Newgen Software Technologies Limited
CIN: L72200DL 1992PLC049074, Registered Office: E-44/13, Okhla Phase II, New Delhi 110020, India
Tel: +91 11 46533200, 26384060, 26384146 Fax:+91 11 26383963

Date: 08th May 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 – Q4 FY'23

Dear Sir/ Ma'am,

As intimated earlier through our letter dated 28th April 2023 regarding the Conference Call of the Company, which was held on Tuesday, 02nd May 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 kind information and record.

Thanking you.

For Newgen Software Technologies Limited

AMAN MOURYA
Digitally signed by AMAN MOURYA
Date: 2023.05.08 18:19:40 +05'30'

Aman Mourya
Company Secretary

Encl.:a/a

"Newgen Software Technologies Limited

Q4 FY '23 Earnings Conference Call"

May 02, 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

Please note that the transcript has been edited for accuracy purposes

Moderator: Ladies and gentlemen, good day, and welcome to Newgen Software Technologies Limited Q4 FY '23 Financial Results Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Deepti Chugh: Thank you. Good evening, everyone. I am Deepti Mehra, Investor Relations, Newgen Software Technologies Limited, and I welcome you all to the Q4 FY '23 results of the company. Joining with me today on our call is the management, Mr. Diwakar Nigam, Chairman and Managing Director, Mr. Varadarajan, Whole Time Director, Mr. Virender Jeet, CEO, Mr. Arun Kumar Gupta, CFO.

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 our website.

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

Diwakar Nigam: Good afternoon, everyone. Thank you for joining us today for our Q4 results call. It is a happy moment for us at Newgen as we crossed the INR1,000 crores milestone to total income in this financial year. We witnessed a growth of 25% in revenue over last year. The growth was primarily driven by our traditional markets with India growing at 41%, followed by EMEA at 28%, APAC at 17%, and US at 10%. We have made significant progress as an organization and delivered strong performance across all key business metrics during the financial year.

Expansion of subscription revenue. While accomplishing the growth in the revenue, we continued with our smooth transition from license to subscription revenues. Our subscription revenues have now reached INR323 crores. This revenue stream is predictable and recurring in nature and grew faster than the overall revenue growth rate of the organization at 31% Y-o-Y. This comprised 33% of share of our total revenue.

Growing large customer base, our solutions today are driving deeper penetration into our customer base. We have been seeing an increasing trend of average ticket size per customer. Of the 520-odd active customers today, 51 customers had a billing in excess of INR5 crores for the year compared to 38 last year. At the same time, we continue to maintain low level of client complaints.

Moving to updates on our offerings and opportunities. Innovation is at the core of Newgen, and we continue to invest 10% of our revenues on various R&D initiatives. We are excited to see that our innovative offerings are well positioned to tap the large market opportunity for automation at scale by enterprise.

With the new version of NewgenONE, we are enabling our customers to achieve their digital goals and automate their operation at scale. Our platform is ideally suited to achieve enterprise goal of revenue enhancement, increased productivity and optimization of costs and business operation and team collaboration. It helps businesses deliver exceptional customer experience, achieve operational excellence and drive continued innovation.

The solutions are so quick to implement and very cost effective. NewgenONE is backed by cloud-native, multipersona AI/ML data sciences platform for enhancement of document classification and extraction capabilities, integrated process and robotic process automation capabilities. And it strengthens DevOps for easy application deployment and update. Newgen's RPA compliments the low-code application development capabilities and is expected to further empower our customers to achieve end-to-end process automation.

Our trade finance solution is taking us deeper into the banking and financial services vertical, opening up opportunities for larger deal sizes. We are now targeting larger size banks and financial institutions across the globe. We are thrilled to be recognized as a leader by various reputed industry analysts across segments. During the quarter, we have been recognized as a leader in the Forrester Wave content platform report. We believe this recognition validates our dedication to empowering business with cutting-edge solutions as we remain at the forefront of content management innovation. NewgenONE has been also acknowledged as a strong performer in the Forrester Wave RPA report.

On the operational front, the year marked prioritization of initiatives aimed at enhancing employee engagement, talent management, and capability building. Our focus has been on fostering culture of inclusion, promoting diversity, investing in learning and development and empowering our employees. We believe that by investing in the growth and development of our employees, we can enhance their skills, knowledge and capabilities, while also driving the retention of top talent. This is a feature for driving our long-term growth.

On the sales and marketing front, we are continuously working on building our direct sales channel, along with the focused alliances with our partners, especially the system integrators. To expand our market, we have been participating in and hosting multiple face-to-face events across the globe. We also hosted customer meets across Delhi, Mumbai and Dubai for our customers during the year.

We continue to work towards strengthening our relationship with the GSI. We are driving joint sales and marketing activities and campaigns as well as joint solution development with our partner. We have recently entered into a strategic partnership with Mambu, a leading cloud banking platform based in Amsterdam, and Sopra Banking Software of Europe to expand our geographic business.

On profits and margins, we delivered healthy margins during the year. Our EBITDA was stable at INR212 crores, resulting in a margin of 22%. And profit after tax was INR176 crores, leading to net margin of 18%. During the year, apart from investing 10% of our revenues and R&D initiatives, the company invested 22% of revenues on various sales and marketing initiatives. Our balance sheet is strengthening with every quarter. We have a strong network, no debt on our book, and a healthy cash and bank balance, enhancing our financial stability.

Our net cash generated from operating activities during the year was at INR136 crores. Our net trade receivables were INR388 crores at the end of March, which resulted in net DSO of 145 days.

In Q4, our revenues were at INR305 crores with a growth of 32% Y-o-Y. This is the first quarter for us where we crossed the revenue milestone of INR300 crores. We witnessed acceleration in business from customers, especially in US and India region during the quarter.

As we close this financial year, we are excited for the year ahead as we believe there are huge opportunities for automation at scale in enterprises, especially in banking and financial services domain. Newgen continues to empower enterprises towards a more holistic or enterprise-wide automation, which is built for change. This is essential towards building a sustainable organization for the future. This would, in turn, ensure faster time to market, minimization of cost, and superior customer experience, all building blocks of the organization of the market.

We are very fit to take this journey with our cutting-edge products, focused on innovation, skilled team and deeper customer relationships across the globe. We are now open to Q&A.

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

Baidik Sarkar: Hi Mr. Nigam, Virender and the rest of the team. Congrats on a very strong trend. A couple of questions. You have shown good traction this quarter. But in light of the systemic banking crisis that the US is subject to today, is there a risk to our pipeline per se? What's the sense from your current conversations?

And secondly, our go-to-market success in the US this quarter, was that courtesy our system integration partners, or was it courtesy our organic initiatives? What's your sense of traction in the geography per se except banking?

Virender Jeet: Thank you, Sarkar. And I think for the US, as you currently understand, our business is pretty diversified in geos. And the presence for us, in US, is in accounts which are typically in financial services and some large enterprise coming from GSIs.

Today, we don't see any risk in terms of our pipeline on that. Probably, we don't have the same concerns as the larger GSIs, because I believe that most of our business is still growing from licenses, and which are -- opportunities have generated on both sides in terms of when people are looking at efficiency and reduction of costs, our platform plays a very important play, as well as when we are looking at growth and scaling up.

So in that case, I don't see a substantial risk right now. And I think it's not visible for us from the accounts we are dealing with. What has happened in last quarter, I think we have closed some deals organically from our banking side. But also, we got some support from the GSI deals, especially from the existing accounts, which we have already acquired over previous quarters.

For the year, since we are resetting the US strategy in terms of some amount of shifts from our traditional banking accounts to slightly larger accounts, I think some amount of early wins have started coming in, but it's still a long way to go before we are completely out of the woods out there. But if US has started contributing towards growth, that's what we are happy. At the year-end, it was still a significant two-digit growth. However, first two quarters was not really good in the US. So going further for the next year, as of now, we don't see any systematic risk or any risk in terms of recession or any other thing from account [inaudible 0:14:21]. Did I answer your question?

Baidik Sarkar: Yes, it does, Virender. On the same line, the Middle East, one really understands the correlation between energy prices and growth investments. Do you reckon we can continue with this momentum, or would you caution saying that this is a cyclical high just given the commodity prices have been and it will be difficult for us to kind of repeat this kind of performance. Your sense of the Middle East business?

Virender Jeet: So it's not cyclic in a way. But what we have always cautioned about Middle East that the market's behaviour changes when oil hits very extreme low levels. More in a moderate climate, even oil going up to $50, $60 or so, I don't think there's any impact on our business. And so I think there's two parts of this Middle East business.

I think though it is an oil-based economy, but now as many countries are trying to release their economies from oil, there's a lot of economic activity happening in territories like Oman, Saudi has been a great territory, even UAE. So I don't see anything which would bring substantial change in the whole scenario in the market. So what we have delivered over the last two years, three years in Middle East, I don't see any reason why we should not continue the growth momentum this year out.

Baidik Sarkar: Right. That's helpful, Virender. So given where your pipeline and conversation is, you reckon you're on course for a 20%, 25% kind of growth this year as well for your overall business?

Virender Jeet: See, we don't give guidance, and I think that's a standard answer you guys are used to. But what I'm saying is, I think we have a historical kind of going about 20%. And what we have aimed for the last two years, three years is to accelerate that growth rate. Somewhat of that acceleration has come in last year. And as of now, if all things remain the same, we think that we can continue the growth momentum going next year.

Baidik Sarkar: Sure. The last question before I get in, gentlemen. Your payout this year relative to your cash flows has been rather muted. So what are the broad thoughts on that? There's a cash pile that's increasing. I don't think we are of the DNA that will make aggressive M&A. So what's the long-term plan on your cash build-up and your distribution to stakeholders?

Virender Jeet: So I think we are following the policy of a dividend payout we have maintained over last year, which is a kind of a percentage of what we make as PAT. And of course, you are right, we are generating a bit of cash. And so far, we have not deployed it for any other purpose. But the organization's whole purpose is to invest for growth.

And we are aggressively looking at opportunities, both on organic side and inorganic side, for that growth. I think it will take us at least a few more quarters to come up with a reset policy, either on dividend or looking at how do we deploy that cash. So till that time, we'll have to be a little bit patient on that.

Baidik Sarkar: So look forward, gentlemen. Thank you. All the best.

Moderator: Thank you. Next question is from the line of Mihir from Carnelian Capital. Please go ahead.

Mihir: Yes, hi. Thanks for giving the opportunity. And congratulations on a good set of numbers. Largely, I wanted to understand the traction on the trade finance side of the piece. I mean, how are you seeing the traction on the trade finance platform given the deal sizes are slightly larger here? And also wanted to understand in this context, I mean, you mentioned that you are moving from traditional banking to larger accounts in the US. So I mean, given the fact that -- how are we looking at trade finance platform plus this comment that you made upon? And how is the organic sales channel specifically panning out in the US? So that was my first question.

And second question was on the GSI. I mean, how is the traction now in GSI? If you can quantify the number of deals won this particular quarter and for full year? And how is that compared to last year? And how do you see traction here building up? So those are the questions.

Virender Jeet: Thanks, Mihir. And let me try to answer, and number one -- remind me if I miss something. So I think you're right absolutely on the trade finance. We did this -- it has been almost like 1.5 years since we hit the market with this, and we are finding substantial traction in the market.

And the traction so far what we are converting is predominantly in Middle East and India. That's the market we are really going to focus on. Having said that, we do sense an amount of interest coming from US and other markets as well. But right now, I think if you ask from a business planning perspective, we have closed some significant deals in these markets, some marquee accounts, I think, which we'll be very proud of once we announce, once we have the permissions to announce.

And going this year, we have actually seven more deals across these geos for trade finance, which should help our software in growth as the deals are substantial in size. But as you know, these are projections and I think we'll have to wait for actual results to come in.

For the US, we have seen interest on trade finance, but I would be slightly cautious in terms of we don't have a real go-to-market strategy built around trade finance right now. We are still focusing on moving up the value chain on accounts which are slightly bigger than $20 billion on banking side and try to sell our traditional products, which has been typically in the lending side, both on commercial as well as retail, as well as there's an opportunity of looking at our platform sales with ECM and BPM and low-code platform what we are trying to sell. That's the market we are focusing on.

Out there, we have started seeing early signs. Last quarter also, we closed a few deals on that front. So we are saying that strategy probably is going to show some kind of returns in coming months and coming quarters. On the GSI traction side, as we have shared, the GSI momentum in the business, it has added-value, but has not added-value at the speed we've expected. Having said that, as Mr. Nigam said, we have formed new relationships and new alliances with a lot of other companies and other product-based companies which are adding to the funnel side.

We did close around three deals, if I'm right. I mean, I'll be sure about the number in this quarter, which are our new deals. But also, we are able to get substantial deals from the existing accounts which were closed previously. Compared to last year, the number of new logos acquired from GSI, the number is not significantly very high, but on the revenue realization from those accounts, we are at a much better position. So Mihir, I will stop here. Does that answer your question?

Mihir: Yes, sure. That's really helpful. And lastly, on the margin side, I mean, given the fact that we saw a margin recovery happening in 4Q. Yes, 4Q is a seasonal quarter. But how should we see FY '24, FY '25 going ahead, given the fact that there is like a 300 basis points kind of a decline at least on a Y-o-Y basis for FY '23?

Virender Jeet: Yes. So Mihir, I think, as you see that, in the last year, the margins have not been what it has been in the previous year because the previous year cost base was not realistic. And last year, for the whole of industry, the manpower costs have been revised substantially, and that has been the predominant cost base growth.

Also, what has happened is our travel restoration as well as the operating expenses of -- I mean, almost 99% of our workforce has in some way started coming back to office, whether on part-time or on full-time basis. So on operational, this is a new cost base. And we had set up a target of being around 18% of net margin and around 21% to 20% of EBITDA. I think we are very close to that.

Going this year, we are still looking at this year as our growth here. So we'll continue to invest aggressively in both sales and marketing side and our building capacity for that growth. A lot of manpower costs which have been incurred last year will also have an impact this year. So I think we should be able to maintain these margin levels for this year and then really have a bit more base for growth.

Mihir: Sure, yes. That's it from my side. Thank you very much.

Virender Jeet: Thank you.

Moderator: Thank you. Next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Hi, good afternoon, sir. Just wanted to understand how the competitive landscape is emerging, especially in your traditional markets? And also in the US, given that the larger companies are seeing some sort of pressure or some sort of slowdown in their revenue growth. So is there any sort of pricing pressure that you are facing? So how is the competitor scenario emerging now?

Virender Jeet: Yes. Thanks, Harsh. Regarding competition, I think for our core product categories, I think the competition is pretty standard. And those are -- typically, if you look at the Gartners and Forrester quadrants, you will see all the needs out there. Predominantly, they play in all the markets. Beyond that, for our vertical products, what we do in lending, what we do in origination, or what we do in trade, there are different set of each activity, what we call vertical banking products. Those are the competition.

One of the important developments which has happened is on the core product category, which is ECM, where we have also been rated as the leader by Forrester and S&P. There has been lot of consolidation. And in fact, now we do only see two or three key players emerging in the market. And we think that should help us in terms of if there's a modernization of content management, we should be able to make more inroads.

On the larger what's happening in US and companies, since our revenues are diversified across these territories, we are not seeing the same impact or we don't have the same insight into what's happening with larger companies in the US. And we are growing fast, but on the revenue side, some of the problems of larger companies are from the base accounts, which we are sitting in, probably typically in Tier 1 in US and Europe, and that's where we are seeing the pains.

For us so far, we are not seeing that coming into our -- but I think as the next few quarters show, I think more clarity will come in. We have a very extremely healthy funnel for the next year. Our order books have improved beyond the revenue numbers we have done. So we are quite confident we should be able to have a good year. But environmental conditions can be very acute these days, and we saw that a couple of years back. So we have to keep our fingers crossed until actual things happen.

Harsh Shah: Thank you. And if I have to talk about our growth potential for next three years to five years, how do you expect the growth to come? Will it be largely from more client addition, or will it be more from increasing the revenue per client? How will that pan out?

Virender Jeet: So as a software product company, our aspiration is to be a $500 million and a $1 billion company. And that aspiration is based on that there's an unlimited market potential for the product categories we play in. And what we are thinking that our penetration in mature markets is going to give that potential raise in size. Having said that, we have seen enough growth coming in emerging markets over the last three years, four years. We have been growing, and there have been multiple drivers for that growth as they are adopting technology. So I'm very excited that next four years, five years, we are designed to grow at a much higher speed than our traditional growth rates.

The growth is coming predominantly from two factors, you've said right. One is, I think as a product company, net client addition is important. We are pivoting towards slightly larger deals. So our ability to add roughly around 15 new logos in terms of which are the new names is the run rate we're working on. We do expect to improve that in the next two years, three years. But on average deal sizes, as we are shifting to larger accounts, that is improving, as well as ability to mine from existing customers as our solution stack becomes broad, we are able to do. So per account realization is improving, average deal sizes are improving, but acquiring new logos is very essential to building long term the tail for the business. Does that answer your question, Harsh?

Harsh Shah: Yes, certainly. Thank you, sir. I'm wishing you all the best.

Virender Jeet: Thank you.

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

Chirag Kachhadiya: Yes. Congratulations on good set of numbers. I have a couple of questions. In your opening remarks, you mentioned that we are targeting large banking and financial groups. So I would like to understand what strategy we are following to tap such large corporates?

And second, on logo addition front, the net logo count compared to previous years is relatively on lower side. So what strategies are there to increase the momentum in terms of logo addition? Yes, I would like to know these two questions.

Virender Jeet: Thanks, Chirag. So Chirag, when I said, our ability to -- we are trying to shift. So initially, our banking in US was focused on typically banks which were somewhere in say sizes of $1 billion to all the way up to $20 billion. We have slightly pivoted and started focusing typically on banks which are at least $10 billion or more, upwards all the way up to $50 billion to $100 billion.

And what we have seen is as we have been able to garner some more support in terms of reference ability in US and our solutions have become more mature, we have seen we are able to enter those accounts. We are still not talking to Tier 1 banks. We are still talking about mid-level Tier 2 banks rather than Tier 3 banks and that. That's what I meant in that US banking. And we already have responsibility in that market. We have got early wins. Even this quarter, we closed some deals out there. So we think that's going on as per plan.

On the logo side, you're absolutely right. I think at one time, we have moved over the last four years, five years from around 60 logos, 70 logos to around 50 logos. That's also to do with a lot of smaller account deals, which we were initially pursuing as through channel partners or through in terms of direct sales. We have slightly moved away from that market and looking at lifetime value of those customers have not been in our favour. So we have slightly pivoted. And the acceleration over the next two years, three years will come from more markets where entered.

Our Australia has started showing results. Our UK subsidiary has started winning logos. And US, as soon as we stabilize our strategy in banking, we should see the acceleration in logos. Having said that, our traditional markets are driving the growth right now. India, Middle East and APAC also have huge potential. We are actively looking at how do we diversify to more adjacent verticals, which can grow for us. And I think over the time, we'll see that there is going to be an acceleration in number of logo acquisitions. Does that answer your question, Chirag?

Chirag Kachhadiya: Yes, sir. Sir, one follow-up question. You mentioned that we are targeting new geographies for logo addition. So the new geographies have similar size of deals which we're targeting to the existing geography?

Virender Jeet: Yes, Chirag. I think the new geographies are typically the mature markets. So we expect the deal sizes to be same or better.

Chirag Kachhadiya: Okay. All the very best, sir. Thank you.

Virender Jeet: Thank you, Chirag.

Moderator: Thank you. Next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: Hello everyone. So I have two questions. First one, given the macroeconomic situation, that the free money has stopped and the EBITDA negative nature of the business of our peers, are we seeing any passiveness in bidding by them and have we been able to take advantage of that?

Virender Jeet: Yes. Saurabh, thanks for the question. Saurabh, I think the business, most of the conversation what we hear about Indian IT and the economics is typically from service companies angle and I think predominantly driven by the Tier 1, Tier 2 companies, which operate at a very different size and ratios. So we are not very sure about how to answer that question because we are slightly not in that business. We are still in the business of acquiring accounts and being in terms of what we call a hi-tech sale or what we call serious enterprise sale.

In terms of right now, what we have seen traditionally before the COVID, before the demand cycle really went down the route, we really felt that the GSI ecosystem was more hungry for these, and they were fighting for these more aggressively in the market. So what I sense is if there's going to be a tightening of probably the economic situation, we will see more-and-more hunger coming in GSIs to go and approach customers and these.

And that happens in some -- and in that case, we are looking at that, that should help our costs, what we have built in terms of investments along with that [inaudible 0:32:03]. Other company is in a downturn, I think every company is more hungry for business. I don't think there is any lack of competition. So I think there's going to be a more heightened competition in terms of -- if there's a slightly downward economic side.

Saurabh Sadhwani: Okay. And the second question was related to a simple business clarity that I wanted to understand. Our Product Division's products are built in India. And given the labour arbitrage that we have, do we make our products at a lower cost compared to given? So all else equal, we should be always winning on pricing, right?

Virender Jeet: Yes. Saurabh, you are absolutely right. I think there is a 6%, 7% advantage on R&D costs. The same R&D, if it was supposed to be done in the US, the cost would have been roughly maybe 20% of the revenue or 22% of the revenue. So there is a cost advantage, you're able to do. With lesser costs, you're able to do and more. So you have an inherent advantage of doing things. But then I think that advantage that gets balanced by the size of some of our peers.

Generally, we are fighting much larger companies. So they have much larger budgets at the size they are in terms of R&D. So I think the whole cost side of arbitrage is that the advantage to at least compete out there. And the cost of developing R&D does not translate into cost of the product. Cost of the product is the market reality, the benefit we've transferred to the customer. So pricing the products are benchmarked towards how the market determines. So there's no direct correlation. What you're saying is true more directly related to services.

Saurabh Sadhwani: Okay. Thank you. That's all.

Virender Jeet: Thanks.

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

Manoj Bahety: Hi, good evening. Thanks for taking my question. And congratulations for good set of numbers and superb execution. I have a couple of questions. First one is, just wanted to check that our GSI strategy particularly, the way the things are shaping up, like last two years, three years, we are trying to get inroads with our GSI partners. So just wanted to understand, is there something not clicking or something which is leading to a delay in terms of getting the traction on GSI strategy? So if you can give some more colour on that, that will be helpful?

Virender Jeet: Manoj, thanks. And you're absolutely right, last two years, three years we've been building on this GSI strategy. And I think we're very lucky to get some extremely good early wins, which really established both recall of Newgen within the GSI mind share, and also have relation to other GSIs. See, in terms of success or failure of GSI is determined by the ambition we have around that. We do get a lot of business with GSIs. I think in fact, 20% of the revenues today are driven by partners. And we have some amount of marquee wins every year with GSIs.

What we expect this to drive the next phase of big growth in mature markets for us. Out there we haven't really reached a number where we could say that, hey, it is a little delta of 5% or 10% lower revenue. So it is all adding up, but not at the speed we desire. Having said that, I think we have looked at that strategy. While we continue what we are doing out there, we have expanded the ecosystem. We have looked at pairing partners out there. We also look at ecosystems beyond GSI, which is the product Mr. Nigam talked about some of the relationships what we are trying to build with Sopra or Mambu or any other company.

So we're expanding. The reality for a product company is that their next stage of growth does come from the partner ecosystem, what we call a GSI other thing. I'm very sure our company will continue to perform great and grow as the markets which we are operating in right now have huge potential and upside for our kind of products. But I'm very sure that for our $500 million and $1 billion achievement target, the GSI and the partner ecosystem strategy has to fire. And it may take one year, two years, three years, five years, but we'll be on it till it fires.

Manoj Bahety: Just further on this, like when you enter into a partnership with a GSI, I'm sure that GSI must be dealing with your competitor's product or they may have other competitive products. So just wanted to understand that vis-a-vis their existing products, what kind of -- or in terms of our offering vis-a-vis their existing product, generally is it a cost factor which plays big consideration, or is it something else?

Virender Jeet: Yes. So Manoj, I think that this is typically a very, very large question and a very large answer. But I'll try to summarize. So what is happening in any product company? I think we've become very good in certain areas of our operation. Today, Newgen, for any content-based process automation or any automation which needs scale in terms of when you're doing hundreds of processes, we are probably the best product in the market. Now the whole world may not know it. But some of these GSIs do know it because they have done this work with us for multiple customers in different geos. So they understand our positioning.

Having said that, they also have in their portfolio other products. So one is that GSIs do understand the value we bring in, and that value is in terms of the coverage of our product, the value is in terms of flexibility which we exhibit as we have a closer relationship with them. But also as a company, it is finally our goal to sell to the end customers. So we have to influence the end customers. That's about our brand, that's about our presence in Gartner and Forrester. That's about our size of business.

So it has to work on both sides. While we work with GSIs, show the unique value prop we provide them, show the advantage of cost and flexibility, but also, we have to work with the end customers in terms of that there is a customer willing to buy my product. So most of the products are not sold by the GSIs. It's also the customer has a big play in 70% of the cases what product they choose. The issue is, if they choose me, then do they think that there is a trained GSI ecosystem which has an implementation capability to implement that. So that's what we cover with GSIs.

Manoj Bahety: Right. That's helpful. And I have one last question. If you can touch briefly on operating margin, because what I understand, our kind of business has a scope of big operating leverage. And as you mentioned in one of the questions earlier that right now your emphasis will be growth rather than expanding margins, but in terms of operating leverage, how do you think that after what level, what scale, operating leverage will start kicking in and we will start seeing good expansion in margins along with top line growth?

Virender Jeet: So the question is, we are already sitting at decent margins. And I think, yes, product companies generally can generate much higher margins as our gross margin position is much better. I think we do generate around more than 64% of gross margin, and roughly around 50% of our revenue has no direct cost associated with that, which is our license, subscription, ATS. But also you have to understand, for product companies to exist and survive, we have to continuously invest in R&D and sales and marketing.

Now the global benchmarks for the product companies are much higher than what we invest in today, because we got some amount of operating leverage because the cost base is in India. So as I said, our bias is for growth and to maintain healthy margin. But naturally, once you become a very sizable company, and sizable companies, we have seen roughly around $400 million and above companies. And if they become on slower growth trajectories, they have to keep on expanding margins for many, many years. So I think our ability to generate net margin of somewhere between 18% to 20% is what we think right now is feasible for the next two years, three years and then investing everything else on growth.

Moderator: Thank you. Manoj, sorry to interrupt you. I request you to join the queue again for a follow-up question. The next question is from the line of Devang Bhatt from IDBI Capital. Please go ahead.

Devang Bhatt: Hi. Thanks for taking my question. Congrats on a good set of numbers. So one of your GSIs highlighted that low-code and no-code is gaining traction. So are you seeing such increased traction in major markets in the current scenario?

Virender Jeet; So I think we are very -- see, I think we have a methodology over the last 20 years of pushing low-code, no-code. And I think we have come through different names, which is BPM, iBPS, low-code, no-code, hyper automation. These are all categories of the same name. There's a huge interest in enterprises across the world that they don't want to take the traditional engineering methods for building their apps. They want the low-code method. So that way there's an interest. Having said that, in terms that interest is also very horizontal.

So every customer, every application has to be low code. So that's a huge market opportunity across the globe. And we are very, very excited about helping customers in that automation side.

So we are seeing interest in a lot of RFPs coming on low code across market. It's not only US market, but also other markets. And we are really strongly pushing our strategy on low-code and hyper automation to be one of the core product players in that space.

Devang Bhatt: So a follow-up is that, will you be able to see a higher US growth in this year because of this? And will you be able to sustain the Q4 kind of margins that you have seen this quarter?

Virender Jeet: Yes. So I think that as part of what we sell, all things we sell are based on low-code strategy. So I don't think there is any different thing out there. We do expect that as soon as in the downturn and the cost optimization projects come, there's renewed interest in automation. And automation is low code based automation because we don't want to have very, very long projects. So there is an interest. Now I think we'll have to wait for how the market unfolds in those opportunities and how many opportunities a GSI can take us out there and how many can we generate on our own. So that's about low code. Sorry, what was your second question?

Devang Bhatt: Just a bookkeeping, like in your tax rate, it has been lower around 19%. So will you be able to sustain this kind of tax rate in FY '24?

Virender Jeet: Yes. So I think on the tax rate, we are fine for next one year, two years or so because we are still under the SEC rules for many of our revenue. On the Q4 margin, I think you should also understand that we are still -- since there's a large percentage of our revenue which is license based, there's a sequential revenue growth from Q1 to Q4. Q4 and Q3 being the largest quarter for us. So the margin positions in the cost are very flat. Generally, you have very substantially large margins in Q4. But on Q1, Q2, you will have little margins, and then Q3, Q4 margins will be like that. So having said that, we should be able to sustain the overall margins for that, yes.

Devang Bhatt: Sir, my question was more related to the US Q4 margin, because we have seen some dip and then improvement in US. So that margin...

Virender Jeet: Yes, I would say, we have still smaller revenue size to look at segment margins. I would still focus as a company on the overall margin, because in segment margins, a lot of our cost is attributed cost because we operate out of India. Predominantly, all the services are provided to that. So if the top line growth is high in US, the margins will be high. But I would still recommend that we look at the margin positions at the company level and at the annual level.

Devang Bhatt: Thank you, sir. Thank you for taking my question.

Moderator: Thank you. Next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Yes, hi. I just have one question that you talked about the partnership with Mambu and Sopra. Can you just explain how these are beneficial? And what are the intersection of the offering? And what are the complementary elements involved here?

Virender Jeet: Yes. So thanks, Rahul. So Rahul, I think what we have done is we are looking at the whole partner ecosystem more broadly in terms of finding what are the complementing products and go-to-market strategies. So these are typically, these are both to do with banking. So while in Sopra we are working on the digital lending side, how we can sell our digital lending product in Europe and adjacent areas, because Sopra is very strong in those markets and that's our alliance.

And Mambu, I think this is a core banking product, basically more for digital banks. Again, we are looking at how to extend beyond core banking, more structured loan products, enterprise content management, customer communication management products with them. So both these things, we are in the early stages. And I think with Mambu, we have some successes in the market. We're also working quickly to have some more success on the Sopra side.

Rahul Jain: So specifically, let's say, for example, for Sopra, don't they have their lending solution as of now?

Virender Jeet: So what we have as a product in lending, which is a low code based lending platform configurable, I think we have found that to be more attractive, what they can carry to their larger customer base. They have other product categories, and it complements their offering.

Rahul Jain: Okay. And in this kind of a go-to-market arrangement, where they are also primarily a software business. So are they going to sell on their own, or this is also through their partnership eventually being sold by SI and how the revenue share would come in case they generate these leads for us?

Virender Jeet: So see, they have got a huge customer base across those places. They are looking at their customer base and their prospect base. So that's a direct sales for them and we are selling jointly along with them. Wherever we are selling, we are looking at net to Newgen revenues. And finally, the net to Newgen revenues is what predominantly is either list price or somewhere around 35%-minus list price. So in our books, it's always net to Newgen.

Rahul Jain: Okay. And how do we define the market in terms of what is targeted through this channel versus what is targeted directly and what is targeted through SI in these markets?

Virender Jeet: So I think it's a much more detailed discussion.. Basically, we follow named account strategy. In all our markets, we have set up target accounts and some target verticals where we have six, seven offerings, which we want to take through as enterprise sales.

With the GSI, we focus on more horizontal products, enterprise content management, replacement, modernization, low code offering, where they can go to any vertical, because they have the knowledge of other verticals. With alliances like Sopra, Mambu, it's around adding capabilities to their overall go-to-market strategy they're offering. So we are predominantly adding our content management and lending capabilities to their product offering.

Moderator: Thank you and sorry to interrupt you, sir. I'll request you to join the queue again for a follow-up question. The next question is from the line of Dhruv Bhatia from AUM Fund Advisors. Please go ahead.

Dhruv Bhatia: Hello. Can you just throw light on the increase in DSO days to 145 days in the current quarter?

Virender Jeet: Yes. So yes, it has increased over the last year. So generally, what happens, our year-end DSOs are very high. As I said, a lot of billing happens towards the later part of the year. And that's the lopsided nature of our business where we do license sales. We have done roughly around more than INR350 crores of billing. And predominantly, the last month would be a significant part of that billing. That does affect the DSO. So our billing has grown at much higher speed than our revenues. So there is much higher DSO.

Having said that, we have optimized it from a very large number, and we are targeting that to be around 120 is the right number and safe number to be around like and then look at optimization beyond that. I think in some markets like EMEA and India, we are slightly higher that number, that's pushing it up. But in APAC and US, we are at much lower number. So I think, again, our endeavor is going to keep on bringing it down to a number of 120 and then. So it's going to be generally for the next three quarters, it's going to be a much smaller number. But as an annual number, we are targeting that at the year-end it should be less than 100.

Dhruv Bhatia: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: Yes. Most of my questions are answered. I have only one question, more of, what do you think is the threat of AI and basically the way things are moving in that particular domain? So if you can throw some colour on that, will it be beneficial for us or it could be some threat?

Virender Jeet: Yes, Jiten, it's a million dollar question. And I think everybody is -- I have a personal opinion on it. I don't know the official -- but I think when you look at any disruption in technology, significant technology disruptions like cloud, mobility,, we have always seen that it helps for the companies because they end up leveraging that technology faster than the market and then creating more products and services around using that technology.

So the recent -- what has happened over the last four months in the generative AI, we think that shows up a lot of opportunities for us in content services, in search optimization, in content generation, so there are a lot of areas for us on the table as an opportunity next three years, four years. So I believe that the speed by which we can innovate over the next three quarters, four quarters is going to determine whether we lag or whether we can ride this.

But there are other wide implications of generative AI which will happen over the next three years, four years in the markets around augmenting capability for engineers, being able to do much more faster work. I think those should be much more operational benefits which we can get. I think some amount of challenges which the IT industry is looking at generative AI is more from the services nature in terms of when you are deploying hundreds and thousands of people to do some routine jobs. Fortunately, we are not in that business. We're still in the business of innovation. And if generative AI can help our innovation cycle, I think we should be very happy with that.

Jiten Parmar: Great. Thank you. That's the only question I had. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as our last question. I will now hand the conference over to Ms. Deepti Mehra Chugh for closing comments.

Deepti Chugh: Thank you so much, everyone, for joining us on the call. For any further questions, you can connect with me or you can go to our website. Thank you.

Moderator: Thank you very much. On behalf of Newgen Software Technologies Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.