NEWGEN

Newgen Software Technologies Limited
CIN: L72200DL1992PLC049074

E-44/13, Okhla Phase-II, New Delhi-110 020, INDIA
Tel: +91-11-4653 3200 Fax : +91-11-2638 3963
Email: corpmktg@newgensoft.com URL: https://newgensoft.com

Date: 7th June, 2019

To, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001	To, National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (E), Mumbai – 400051
Ref.: Newgen Software Technologies Limited (NEWGEN/INE619B01017) Scrip Code - 540900	Ref.: Newgen Software Technologies Limited (NEWGEN/INE619B01017)

Sub.: Outcome Transcript - Analyst/ Institutional Investor Call- Q4 FY' 2018-19

Dear Sir/ Ma'am,

As intimated earlier through our letter dated 9th May, 2019 regarding the Analyst/ Institutional Investor Conference Call of the Company which was held on Wednesday, 15th May, 2019 at 4:30 PM (IST), please find enclosed herewith a copy of the transcript of the said call with the Investors/ Analysts.

The transcript of the said call is available at the website of the Company under the URL https://newgensoft.com.

This is for your kind information and record.

Thanking you.

For Newgen Software Technologies Limited

Aman Mourya

Aman Mourya
Company Secretary & Compliance Officer

Newgen Software Technologies Limited

Encl.: a/a

"Newgen Software Technologies Limited Q4 FY2019 Results Conference Call"

May 15, 2019

ANALYST: **MR. KULDEEP KOUL – ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. DIWAKAR NIGAM - CHAIRMAN & MANAGING DIRECTOR - NEWGEN SOFTWARE TECHNOLOGIES LIMITED**
MR. T. S. VARADARAJAN – WHOLE-TIME DIRECTOR - NEWGEN SOFTWARE TECHNOLOGIES LIMITED
MR. VIRENDER JEET - SENIOR VICE PRESIDENT – SALES & MARKETING & PRODUCT - NEWGEN SOFTWARE TECHNOLOGIES LIMITED
MR. ARUN KUMAR GUPTA – CHIEF FINANCIAL OFFICER - NEWGEN SOFTWARE TECHNOLOGIES LIMITED
MS. DEEPTI MEHRA CHUGH – HEAD – INVESTOR RELATIONS - NEWGEN SOFTWARE TECHNOLOGIES LIMITED

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

Moderator: Ladies and gentlemen good day and welcome to the Newgen Software Technologies Limited Q4 FY2019 Results 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, please signal an operator by pressing "*" and then"0" on your touchtone telephone. 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 Madam!

Deepti Mehra: Good afternoon everyone. I am Deepti Mehra Chugh, Head IR, Newgen Software Technologies Limited. I welcome you all to the Q4 FY2019 results of the company. I have along with me today Mr. Diwakar Nigam, Chairman and Managing Director, Mr. T. S. Varadarajan, Whole Time Director, Mr. Virender Jeet, Senior Vice President, Sales and Marketing and Product and Mr. Arun Kumar Gupta, Chief Financial Officer. Before we move on to the discussion let me highlight that this call may contain certain forward-looking statements concerning Newgen's future business prospects and business profitability, which are subject to a number of risks and uncertainties and the actual results could materially vary from the forward-looking statement. 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 in future or update any forward-looking statements made from time-to-time by or on behalf of the company. For further details, you may please refer to the investor relations section of our website. I would now hand over to Mr. Nigam for the presentation of the results.

Diwakar Nigam: Good afternoon and a pleasure to have you all at our full year FY2019 post results conference call.

We have had a very exciting year bringing in new opportunities for the organization including expanded product capabilities, a stronger management team and addition of new markets. These are the building blocks for a more robust and futuristic organization. We continue to be on track in delivering our key business matrices.

Overall we have continued with our strong growth, profitability and cash generation momentum. We reported revenue of Rs.621 Crores up by 21% over FY2018 driven by strong business growth momentum across all key geographies and favourable currency movement.

All key markets witnessed growth especially US, which witnessed 46% growth and APAC, which witnessed 55% growth. We continue to expand across geographies and witnessed initial success in Canada region. We are now expanding in the Australian market.

We now have an active base of 540+ customers across 66 countries and added 81 new logos during the year. Our major new deals during the year include:

1) Selection by the National Records and Archives Authority of the Sultanate of Oman to deploy our solution at NRAA and 17 other government agencies
2) a major license order from large government defence organization in India.
3) License agreement with savings bank based in Philippines.
4) License agreement with the key government organization in Singapore.

We had 39 logo wins of over Rs 1 Crore during the year and had 21 new deals in the Americas region. We are increasingly focusing on higher deal sizes.

During the year we also received some large orders from our existing customers including two large healthcare clients in Americas region. Large existing baking and financial services clients for new license sales and implementation in APAC and EMEA region. Improving the annuity revenue has been key focus area for us and it comprised 49% of our revenues in FY2019 compared to 43% in FY2018.

Solution as a service is increasingly becoming important in the industry and in our business. SaaS continues to be our fastest growing revenue component and witnessed a growth of 111% Y-o-Y improving our recurring revenue base. In FY2019 SaaS revenues were at Rs 24 Crores.

In terms of verticals, we saw robust growth across all key verticals especially healthcare, insurance, government/PSU and banking verticals.

We continue to attract multiple industry recognition including niche player in Gartner Magic Quadrant for Intelligence Business Process Management, Challenger in Magic Quadrant for Content Services Platforms, a strong performer in Forrester Wave (Digital Process Automation for Wide Deployments).

We are constantly strengthening our team including the management. We now have 320+ employees in the R&D and 300+ employees in sales and marketing. Apart from our direct presence in several countries around the world our robust partner network has played a pivotal role in expanding our outreach. We will continue to leverage our association with our partners to accelerate business growth. We have also entered into global strategic alliances to further expand our partner network.

Our operating margins expanded with increasing scale and favorable currency movement. During the year, the company witnessed 31% increase in EBITDA, which was at Rs 128 Crores. EBITDA margins were at 20.6% compared to 19% in FY2018. Profit after tax was at Rs.102 Crores witnessing a 40% growth. Our net cash from operating activities were at Rs.102 Crores.

Our cost growth continues to be in line keeping in mind the growth assumptions. Newgen makes continuous investment in R&D and has strong team of 320+ employees which constantly focuses on various research and product development initiatives. R&D expenditure comprised approximately 7.5% of our revenues.

During the year, we were granted 6 patents taking the total to 11 patent grants as of March 2019. We continue to focus on the sales and marketing effort for the organization especially in new geographies. The sales and marketing expenditure comprised approximately 19.1% of our revenues in FY2019.

In Q4 FY2019 we reported revenue of Rs.204 Crores up by 11%. Seasonality variations across quarters are tending towards normalization. EBITDA was at Rs 80 Crores and Profit after tax at Rs.63 Crores.

Our gross trade receivables as on March 31, 2019 was Rs 292 Crores and the net trade receivables are at Rs.253 Crores. The gross DSO stood at 172 days and net DSO at 149 days considering revenue of trailing 12 months. We continue to work towards improvement in our debtor day position with changing collection polices and improvement in contracting; however, it is still taking time to get results in the same given customer mindset.

At the end, I would like to say that we continue to build a stronger organization and look forward to support of our investors and shareholders.

We are now open for Q&A. Mr. Virender Jeet and Mr. Arun Gupta are joining me in this discussion. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nagaraj Chandrashekar from Laburnum Capital. Please go ahead.

Nagaraj Chandrashekar: Thank you very much. Could you give us a little more colour on your statement that seasonal variability is tending towards normalization so the revenue growth in Q4 was pretty slow at 11% pace. Is that just because we should expect a smoother balance across quarters such that the year-to-year revenue cadence should continue to be in line with what has been historically or are we seeing a slow down in any particular market or industry sector and secondly could you give us a sense of the new logo wins in Q4 and also some outlook on what you expect revenue growth to be for the coming year?

Virender Jeet: Thank you for the question. I think there are two questions I will answer the first question. As you rightly put I think overall we have done very well for the year and we have given this indication as our annuity revenues start growing because of both SaaS as well as increase in our ATS revenues there is going to be an organic way of reducing the seasonality in the business, so what has happened is if you look at historical seasonality in both Q2 and Q3, we have done better couple of percentage more than what we used to do normally in other years, so as a result it is going to be a continuous process even this year as well as next year that overall the seasonality will start becoming lesser as the annuity revenue starts growing up. That is the first part of your question. Second the number of new logos, which we have acquired in Q4 is 30 new logos and these logos are across geographies, so I think right from US, India, EMEA we have got new wins in all places. Does that answer your question?

Nagaraj Chandrashekar: Yes, and your outlook on revenue growth for the next year, are you likely to be able to maintain this pace, should we expect it to be slower and also some colour by geography and sectors to where you are seeing better or may be slightly less traction?

Virender Jeet: I think as we keep on saying the potential for our kind of business and products is very large right now, we are still at a very small fraction of overall addressable market size; and last two, three years our momentum, which has started building in mature markets should ordinarily help us keep the moment and build the momentum of sales, in terms of keeping these growth rates, which were historically achieved or achieving or making it better, so we have no concerns. Of course as we start becoming larger our revenue growth will reflect the opportunity sizes available in the market, so we do expect that your markets like US and mature markets slightly accelerating than our historical markets like India and Middle East, so I think that trend is bit visible also this year we have done better growth rates in US compared to our growth rates in India and Middle East, so we think that will keep on continuing as we become a larger company.

Nagaraj Chandrashekar: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Firstly could you share the constant currency revenue growth for Q4 as well as the full year FY2019?

Virender Jeet: So, constant currency for the full year is roughly around 17%, and constant currency for Q4 is roughly around 5.5%.

Arya Sen: And going back to the seasonality thing that you talked about, is it fair to assume that whatever therefore higher revenues you saw had already come in Q2 and Q3, so there is nothing, which is getting pushed forward into Q1, it has already come in Q2 and Q3?

Virender Jeet: If you look broadly we had both higher margin expansion as well as higher revenues in Q2 and Q3, as a result of course looking at annual target it got slightly preponed, but then even still at our side there is going to be always some kind of percentage variation because of deal flow, it could have happened that we could have closed few more deals and the percentages of Q4 could have been very different, but broadly we think what is going to happen is we can achieve our historical growth rates as well as keep on reducing the seasonality, so I think every time Q4 may not look like Q4 of the historical data in percentage terms (of annual revenues), but overall for the whole year we can still maintain the momentum of growth.

Arya Sen: And also if you could talk a little bit about the EMEA part because there both for Q4 as well as the year the whole growth seems to have decelerated pretty sharply any particular client specifically and what is the outlook?

Virender Jeet: I think one is that last year we were sitting on a very high growth rate in EMEA, so we closed lot of late moment March orders in EMEA, which really pushed the EMEA numbers for the last year very high, so to do better than that became slightly difficult (in % growth), we still think EMEA has got a good potential and it can maintain growth momentum around 20% for us; provided we are able to slightly accelerate our new logo wins.

Arya Sen: Right and how much of EMEA is Middle East and Africa?

Virender Jeet: Everything, so when I think EMEA is MEA only for us Middle East and Africa. Europe, we have just started. Europe has just started contributing to the revenue, but not in a significant way.

Arya Sen: Right, if I look at the full year revenue growth of 17% constant currency that is still a bit lower than what you would have targeted at the beginning of the year, I think you were targeting probably closer to 20%, so where would you say has been the disappointment?

Virender Jeet: So, I think two things, one is there is a disappointment in India and India market really slowed down for us, so in terms of number of new logo wins in India substantially reduced compared to last year. The second is our major market where we have substantial growth numbers most of the revenues are back ended, so we did get around 8 to 12 Cloud wins in US, but the revenue of that does not really reflect in our numbers because as you understand the revenue is back ended we have not been able to realize most of the revenue at all, so what is happening in mature markets where we are growing faster, we are not able to add completes revenue of that to our P&L, on the other hand our traditional markets like Indian and EMEA are slightly showing kind of a slowness at least last year that was visible.

Arya Sen: Right, what are the issues in India and EMEA?

Virender Jeet: EMEA was sitting on higher base.

Arya Sen: What about India, because India has been weak last year as well, so is anything changing there or that continues to be a slower growth for next year as well?

Virender Jeet: In India we are strongly penetrated in banking, I think some of the growth was supposed to come from the new license in financial services, a lot of them did not get issued and second was from government where the projects are very uncertain. Also we have started to become slightly more conservative in taking government orders, which do not have very, very clean revenue realization for us, so there was a slight amount of push back from us as well as slow down in our government is what is hurting us in India.

Arya Sen: Right, what has been the collection growth for the full year relative to last year?

Virender Jeet: So, collection growth is roughly around 25% , I think collection we have done fairly well.

Arya Sen: So, how does it compare with last year, how much was it last year?

Virender Jeet: Last year I think was 20%+, but I can check those numbers.

Arya Sen: And Q4 collection?

Virender Jeet: I do not have that number ready.

Arya Sen: Last thing from my side, the other expenses this time, if I look at in a full year basis seems to have gone up more than the revenue, so the percentage of revenue has gone up, what specific item within other expenses is responsible for that?

Virender Jeet: I think one part is that we still have an impact of the ECL (expected credit loss), so if you look at the SG&A it also covers the ECL expense, I think we had some amount of higher provisioning of the revenue, which was one year old revenue, which is 2017-2018 revenue. ECL provisioning was roughly around Rs 17 Crores, which was added to the other expenses.

Arya Sen: And what is the receivable, which is due beyond the year?

Virender Jeet: I think roughly around Rs 60 Crores.

Arya Sen: And this gross or net, how much of it has been return off provided for?

Virender Jeet: I think more than one year is Rs 64 Crores gross and I think as per ECL anything above one year is roughly around 40% to 45% of this is already provisioned.

Arya Sen: Fair enough and lastly what is the outlook on US for next year both from your perspective given that you are still a very small player over there as well as from overall market perspective what are you seeing… is there any slow down, what is the sense?

Virender Jeet: I think the market is looking very positive especially for digital initiation, which is typically our digital onboarding, digital retail is looking very positive for us, I think this year you can see we have done some better work in health insurance space as well as enterprise segment is opening up, so US is still looking very positive, the issue is we need to have that organic speed, we need to create few referenceable implementations, we need to create some customer wins to replicate it, so taking a bit of time, but overall our funnel is looking very healthy, we are still starting to go ahead and invested more in sales and marketing in US, so we hope that US will keep on having the momentum of growth and it will be the major growth engine in the coming next two, three years.

Arya Sen: One last question from my side, the dividend payout seems to be about 24% to 25% of earnings including taxes, so that is roughly what you are looking to payout going forward as well?

Virender Jeet: Yes, I think that is historical we have been paying around 20% on the face value, I think we are going to maintain that ratio or try to see if there is more cash generation we can better that ratio.

Arya Sen: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Vindhyachal Prasad from Elite Wealth Advisors. Please go ahead.

Vindhyachal Prasad: What kind of revenue you are expecting from your patents in 2020, what is your margin in US business and per capita revenue basically?

Virender Jeet: Let me take the first question. Most of our patents are a result of our core R&D work, which we are doing in our products and also most of the things are more at algorithm level or in terms of basic concept patenting or basic algorithm about imaging, about content processing, content management, so what happens these patents eventually get incorporated as a core technology in our products and then they over the next two, three years come to market, so we are able to measure the revenue from our product sales as a result of our patents and other initiatives, but the patent directly does not have any correlation to our revenue, so these patents do reflect into our revenue by providing us a differentiated advantage or an opportunity in the market where we can stand out the competition, but does not have a direct revenue number associated with that, it is part of your R&D, it is an outcome of R&D. Regarding margins in US, we have been able to generate around 20% returns in US.

Vindhyachal Prasad: What was in 2018?

Virender Jeet: I think 2018 was similar number.

Vindhyachal Prasad: Thanks.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

Aman Vij: My first question is SaaS customers we added for FY2019 and what is the target in terms of number of customers for FY2020?

Virender Jeet: So, I think roughly we added around 11 customers in FY2019 and we expect to add between 15 to 20 customers this year.

Aman Vij: And the second question was if I see the growth in the implementation revenue as well as support revenue, support revenue has grown quite well for the last two, three years and implementation revenue has grown at a very slow rate how should we interpret this data?

Virender Jeet: I think, one is typically implementation revenues are a factor of two things, we are having more partner enabled or influenced revenues where partners are implementing, so as a result as we grow, overall our implementation growth may be slightly muted compared to rest because we want to introduce partners because those end up becoming our channel for sales in future, so that is one of the reasons. Support revenues will keep on increasing because eventually it iskind of annuity to maintain critical implementations and relate to customers demanding higher degree of support for their installation, so as we have larger customer base the support revenue will keep on increasing, but some part of the implementation will be always transferred to our partner networks who will implement on their own, so we do not take that revenue.

Aman Vij: Similarly on the sale of products, for the last two years it has been lower while basically every three, four years there is a big jump and then the growth is in a way lower?

Virender Jeet: I think the big jump is a lucky year, but organically last two, three years it has started to become slightly declining because lot of our license is also transforming to the cloud revenue, so typically what we would have realized as an upfront for license is also coming to a SaaS revenue, which is growing at a much faster pace because in US most of our new deals are on SaaS, so if you look at combined SaaS and license then you will see the growth rates are alright, there is no concern on the growth rate.

Aman Vij: The last question from my side is on the receivables part, so I think we were targeting to reduce it even further, so what is the target on those?

Virender Jeet: We have targeted to bring it on an average to 120 days by the second quarter of this year because the last quarter is high revenue year for us. We have already got it somewhere at 149 days right now. We would have liked to make the reduction faster, but I think we are facing lot of resistance in our markets like India and middle east still to improve that, but I think we are on track and some of our receivables which are of some concern are typically more than a year old revenue, but I think realization rates have become much better, our collection rates have become much better last year, so I think we organically we will reach it, in one or two quarters we should be very close to our targets.

Aman Vij: I will get back in the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Agam Shah an Individual Investor. Please go ahead.

Agam Shah: Sir, thank you for the opportunity. My question is on SaaS, if you can just speak more about it and how do you see the space going ahead as the space is growing for us let us say for next 3-5 years and second thing on the receivable front, so how much has been the write off? is it in line with the last 2-3 years and how do we aim to bring it down in the next couple of years?

Virender Jeet: For SaaS as you know, we have already equipped all our products and solutions to be Cloud ready, so we have subscription based pricing, licensing and we are promoting that sale across all territories, but different customers and different territories have different maturity, right now for mature market like US we are getting huge traction on that in terms of almost 90% of our new logos are coming on SaaS, so it will continue to grow and as other territories become more mature, the SaaS part of revenue will keep on growing, so we expect to keep on having significantly higher growth rates in SaaS over the next 2-3 years and there may be in the next 4-5 years it may become a larger part of our revenue.

Agam Shah: Can it become a high double digit in 4-5 years?

Virender Jeet: I think it should become slightly close to 20% in the long term, the license and SaaS will almost interchange their positions.

Agam Shah: So, that will bring down seasonality in terms of the revenue, right?

Virender Jeet: Yes, any annuity, you should look at SaaS as well as ATS together because it is also high growth margin segment. ATS for perpetual license, which is annuity based model for us, so already we are roughly at around 49% on annuity based revenue, so as this revenue percentage becomes around 60 to 65 we should be able to reduce seasonality

Agam Shah: That becomes 60 to 65.

Virender Jeet: I think in terms of our provisions as we said earlier in the call that we have done roughly around Rs 17 Crores of provisioning this year, which is slightly higher than what we anticipated at the start of the year, but I think it is still not very high, does not change our results materially. Also for next year we expect a number similar or lesser than that, but beyond that year we expect a smaller number as a percentage of revenue.

Agam Shah: What are we doing in terms of reducing the days to around 120 days?

Virender Jeet: I think there are a series of steps, I think there is a change in the contracting terms with our clients, measures like separating license and services contracts, linking our sales incentives to collection, we have already coveyed that sometime back, there are multiple steps and I think they have shown significant results for the revenue which we have billed in this year, but I think we have some historical legacy because of which we were seeing still a higher provisioning that is why we are sure in next 1 or 2 years I think we will have very little impact on provisioning.

Agam Shah: So, the figure was 12 Crores, right for this year?

Virender Jeet: Rs 17 Crores.

Agam Shah: And what would be the last year?

Virender Jeet: Last year was Rs 7 Crores.

Agam Shah: Thank you. That is it from my side.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management of Newgen Software Technologies for closing comments.

Deepti Mehra: Thank you so much for joining us on the call. If you have further questions, you can always connect with us or go to our website for further details. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.