exactly a combination of that. It is based on a better revenue profile, improvement in our cost structure and the operating leverage.

**Ankit Pandey:** Also, if you could clarify the comments that you made that Digital1st, the solution that we just launched you expect it to be a growth driver in the coming year and you already have 25 clients, is that the right number? Could you just drill down on that and clarify how meaningful that growth contribution would be next year?

**Ketan Mehta:** Yes, so just clarifying that we took total 24 clients into production last year and that is what we recognize in our conference. While the Digital1st is a brand new platform we just launched, during our customer conference, now we believe that it is a highly differentiated platform which includes the new generation of customer experience, customer journey based experience as well as the seamless integration to the partner ecosystem. We believe that that provides leading edge capabilities in the industry and we expect that to drive some growth in our next year as that would be an additional and a differentiated offering in our portfolio.

**Ankit Pandey:** Okay so you mean it is still a pretty sort of reasonable and significant contribution to our overall growth next year, is that correct?

**Ketan Mehta:** Yes, that is correct.

**Ankit Pandey:** Is there an overlap between Digital1st and Cloud that we will be looking at it?

**Ketan Mehta:** The Digital1st platform is born on cloud. It is architectured as a cloud platform right from the word go, so we expect all of the Digital1st deployments to be on the cloud.

**Ankit Pandey:** And the last one would be for Farid, if you can highlight that because we did mention that there are some deals in the pipeline for IBM partnership as well. So, will it be fair to assume that the announcement of a closure would coincide with the imminent revenue flow?

**Farid Kazani:** There are deals which are in various stages and some other deals are in advanced stage. We really cannot control the timing and the decision making because it goes through various kind of processes. We are hopeful that we should be closing in some of the deals in the next few quarters, but I really cannot determine and give you a timing on this.

**Moderator:** Thank you. The next question is from the line of Bhaumik from Aditya Birla Sun Life Insurance. Please go ahead.

**Bhaumik:** Just one thing in terms of if you can talk directionally as to the expected sequential growth traction that you see mainly in the context of the dip in the on-premise revenue and the ramp up in cloud and IBM revenue? That would be my first question and the second would be if you can give some flavor on the IBM transaction, if not in terms of numbers, in terms of directional if you can talk in terms of when that should start becoming material in the overall numbers?

**Farid Kazani:** Let me answer the second part of the question, I will leave the first part to Ketan. This quarter you have seen that the business has come in from the IBM and it is now amongst the top five clients. So, it will start to build and probably at stage it is obviously going to be the top client based on how we see the traction over there. The existing program is on a ramp up which is the

MetLife program and we expect the ramp up to happen as it goes through implementation phase. It has two quarters of implementation that will take place before actually we deliver it successfully and then it goes into a subscription stage.

On the first part of your question which you mentioned is and I will ask Ketan to add on. As mentioned on-premises composed stage where it is implementation revenues at around 28% to 29% of our revenue, the cloud revenue has grown to almost 31% of our revenue. So, we do see a cloud becoming a dominant portion of our revenue going forward as we see more business shaping up on that. And on-premise as the business shows, even if it remains at same level as the percentages go down. So that is the way I would see the business, Ketan, you would like to add?

**Ketan Mehta:** No, I think you covered it well and as I mentioned 80% of our pipeline is cloud deals and as we capture the cloud business, the initial ramp up of the revenue is low but then it adds high margin recurring revenue to our kitty which is the cloud subscription revenue which we track as well. So, based on that given the pipeline and given the momentum in the business we do believe that we should be able to see a continued growth in our business for the next couple of quarters.

**Moderator:** Thank you. We will take the next question from the line of Shyamal Dhruv from Phillip Capital. Please go ahead.

**Shyamal Dhruv:** My question is on the top ten clients. Like if you see in the last four quarters, our non-top 10 clients have declined on Q-o-Q as well as on Y-o-Y basis. So, what would be our strategy going ahead whether we are focusing more on top 10 clients or we would shift our focus to non-top 10 clients also?

**Farid Kazani:** Clearly if you look at the revenue drop actually resulted in the overall revenue base and the drop happening in some of the on-premise implementation which were part of the top 10 clients, so that is why you saw the drop as compared to the last year. But if you look at the same top 10 percentage, it has actually moved up to 43.7% as compared to the 39.5% the previous quarter and that is on the back of a business that has started building in some customers including the IBM business. Going forward, it will depend upon on how each of these customers in the top 10 ramp up. But our focus is not just on top 10 or otherwise, our focus is on every region and every critical customer. So, it is not that we are going to defocus on any of the customers. We are focused in delivering business which fits well within the segments like the mid-market segment, the Greenfield, Startups and are now focused on tier I with IBM in the partnership.

**Shyamal Dhruv:** Okay and my second question is on these Denim partnerships which we announced a few days back. If you can give some color on revenue sharing or any other qualitative aspect about this partnership?

**Farid Kazani:** There is no revenue sharing that way, what happens is these are various partners that add capabilities as an ecosystem partner within our cloud program. So as and when we have usage of that particular application or that particular program or that particular software, we do have a cost that we have to pay to these ecosystem partners. So, it is not a revenue sharing basis at all. We have almost close to 25 such ecosystem partners and we are looking at tie ups with some other few in the coming quarters. These actually helps us to build a unique capability on our platform and as I would mention it is really not possible for a single vendor to have everything under its own umbrella or under its own belt. So, it has to tie up with various ecosystem partners and that is one of our strengths to make this as a very strong ecosystem platform.

**Moderator:** Thank you. We will take the next question from the line of Roshan Patnaik from Edelweiss Asset Management. Please go ahead.

**Roshan Patnaik:** Ketan, I just have a basic question. In terms of the cloud revenue, so in this quarter you have achieved Rs. 60 crores and out of that Rs. 60 crores what percentage would be license and what percentage would be implementation or is that only license revenues that you have recorded?

**Ketan Mehta:** No, this makes up of implementation in cloud, we do not call it license, it is a subscription cloud revenue which includes the costing.

**Farid Kazani:** So out of Rs. 60 crores you have almost Rs. 19 crores as subscription and the balance is cloud implementation.

**Roshan Patnaik:** Okay so my second question is that in FY16-17 the company achieved about close to about Rs. 108 crores in the cloud business recorded about Rs. 215 crores worth of revenue, am I correct in that figures?

**Farid Kazani:** Yes, more or less. I do not have the numbers, but I think more or less on the same track.

**Roshan Patnaik:** Okay so let us say in Q1 and Q2 we have achieved close to about Rs. 104 crores total and do you see more traction with clients coming on board in the third and fourth quarter as we move ahead in the year?

**Farid Kazani:** Yes, definitely I think if you see the first half we have done almost around Rs. 60 crores that we have seen in this quarter itself and this is expected to grow as a percentage and therefore I have an absolute number, yes.

**Roshan Patnaik:** Okay I mean if the business reaches steady state revenue of about close to Rs. 220 crores we still would have a pretty much flat cloud revenue growth as compared to Y-o-Y. So that is actually slightly worrying me because unless and until we keep growing by more than about 20% on the cloud revenue front both including subscription and implementation we will not be able to offset the decline in the business that is happening with the on-premise license business which I think over the last four quarters the company has been de growing at an average rate of about 6% to 8%?

**Farid Kazani:** Let me just correct you since I just picked up the numbers based on the query that you had. The current six months is Rs. 108 crores as compared to the Rs. 82.8 crores in the previous year six months which is a growth of 30.6%. Last full year the number is close to Rs. 155 crores approximate. So even if you end up at the number that you are projecting at about Rs. 220 crores it will be a significant growth almost 30% growth. So, I am just correcting your number.

**Moderator:** Thank you. We will take the next question from the line of Ankit Pandey from Quant Capital. Please go ahead.

**Ankit Pandey:** I just had a follow up on one question that I did ask but did not drill through. Can you please clarify on the comments earlier in the US conference call that clients are impacted with the macroeconomic environment and whatever has happened with the insurance industry in the US. And your impact or you are feeling that there it is some kind of a negative impact on Majesco. Could you please clarify which areas and specifically which particular service lines are being impacted by this kind of move?

**Ketan Mehta:** What we saw was that a tightening of the budget specifically on P&C line of business in US specifically in last quarter because also the industry had shown some catastrophe events and that impacted the client's ability to take on new initiatives. So that is an impact we saw on the P&C line of business. Specifically, insurance carriers were focused on the coastal insurance areas which were on the lines of property insurance which were most impacted in the last quarter.

**Ankit Pandey:** So, did a lot of that impact us specifically or are you saying that in the future it may hurt us?

**Ketan Mehta:** No, we saw the impact in the last quarter specifically just because of some of those events. Now what would be the impact moving forward it is something which we are watching closely and as I mentioned earlier, in the time where they are tightening the budget the traction for the cloud is getting even better because while they still need to innovate they still need to implement some of the initiatives to grow their business, they see a situation like tightening of budget and that is why the cloud offering where they pay low up front and pay more depending on the business they put it on to our platform and get the business value is getting more traction as well.

**Ankit Pandey:** Okay that is somewhat helpful. Also, if you would like to clarify that when you mentioned that 80% of your pipeline comes from cloud is that by quality or by some dollar value?

**Ketan Mehta:** Dollar value.

**Ankit Pandey:** And I believe that includes the IBM partnership of course?

**Ketan Mehta:** Yes.

**Ankit Pandey:** Also, could you just throw some light on the seasonality and the current quarterly run rate of the IBM MetLife engagement? whether you would be sustaining that for some quarters?

**Ketan Mehta:** No, there is no seasonal impact on that particular engagement, it is now a matter of we have on the implementation mode and then after the implementation is done it will go into production and then it will move into the what we call a cloud subscription phase. So, I do not see any seasonality in that engagement.

**Ankit Pandey:** Could you just tell me how long these particular phases will last?

**Ketan Mehta:** It is an implementation phase which is across two different segments and there is the timeline for between 12 months to 24 months that we have to implement this. So, obviously since it is a large client the implementation period is much larger than normal.

**Ankit Pandey:** Alright. And then half of that there will be a bit of a run down in the annual run rate so and so forth, am I right?

**Farid Kazani:** No, the implementation revenue will be replaced by what we call subscription revenue as they put the business on the platform.

**Ankit Pandey:** Since this is a longish engagement we will be able to fill up the bucket with other engagements happening. So that point clarified. My last one would be a bit of a book-keeping, but I wonder if I missed this earlier. Could you just give me the split between recurring and non-recurring revenue this quarter?

**Farid Kazani:** The recurring revenue was 26.8% of the total revenue.

**Moderator:** Thank you. We will take the next question from the line of Arpit Agarwal, individual investor. Please go ahead.

**Arpit Agarwal:** I just wanted to understand on the margin bit. I think you have been saying that the margins will improve next year maybe closer to double digits. But I want to understand what would be the levers for that as mentioned in the call that your subscription revenue as a percentage of total cloud is about 18% so will that significantly change going forward as cloud revenue picks up and whether that could be a margin lever? That is one question. My second question is on the R&D spend. You have about 14% odd of your total revenue as the R&D spend. So, when do we see that kind of going down, so will there be some lever which will come from there over next maybe two, three years?

**Farid Kazani:** The margin expansion as I did mention in the call is linked to three basic factors in terms of improvement in the overall revenue profile moving towards cloud and as cloud subscription builds, cloud subscription has potential to have a significantly higher margin than our current gross margin. So, the revenue profile improvement is absolutely one of the largest improvement in our margin as a lever. Second is there are certain cost improvement initiatives that we are going to be carrying out which will help us to overall see the margin improvement to happen. Those are in the nature of converting some of the low margin business into much higher margin by restructuring the cost, improving the cost structure by getting outsourced resources in house. And the third factor that is going to improve margins is the operating leverage and that is on the back of buildup of the revenues. So, both of our product cost and the SG&A, as the revenue growth as a percentage you will see a drop going forward. Right now, our product expenditure is around 14% and while the number will not increase significantly in absolute base as we go forward, it is right now at around $4.3 million a quarter. And based on expected increase in the revenue in the next year as a percentage this also will fall, and I am not guiding to any number, but you could see anywhere between 150 to 200 basis point improvement in the next year.

**Arpit Agarwal:** So, you will say that the products R&D expenditure absolute number will remain more or less the same going forward?

**Farid Kazani:** No, see it is a function of our product roadmap. There will be an increase up to a particular quarter or could be during a quarter. But looking at the overall possibility of improvement in the revenue I said that there could be an improvement in this area by around 150 basis points.

**Arpit Agarwal:** And sir, currently like the subscription revenue is about Rs. 19 crores out of Rs. 60 crores so that is roughly about what 30% right, so will that significantly improve over next two, three years?

**Farid Kazani:** Yes definitely, that has to improve and that will be the biggest area in terms of line item of growth in the revenue going forward.

**Moderator:** Thank you. That was the last question in queue. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

**Farid Kazani:** Thank you everyone for making into the call and showing your interest in Majesco and as we make all our efforts to improve the overall business profile and improve our profitability we thank you for your support and look forward to engaging with you all and hearing you in the next call. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Majesco Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.