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Date: 25th July 2023

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001	**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 – Conference Call – Q1 FY'24

Dear Sir/Ma'am

As intimated earlier through our letter dated 13th July 2023 regarding the Conference Call of the Company, which was held on Wednesday, 19th July 2023 at 04:00 P.M. (IST), please find enclosed herewith a copy of the transcript of the said call with the Investors/ Analysts.

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

This is for your information and record.

Thanking you.

For Newgen Software Technologies Limited

AMAN MOURYA
Digitally signed by AMAN MOURYA
Date: 2023.07.25 16:21:03 +05'30'

Aman Mourya
Company Secretary

Enc.: a/a

"Newgen Software Technologies Limited
Q1 FY'24 Earnings Conference Call"
July 19, 2023

MANAGEMENT: **MR. DIWAKAR NIGAM – CHAIRMAN AND MANAGING DIRECTOR – NEWGEN SOFTWARE TECHNOLOGIES LIMITED**
MR. T.S. VARADARAJAN – WHOLE TIME DIRECTOR – NEWGEN SOFTWARE TECHNOLOGIES LIMITED
MR. VIRENDER JEET – CHIEF EXECUTIVE OFFICER – 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

MODERATOR: **MR. SUMEET JAIN – ICICI SECURITIES LIMITED**

Please note that the transcript has been edited for accuracy purposes

Moderator: Ladies and gentlemen, good day, and welcome to the Newgen Software Q1 FY '24 Earnings Conference Call hosted by ICICI Securities. We have with us today, Mr. Diwakar Nigam, Chairman and Managing Director; Mr. T.S. Varadarajan, Whole Time Director; Mr. Virender Jeet, Chief Executive Officer; Mr. Arun Kumar Gupta, Chief Financial Officer; and Ms. Deepti Mehra Chugh, Head, Investor Relations. We will start off with the remarks from management. After which, we will open the floor for Q&A session.

As a reminder, all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Newgen management. Thank you and over to you.

Deepti Mehra Chugh: Good day, everyone. I'm Deepti Mehra Chugh, Investor Relations of Newgen Software, and I welcome you all to the Q1 FY '24 results of the company. Joining with me is the management team at Newgen. Before we move on to the discussion, let me highlight that this call may contain certain forward-looking statements concerning Newgen's future business prospects and profitability, which are subject to a number of risks and uncertainties, and the actual results could materially vary from the forward-looking statements.

Past performance may not be indicative of the future performance. The company does not undertake to make any announcement in case any of these forward-looking statements become materially incorrect 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 the website. I would now hand over to Mr. Nigam for presentation of the results, which will be followed by a Q&A by Mr. Virender Jeet.

Diwakar Nigam: Good afternoon, and thank you for joining us today for our Q1 financial results call. Getting you straight into the business performance. The first quarter of the fiscal continued the strong growth momentum of last year. Q1 witnessed revenues of INR252 crores, up 34% with robust growth across all geographies. APAC market witnessed a growth of 46%; EMEA, U.S. and India markets witnessed a growth of 38%, 36% and 25% respectively.

Historically, the business has been seasonal in nature, with Q1 being the leanest quarter. We have been in the process of reducing the seasonability by increasing annuity business, and thus, Q1 growth is reflecting that.

Our annuity revenues have been getting larger and we are at INR168 crores. We continue to steadily build our subscription revenues. They were INR89 crores in Q1 and comprised almost 35% share of our total revenue. It was a strong license growth quarter as well with license revenue at INR42 crores, growing 1.9 times compared to Q1 last year. During the quarter, we witnessed strong traction and booking from both existing and new customers.

These include large orders from existing bank customers as well as healthy new logo additions. We added 13 new logos across the geographies in Q1. Some key customers include providing digital account opening solution for a privately held bank in Americas region, providing lending origination and management solution to a leading diversified business group in Saudi Arabia, operating across 7 core sectors, providing Trade and Supply Chain Finance Solution to a leading financial institution in the UAE market.

We are witnessing expanded opportunities across different segments, particularly in banking. The renewed thrust on digital journeys across the banking sector has resulted in significant increase in our orders particularly from existing bank customers. We are also witnessing revival of new journeys in insurance and government segment, creating a high demand for service accelerators in these verticals. Globally, there is a growing emphasis on automation at scale, especially in financial organization like bank, wealth management growth, etc.

These organizations are actively planning to integrate their front and mid offices, leading to a surge in interest from customers. This increased interest has translated to large licenses and implementations indicating a strong market. We are excited to see that our innovative offerings are well positioned to tap the large market opportunity.

The new generation of our product suite, NewgenONE, is designed to provide enterprises with the tools they need to build, deploy and manage applications, building automation silos and streamlining the processes.

Our platform's modular design, advanced AI capability and cloud-first approach will enable organization to deliver superior customer experience, operational excellence and business innovation. It has contemporary user interfaces and more integrated environment. The NewgenONE also produces better applications using low code principles. It allows development of attractive portals with very little effort, facilitate end-to-end integrated processes at enterprise scale.

We are adding AI/ML capabilities in process automation for suggestive and prescriptive intelligence. For work introduced timelines can be estimated, work can be diverted to suitable person, etc. We are enriching our lending solutions with the AI/ML based auto decisioning and no touch, low-touch strategy. In our recently launched trade finance solution, we are again using our AI-based strategy for extracting data from paper images and PDF docs.

On the operational front, we have been working extensively at enhancing employee engagement, productivity, talent management and capability building. In fact, we are working on utilizing the different AI technologies to enhance employee productivity. At the same time, we are also focusing on expanding strategic hires to lead our growth.

In the sales and marketing front, we are strengthening our direct sales channel, along with a focused alliance with our partners, especially the system integrators to expand our market footprint. As a part of growth strategy, Newgen is building across relationships with 4 types of strategic partners: GSI, the Global System Integrators, consulting firms, technology partners for enhancing capabilities and largely marketplace partners like Mambu and Guidewire.

On profits and margin, we delivered healthy growth in profits during the quarter. Profit after tax was INR30 crores, witnessing a growth of 57%. As we grow, we are investing heavily in technology and sales and marketing initiatives, while maintaining cost discipline. During the quarter, apart from investing 10% of our revenues on R&D initiatives, the company invested 24% of the revenue on the various sales and marketing initiatives.

On the balance sheet front, our net cash generated from operating activities during the quarter was at INR57 crores. Our net trade receivables were INR359 crores at the end of June, which resulted in a DSO of 126 days.

For the year ahead, we are excited about the growth opportunities across geographies. Newgen is dedicated to staying at the forefront of technology and innovation and continue to empower enterprise towards a more holistic automation. Newgen is working on leveraging AI to bring in enterprise-wide transformation, such as meeting the ever-changing customer expectation and empowering employees to make intelligent decisions. We are looking forward with this interesting journey and driving a positive change to our products and solutions. Thank you. We are now open to Q&A.

Moderator: Thank you very much sir. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Congrats on a strong quarter. The beat we've had this quarter on the license revenues was good to note. Should we read this as a sign of acceleration to come in the product -- in the licensed product side of the business given your go-to-market efforts, especially in the U.S. over the last 2 years? Or would you caution this as a one-off? And does this in any way change the H2 loaded license revenues that with you anyway?

Virender Jeet: So, thanks, Baidik. Yes, your question about the license. See, as part of our growth, we are already seeing strong license business, because that's our primary business. The issue is about realization of those licenses. In some cases, we have perpetual license sales. In some cases, we have annuity-based license sales. In annuity-based license sales, the revenues are deferred. So, talking about this quarter, we had some of the perpetual deals coming in, and they were coming across all territories, including U.S.

We do still expect this year to be very strong on licenses, because we need to get at least a substantial level of perpetual licenses again in this year, along with other subscription licenses. So, I don't think the license is going to be onetime. It's going to be always a continued journey for Newgen.

In regards to U.S., generally, the U.S. sales are subscription-based sales. I think this time license sale is slightly surprising, but I think there are also many more prospects who are now spending and shifting to more perpetual license sales. There's a kind of a pushback from market from traditional subscription and SaaS sales. So, you're finding that kind of a trend happening across all geos. So, it will be difficult to say what's going to happen in future, but we will see that both kind of license, subscription as well as perpetual license sales across all regions.

Baidik Sarkar: That's good to know, Virender. So, keeping that in context, how should we read the growth in order book that was quantified in your opening statement? From an annualized number, from annualized book to the ratio, is there a number -- is there a range that you could share? And what was the quantum of growth that we've seen here in the order book, both from an annualized basis and otherwise? I understand you don't disclose the number, but at least the growth number can be spoken about?

Virender Jeet: See, as Mr. Nigam had just said, some amount of transition from the lopsided revenue in terms of you look at a transition for the last 3, 4 years, the Q1 has been a very small quarter. We have moved from a revenue percentage of 16%, 17% to roughly around 20% of annual revenue. And that transition is happening. So, we do expect normally that Q1 to be a stronger in terms of percentage growth Y-on-Y. For the overall year, we are still maintaining that we'll have a strong year, and we have a historical growth momentum, which is about 20%. We will try to meet that and exceed that. But right now, I think, we are too early in the year and there are a lot of other variables. Taking -- this percentage is that kind of year is not a fair way of looking at.

Baidik Sarkar: Sure, sure. No. Actually, Virender, I was trying to understand what the momentum in your order book was looking like, right? So, is there a range that you can help us understand? Because you did allude to the fact that there was a very healthy growth in your order book. So, from an annualized order book perspective, 12 months earning and the gross number. How much is that? I'm just trying to understand what kind of momentum you're seeing -- you expect to see in the quarters to come?

Virender Jeet: So far, the last year order book was substantially better. And I think the growth in order book at an annual level was much higher than our growth in revenue. So, we were at -- if I'm not wrong, around 30% of growth in order book, whereas the revenue grew by around 24%. So, there is a tailwind on the previous year. So far in the Q1 this year, that momentum continues. The order book is still growing at a substantial pace than the last year's Y-o-Y for the same quarter. But it's very difficult to predict and project trend for the year. So, we have to wait for that. So, I'm saying that all the variables are looking very, very fine for right now. We are not seeing any challenges in the market. The business is -- there's a lot of interest from the customers, especially on the digital journey side for us. And we hope to continue the growth momentum.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Goldman Sachs Asset Management. Please go ahead.

Ashish Chopra: Just a couple of questions. First one, just as a follow-up on the license sales that you did this quarter. So, you mentioned that there is no one-off over here. And when I look at your historical trends as well, just like you mentioned in the overall business, even the license sales tend to be released in the first quarter and then they build as the year goes along, at least that's been the trend in each of the past 5 years. So -- is that something that is likely on such a high base of license number in this year as well? Or do you see that being a little bit different considering just that you need to triple from where you were in the first quarter last year on the license sales front?

Virender Jeet: Yes. Ashish, what's happening, if you look at last 3, 4 quarters, I think there has been an overall growth in the business. And that growth translates into deals which are sometimes licensed and sometimes subscription. Luckily for some of those deals in the last 3 quarters have been on perpetual license side. So that's why last year, though the license growth was less than the company's growth, but this quarter, the first quarter, there has been substantial license deals for us.

I don't see the base number in such a large number that we can't exceed that growth target. We will continue to sell a substantial number of licenses every quarter. And I don't think this is a one-off thing. But what is one-off is that, as you are rightly saying that in some territories like in U.S., we've got a substantial license deal as well as the Q1 being lean, generally, this time, it has defined that leanness, whether that's a one-off thing or is it going to continue, I think we'll have to wait. But I don't see any reason why we can't continue the growth momentum in the next few quarters.

Ashish Chopra: Fair enough, Jeet. And just secondly from my side. So given that the annuity based, or subscription-based revenue is now almost 2/3 of your total revenues. Does that not give you a good semblance of visibility in terms of how the years pans out? And I mean, I'm coming from the perspective that if you are, let's say, 30%-plus Y-o-Y in the first quarter, what would you back from having a clear visibility of at least a 20% plus growth, what has to go wrong for growth to be lower than 20%, when you have an annuity base, which is as high as 2/3? Just wanted to understand some nuances of the portfolio.

Virender Jeet: Yes, Ashish, I will share your enthusiasm. The only thing what you read is slightly wrong that what you're seeing that annuity 2/3 is basically for this quarter. You extrapolated for the year. Through this quarter is smaller, our annuity is still at between 55% and we may reach up to 60% of the revenue this year. So still, the total annuity is not 2/3. It's more close to 60%. So, there is still variability depending on license businesses.

So, when you're looking at this 2/3 number, you are taking this quarter number, because this quarter, since the other -- generally, it's a smaller quarter for us. So, the traditional business lines are performing much better. So, I hope that over the next few quarters, we can keep on increasing this annuity. And as said, as we are able to explain the subscription sale, expect the mature market sales, we do expect this annuity to go all the way up to 70%, 75% of the business, which should give us much higher availability in the whole year.

Ashish Chopra: Fair enough. And just lastly from my side. So, you articulated that you're not really witnessing any significant pressures in your U.S.-based customers. But anything that you could share on the traction in your own efforts to grow your client base there as well as maybe the results of the GSI channel model?

Virender Jeet: So, Ashish, so I think the U.S. performance this quarter, I don't think you should be taking the reflection that everything is all right on that market, and we are still working on as resolving. Like we said last time, we have already pivoted -- we're pivoting our strategy from going to larger banks. Some of those deals have come this quarter, and we expect to repeat that. But it's not that all quarters are still firing. We are resetting our GSI strategy out there. We are working on multiple initiatives on that. So, I think this is still some quarters to go before we start building a much more stronger U.S., which mean -- that is the growth for Newgen.

As of now, I would say that, last year was very weak for the U.S. This year, in percentages, it was strong. But I think we'll have to wait for some time before we can really say that U.S. is going to be the growth driver for the company.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Congrats for a great set of numbers and thank you for taking my question. Sir, my first question is on the jump in the other expense. So, while this quarter is lean and Q4, last Q4 is heavy. Other expenses increased to INR75 crores from INR67 crores. So, can you explain the reason? And what can the expectation on this?

Virender Jeet: So, I will have to, excuse me, because other expenses, could you be more specific? So, these are all our SG&A expenses. This is about including our marketing and our all other travel, marketing and all other expenses. So as the business grows, there is already kind of an investment happening on the marketing side and there is some amount of what you call cost base growth on all other head sales there. So, I could not understand, is there a... Yes. I think last year, the first quarter was not even quite open. There is a -- in fact, we have budgeted. So we are in fact, slightly lower than what we had budgeted for this year. So, we don't see any concern on other expense side.

Ankur Kumar: So, any guidance on this number going forward?

Virender Jeet: See, I think, the Q1 cost base is generally, I think, going to be the similar for the -- most of the things. Only the manpower expense would vary after the increments and other things taken. But generally, these are the cost bases we operate for most of the year now.

Ankur Kumar: Got it. Got it, sir. And another question is to the previous participant. You said now Q1 should be around 20% of revenue is generally happening. So even if we assume it to be 20%, this year should be north of 25% of growth. So, am I right on my assumptions on that front, sir? Based on the visibility that we currently are having?

Virender Jeet: So yes, I think, what I said is that our historical trend rates have moved. The Q1, which was 17% has moved all the way up to 20% up last year. So, we do expect that momentum to continue this year. But I think, it will also depend on our performance on the subsequent quarters. So, if everything remains the same, we can extrapolate the data, but I think that's not going to be that. But having said that, right now, we are quite hopeful of maintaining a strong year this year.

Ankur Kumar: Got it, sir. And on margin side, we generally are talking about 18% to 20% of PAT margin. So, any color on that front?

Virender Jeet: I think, actually staying at around 20%+ on EBITDA and around 17% to 18% on PAT, depending on our investments that year. And generally, the cost bases are very pretty much fixed, as where we reach on the top line will determine the net margin.

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

Mihir Manohar: Congratulations on good set of numbers. Sir, largely, I wanted to understand on the FSI side of the piece. So, what is driving that? Is it financial services? Is it banking, is it insurance? Is it market?

Virender Jeet: Mihir, I'm sorry, we couldn't hear the second part of your question. But if you can hear me, then I can repeat, I can answer the first part of the question. Mihir, we can't hear you. So -- but I think -- let me answer the first, maybe if you can hear us, let me answer the first part of his question. Mihir, the -- as you said, the growth momentum, I think we are very strong in BFSI and I think, in fact, the banking is driving the growth. Banking in our emerging markets like India, Middle East, APAC, we are talking about Tier 1 accounts.

And as Mr. Nigam had just said, it is typically the journey, which is an onboarding journey or a digital lending journey which is driving a lot of traffic. And we have pivoted from our earlier deal sizes, which were a few crores to much larger deal size across all these regions, India, Middle East and APAC.

In U.S., we have been focusing on mid-market, and that was our kind of a bread and butter out there, but we pivoted slightly to banks which are bigger than 20 billion, 50 billion and above. Again, in those, I think the origination journeys, the digital journeys is driving. So banking is number 1 where we are finding traction.

But beyond banking also insurance is looking positive. Though we have not converted as many deals as we do in banking, but insurance is looking at also very strong. And again, I think the need for digital revamping, attorneys infrastructure, everything is there. So, I'll stop here, probably Mihir if you can join again and then we could have a chat. Because right now, I can't hear you.

Moderator: Thank you sir. The next question is from the line of Chirag Kachhadiya from Ashika Institution Equities. Please go ahead.

Chirag Kachhadiya: Yes. Congratulations to the entire team for a very strong set of numbers in the lean quarter. And again, it's very really transforming the result on a revenue profile perspective from transition to tradition to the annuity and subscription. So, I have a couple of questions. Let's say, after a few quarters, our revenue largely start coming from annuity and subscription base, then what kind of cost structure are we looking for? And on a sustainable basis, the ballpark aspiration, to reach

500 million of turnover, which we have been provided since last couple of quarters. At that time, what margin profile are we looking forward? And what is your attrition during the quarter? Yes.

Virender Jeet: So, as the revenue mix keeps on change, in terms of becoming more annuity, that happens because of either we sell perpetual license and the ATS part of, the annuity part of license gets compounded, or we sell more subscription licenses. So, it will keep on improving.

In terms of our margin, I think it's not directly connected to that. As company grows, our gross margin position will keep on becoming stronger as the larger percentage of revenue will come from what we call our licenses or subscription sales. But it will depend on our opportunity of growth in market and how much we invest in our R&D and sales and marketing. So that's why when we give a broad guidance about meeting some numbers, we are saying assuming that the larger part of the margin will get reinvested in businesses for growth. So, we'll continue to be around 20%, 21% of EBITDA and 17%, 18% of PAT. On a healthy growth line of anywhere around 20%, that number should be -- we should be able to deliver that.

In terms of attrition, and as I think attrition have come down significantly. I think, we are almost talking less than half what it was last year in the same quarter. But it's just 1 quarter, and I think less date, I think the market is still looking up now for most -- again, software industry. Let's see how it unfolds.

But I think we are -- on that trend, I think the larger problem of industry, I think we are much away from that problem right now. And we think that this year, we should be at a much, much lower number than compared to the last year. So, I think what was -- I couldn't get your third question, because.

Chirag Kachhadiya: Okay. Sir, 1 more question I have. Like when the wage hike impact is to be there in the quarter, in which quarter we're going to increase the payroll and all. And also, will it be similar to like what we used to give in previous years? Or this time, is there any differentiation considering the growth we have achieved in the last couple of years?

Virender Jeet: No. I think wages are dependent on our growth, our own perception of where we want to be and as well as the market reality. I think, our increment cycles are divided across 3 quarters. April, June and predominantly January. So, I think the impact will -- there is some amount of impact on this quarter. It's already -- there has been increment and there is going to be some increment in fact on next year, next quarter. As well as the there's going to be a substantial number of people getting increments in the last quarter. What percentage is, I think, it's a very difficult call right now. I think we'll have to take it very close to that.

Moderator: Thank you. The next question is from the line of Sumeet Jain from ICICI Securities. Please go ahead.

Sumeet Jain: Thanks for allowing ICICI Securities to host your call. So, Jeet, first question I had is, generally the health of the midsize bank in the U.S. Generally, we have heard both the banking crisis in March, the overall technology demand from them has been a tad week because of the consolidation and merger happening. Now in your client base, within the U.S. portfolio, have you seen such kind of a pressure playing out because as per your numbers, it doesn't seem like anything of that product played out.

Virender Jeet: No, Sumeet, thanks for your question. So, Sumeet, you're absolutely right. I think, what we are seeing is quite visible in the U.S. I think the midsized banks, particularly a smaller end of the midsized banks are struggling. And right now, I think the spend on IT is quite weak.

In terms of -- when you look at our performance in banking, it is still, I think, the deals which we have won or what we are winning are slightly in the larger accounts. And we are -- as we said, we are pivoting towards those accounts. And the banking in U.S. right now is under cost pressure. They are looking at projects which we can optimize. And some amount of a player for products is in terms of challenging that existing cost base and doing things at a much more viable cost.

So, we think even on the cost pressure side, there is a demand for our kind of products. But I'd say Q1 is a very small quarter. Any numbers seeming percentages and trends on Q1 may not be a fair thing to take. So, we are also learning how the U.S. market is going to behave to our new kind of offerings. So, I think the process is -- it's half done. So, we can't draw conclusions on that.

Sumeet Jain: So, are you a bit cautious on your U.S. geography demand in the coming quarter? Should we take it like that?

Virender Jeet: Okay. The way I would say it is quite diversified. And last year base is quite small. So, we should be able to do substantially better than last year. But in terms of overall, our perception of building long-term U.S. businesses in terms of GSIs or large-sized banks, I think it's going to be a while before we'll be able to comment on that.

Sumeet Jain: Okay. Got it. Next, I wanted to just ask around this INR35 crores 5-year deal that you mentioned towards yesterday. When will it start ramping up and in which geography and vertical will be to you?

Virender Jeet: Yes. Sumeet, this is a deal from India, 1 of the Indian public sector banks. It's for our new offering, which is trade finance. And this project needs to be executed immediately. I think, the large part of this revenue will come in the next 18 months. And then the part of this revenue, which will follow up ATS/AMC. So, it's a very good sizable deal, and we are very excited about the trade finance offering.

I think last quarters also, we have already communicated, we have won substantial deals in this, or both India and Middle East. And there's an interest in other markets also around this product. So, I think our digital lending and trade and especially larger accounts are driving very different deal sizes, which is also helping our growth.

Sumeet Jain: So, will it take 1 to 2 quarters? Will you see the ramp-up of this deal in your revenue profile?

Virender Jeet: I don't think this deal on its own change the revenue profile, because at the end of the day, if you take 70% of this deal, which is going to be executed over 18 months. 18 months and divide it on quarters. So, this is just another deal for us. But I think you're absolutely right. I think next quarter onwards, we will be executing.

Sumeet Jain: Got it. Got it. And next I wanted to -- just around your debtor days like, you expect 120 debtor days, typically higher than what you have reported in the past years in Q1. So, any particular reasons why the debtor days are much higher this year?

Virender Jeet: No, nothing much. I think, it's our traditional markets where we are having some challenges. But I think the bigger issue is what has happened in Q1, the last year closure, Q4 and Q1, I think there's been substantial amount of billing. And that billing is to do with also a lot of revenue, which is not realized in terms of our subscription advances, our ATS advances as well as the growth rate has been much higher in these 2 quarters.

So, some amount of provisioning is getting created even for day 30 and day 90. So, you have the DSO increase. But also on the other hand, we have a traditional problems in some markets, and on some accounts is getting -- which have added roughly around 10, 15 days of DSO. We are on it. And as I told it, I think in some period of time, we are trying to bring this to near 100 days and then even go below that.

Sumeet Jain: Got it. And just last question to squeeze in. Your gross margins are expanded by almost 400 basis points Y-o-Y. So, is it a function of higher license revenue sales this quarter? Or is it that your wage hikes come in the next 9 months, and we will see a bit of a pressure there? How do you see the gross margin trending over the remaining 9 months?

Virender Jeet: Yes. Sumeet, it's very difficult for me. I think, we're slightly going out of my subject. But as you're saying, you're right. Since the percentage of annuity as well as the license is high on this quarter, the gross margins will look much better. But I think in subsequent quarters, other schemes start kicking in. A lot of the implementation milestones start kicking in Q3 and Q4, which have other service profile, which start balancing the gross margin.

But having said that, I think this year, we have a high-cost base because on the previous year cost, we have multiplied it for 4 quarters, we are on high-cost base. So, we do see margins to remain slightly healthy, but I don't think they will expand 400 basis point for the year.

Moderator: Thank you. The next question is from the line of Rushabh Sharedalal from Equirus PMS. Please go ahead.

Rushabh Sharedalal: Congratulations on a great set of numbers. My question is pertaining to the regional banks of U.S., only the -- again continuation with the previous participant. So, you did mention that we are moving from the smaller end of the regional banks towards the larger. So, the mid-size regional bank. So, what kind of a competition are we seeing from the larger IT companies? And how do we actually plan to play this competition? If you can give some color on?

Virender Jeet: So, Rushabh, in regards to the banks for our kind of products, the competition has remained similar. The competition landscape does not change from the size of the bank. We still on the horizontal side, have the same competitions like Pega, Appian, OpenText. And on the vertical side, there are the same competition like companies like Ncino and all. So, I don't think that dynamic changes.

The only dynamic what changes is that the larger banks can see better value for our platform, our NewgenONE. We can position ourselves better for the holistic end-to-end journey of automation, where we think we have a stronger play. And also, with traditional case studies in terms of reference ability across the geos in the world, showed those better examples out there. And also, the bigger issue was about lifetime value for a customer, which we thought that in smaller banks, we were not able to realize that in 2 years, 3 years, where we see a good potential. But just to answer your question in a short, the competition landscape does not change very drastically from a midsized bank to a large bank.

Rushabh Sharedalal: Okay. Okay. And -- how big is this pie? So, like in the U.S. regional banks have heard that there are some 4,000, 4,500 regional banks. But how many Indian IT services companies would be going for the same business? And how big is the industry size? If you can give some color on the industry size?

Virender Jeet: You see, the financial entities in banking and credit unions are roughly around 5,000 out there, and they keep on -- but I think, what we had targeted earlier was a section of those banks about USD2 billion assets which was roughly around 800 in number. I think we have committed to a much smaller number, which is roughly around 150 to 200 accounts.

Now in the 150 to 200 accounts, other regional players also participate. Because these are typically banks above USD 20 billion -- above 50 billion asset size. So, in other banks, if you said 4,000, I don't think there are very niche software players who really play in those.

Rushabh Sharedalal: Okay. And just 1 question on the generative AI thing that is going around in the market. So, are our clients also expecting us to provide some kind of efficiency in terms of delivering the projects when generative AI tool we use? And does it disrupt the industry, the sector in any way? If you can give some color on that, too.

Virender Jeet: Yes, that's a very wide question, but I'll try to answer it in a small what is relevant for us. We are already in the business of assembling solutions at a very fast pace through a No Code/Low Code kind of technology.

I think, most of the conversation when it comes to demand or optimizing demand is about code generation. We are already in the game, we are code -- generation needs to not be done. But generative AI also adds further value to our products and offerings, which we are trying to put in the road map for the next 12 months.

Right now, the value which we are delivering to the customer is not around people and costs, it's around the solution, the benefit, it's around the product. So, we don't see those pressures right now in terms of cost becoming coming on generative AI. But there's a huge opportunity on our product side and on the solution tax side, where how we can use AI and generative AI to give better value to the customer.

I think that those road maps are already being drawn. We're working on many of such areas as we are ready to release, we'll release them to market.

Rushabh Sharedalal: Okay. Okay. And just a small bookkeeping question, if you can just quantify the accretion rate for the quarter?

Virender Jeet: I think, I'll ask Deepti to respond. Because she can give you exact number, but I'm not very sure.

Moderator: Thank you. We have the next question from the line of Dhawal Doshi from IDBI Capital. Please go ahead.

Dhawal Doshi: So, my question was on the revenue growth. So, if you look at the last quarter, we grew, let's say, 18% to 20% Q-o-Q. And we ended FY '23 with 25% growth. Now when we look at Q1 performance, it has been healthy on a Y-o-Y basis, 30% plus. So, do you see FY '24 growth to be similar with as FY '23 growth?

Virender Jeet: That's a difficult question to answer, but what we are saying that the way last year was looking right now, we don't see any headwinds like you see in service companies around our growth. We think there are enough areas for us to keep on doing business. And you're absolutely right. I think on Q4 is stronger always. And we expect this year also the Q2, Q3, Q4 sequentially to be better than Q1 in the previous quarters. So that kind of trend, there is no reason why we should not continue that. But what -- absolute growth rates, we said, at the end of the year, I think we have to wait for that.

Moderator: Thank you. We have the next question from the line of Sarang Sanil from RW Investment Advisors. Please go ahead.

Sarang Sanil: Congrats on great execution. First question is, have any GSI deals been converted this quarter? And how is the pipeline like? And is it coming as per expectations for the company? My second question would be, if you could give some more color on how Generative AI see application to your NewgenONE product. Has there been any deal that included this? Or are you still exploring the space?

Virender Jeet: Yes. Thanks for the question. So, on the GSI, we did have some deals in the U.S. this quarter, but not a significant number. From our expectation, we are very, very far from the number. I think, we have done the investments. I don't think they are showing the reasons right now. I think, you have to be on it for some time before things start becoming better. And so that's -- on the generative AI side, I think it's too early in terms of what we are going to do and what things we are going come to the market. So far, generative AI is not part of our any deal. As I said, we are already working on an area which is typically about assembling of applications on a low-code platform.

So, most of the conversation in field is about how the code generation can happen through AI. That's not where we are right now. But as I said, we are finding a huge amount of opportunities, both on our solution side as well as product side to introduce generative AI and other AI capabilities. And in next couple of quarters, we'll be launching many products in that area.

Moderator: Thank you. The next question is from the line of Akshat Khemani from Carnelian Asset Advisors. Please go ahead.

Akshat Khemani: Yes, sure. So, I largely wanted to understand the section on the trade finance side. If you can provide some color as to what is the pipeline on the trade finance, specifically India and Middle East, what kind of opportunities are there? If you can quantify that, the number of deals, kind of traction, what kind of the potential value, that will be really helpful.

In the next 2 to 3 years, what kind of inquiry pipeline are you building on trade finance? And how is our solution placed when compared to competition? I mean, what is the differentiated section which we are offering on that side? That will really helpful.

And my second question was just on the perpetual license as part of the fees. And at the start of the call, you mentioned that some of the business is shifting to perpetual license. So, if you can provide why is that happening? And how do you see that traction for the balance part of the year or maybe for the next 2 years? Will perpetual license will be higher and why is that situation happening in the market? That will be really helpful in that. So those were the questions.

Virender Jeet: And there were quick questions and a lot of questions within a question. So let me try to answer them and then probably if I miss something, you can ask me. See, first of all, I'll talk about the trade finance. So why Newgen -- I think on trade finance is 1 we realized, Trade Finance is document in intensive and Newgen is very, very strong in any process centric versus or document-centric process automation. So, we've been traditionally strong, and we have been providing some parts of trade solutions to our customers over a long period of time.

Last couple of years, we have gone in and built a full trade product. And I think, we got early wins from some very, very large accounts in India and Middle East. I think some of the largest banks in this territory, which has established us as 1 of our prominent players in the markets, which now we want to complete, especially, as you said, Middle East and India is our market where we are competing strong.

In terms of trade, I think we do expect to close every year, at least 4 or 5 deals on trade. And -- but in terms of these cases that sometimes long gestation, and they are -- as you see the deal sizes are pretty large compared to our traditional thing. So, I think it's so early. And if I'm not wrong, I think we have already around 5 to 6 customers on trade now. And I think we do expect by this year-end, we may have another 3, 4 orders of trade.

Now coming to the second part of, this perpetual license. See, what we have seen lately in many markets, we have seen that -- I don't know whether it's a function of pressure on cost right now or over being oversold on subscription licenses. Some of the customers are demanding perpetual license sales. So, what that actually means they want to pay lower annuities. They don't want to pay very, very high annuities -- so this has been a conversation going on, has been always in India and markets like India, but what we have seen is happening in Southeast Asia, we are certainly happening in Middle East and U.S lately.

So, I do see that a perpetual license sale will continue to be part of our segment, revenue segment. But as I said, I think the growth of that will not meet the growth of the company. So, it will be slightly always lower than the growth of the company because our other heads like subscription, compounding annuity, our support heads will grow faster. And -- but it will continue to be part. How big and -- what percentage of growth may be difficult to predict. But last year, I think when we grew at around 24%, 11% was the growth on licenses. I think this year, if we continue doing that, we will be able to do slightly better than that.

Moderator: Ladies and gentlemen, we take that as the last question for today. I would now like to hand the conference over to Ms. Deepti Mehra Chugh for closing comments. Over to you, ma'am.

Deepti Mehra Chugh: Thank you so much for participating in the call. For any further questions, you can connect with me, or you can go to our website. Thank you.

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