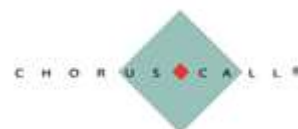




**“Majesco Q3 FY19 Earnings Conference Call”**  
**February 7, 2019**



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**MODERATOR: MR. DIWAKAR PINGLE, CHRISTENSEN IR**

**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the Q3 FY19 Earnings Conference Call of Majesco Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir.

**Diwakar Pingle:** Thank you, Ali. Good evening to all of you. Good morning in case you have joined in from U.S. Welcome to the Q3 FY19 results ended 31<sup>st</sup> December 2018 of Majesco Limited. Please note that the results have been mailed to you and you can also view in a website [www.majesco.com](http://www.majesco.com)

To take us through the results and answer your questions today, we have with us Mr. Adam Elster – Chief Executive Officer, Majesco (U.S.) and Mr. Farid Kazani -- Managing Director, Majesco Limited.

We will start the call with brief overview of the quarter which will be given by Adam and this will be followed by Farid who will go into the detail financials, we will then throw open the floor to the Q&A session.

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

With that said, I would now like to hand over the call to Adam. Over to you, Adam.

**Adam Elster:** Thank you Diwakar and good evening to everyone on today's call.

After completing my first quarter, I am still excited to be part of the Majesco team. The financial results we achieved during the fiscal 2019 third quarter reinforce by excitement about our future.

As you can see from the results, Majesco's cloud-based operating model has become a critical component of our value proposition and I am encouraged by our success. Our results reflect growing acceptance of our solution as third quarter revenue increased 12% in constant currency over the same period a year ago. Cloud revenues increased by 66% compared to the fiscal 2018 third quarter and now represents over 42% of our business compared to 31% for the same period last year. Majesco's profitability has strengthened as well due to the overall revenue growth which is being driven by higher margin, cloud-based sales.

Customers continue to partner with us and are extremely focused on where they are today and where they want to be in the future. Their strategy is focused on optimizing technology investments and establishing a new platform for an overall digital experience. In all of my interactions with customers, partners, investors and analysts, I see an incredible alignment to our vision and validation of our strategy.

Majesco has a compelling market opportunity and that is one of the key reasons that I came to this company. During the last 90 days, I have learned a great deal about Majesco and the insurance business in general. New and innovative business models, products, services and channels as well as new approaches to customer engagement has become the new normal for business and the insurance industry is no different. It demands agility, speed and innovation which is dramatically different from legacy insurance practices. While Majesco has been an early thought leader about the change and disruption in the insurance market, we need to continue to accelerate overall market awareness of our solutions and rapid time to value.

Most insurers have built and implemented core systems around traditional business model and technology architectures. In addition, painful and expensive IT modernization projects over the last decade, coupled with layers of portal and the complex integrations to improve customer experience do not align and adapt well with the new market dynamics.

Overall, other vertical industries are far ahead of the churn in leveraging these types of systems, and that is one of the keys. Although insurance is a very complex business, it only makes the need for flexibility and scalability even more important.

Transforming core systems in the platform to leverage broad ecosystems and technology innovations including cloud computing, API's, micro services and artificial intelligence is the future. These technologies will allow insurers to create customer focus products and services in the matter of weeks or months instead of years.

Last quarter we announced the Gartner had positioned Majesco as a leader in the Magic Quadrant for P&C core platforms. Our recognition for completeness of vision and ability to execute has helped accelerate our pipeline and increase our win rates.

In May 2018, we launched Majesco's Digital1st Insurance platform, an innovative next generation digital and micro services-based platform. Digital1st is very cool. As with our thought leadership around digital transformation, Majesco has developed this solution based on market and customer feedback and this is the fastest growing portion of our pipeline and is the most active conversation that we are having with new customers.

Customers continue to push back on multi-year, high-priced, on-premise implementations and our platforms can accelerate innovation, leverage new and growing ecosystems, provide scalability for growth and most importantly, this can be deployed in weeks or months rather than years. I am encouraged by the growing acceptance of Majesco's products which are resonating with current and potential customers.

Majesco's "customer first" culture is built on trust. Our customers have trusted us to provide them with core insurance platform software to run their businesses. We are dedicated to providing them with - leading products and solutions; expectation exceeding implementations; and superior customer service. The combination of providing customers with leading products

and services, differentiates Majesco from our competition and creates strong, deep seeded relationships with our customers.

Now, as we look at the third quarter, it was very positive for us. We were able to add 7 new customers, expanded 3 existing customers and saw strong renewal results. We had customers to invest in our Cloud Insurance for P&C. We had Tier-1 customer on specialty insurance, who will be implementing their cyber liability line of business on Majesco's policy solution, we had Tier-1 customer at Puerto Rico, a carrier insurance Majesco's policy solutions for its commercial lines of business and number of others.

In our L&A business, we had a Tier-2 US based carrier selected Majesco's L&A and Group Suite to modernize its operations as well as Indonesian customer. And very exciting for us, we had a tier-1 US-based P&C wholesale broker selected Majesco's Digital1st platform to accelerate their digital transformation journey and modernize their system of engagement. And three of our top carriers expanded the use of our platform for additional lines of business. Now, it is important business for us to establish new customers. One of the most exciting things about the third quarter is we had seven customers go live with our technology. And as exciting it is to win new customers and see them trust us with our solution, seeing these customers go live and into production with our technology, with the ultimate test of our success. We had a tier-1 US based carrier go live using our billing to support its Life and P&C business and number of others.

Majesco's partnership play an important role to drive our growth strategy and support our platform solution. One of the strategic partnerships everyone is aware of is with IBM. And the MetLife program representing the L&A and Group segment through IBM represents one of the largest cloud deals, and joint IBM and Majesco teams are focused on successfully implementing the cloud based solution. Overall, our IBM partnership is gaining momentum and growing pipeline, and we are actively pursuing several opportunities with tier-1 and tier-2 insurance carriers in L&A and a few with P&C as well.

Additionally, our acquisition of Exaxe further strengthens our position in the market. We were excited to add their team to the Majesco family. We are even more excited to introduce this cutting-edge, cloud technology to our growing group of European customers and prospects.

Majesco has a compelling opportunity and I am still excited to be part of the leadership team. Our third quarter results reflect the growing momentum across Majesco and alignment to market trends in the insurance industry. I am pleased with the progress we are making and believe fiscal 2019 is on track to be a strong year for the company. I look forward to continuing my active engagement with investors and shareholders, many who are meeting with tomorrow, well, I am here in India and updating you on the company's future.

With this, let me turn the call over to Farid to discuss the financial drivers for the quarter.

**Farid Kazani:**

Thank you, Adam, and good evening to everyone. I am pleased to summarize the third quarter financials of fiscal 2019. This is the sixth consecutive quarter of consistent improvement in the

revenue and profitability and we are pleased with the positive trends in the key performance metrics of the business.

Let me enumerate key highlights on the overall performance of the third quarter:

Operating revenue for Q3FY19 was Rs. 254.7 crores, an increase of 5.0% in rupee terms and up by 4.8% in constant currency from Rs. 242.5 crores in Q2FY19 as well as an increase of 22.7% in rupee terms and 12.0% in constant currency from Rs. 207.6 crores in Q3 fiscal of last year. Operating revenue for the 9-month period ended 31st December 2018 was Rs 726.6 crores as compared to Rs 589.4 crores in the corresponding period of previous year reflecting a growth of 23.3% in rupee terms and 13.9% in constant currency. The higher revenue was driven primarily due to higher cloud revenue, additions of new logos, continued business engagements from existing accounts and acquisition revenues from Exaxe Holdings that was consummated during the third quarter.

Total revenue for the quarter under review was Rs 263.2 crores, an increase of 4.6% in rupee terms from Rs 251.6 crores in Q2FY19 and an increase of 25.7% in rupee terms from Rs 209.3 crores in Q2FY18. The growth was primarily led by ramp-up in key programs, increasing business momentum from existing customers and new logos. We closed with Rs 750.3 crores for 9-month period under review as compared to Rs 595.4 crores in the corresponding period of previous year reflecting a growth of 26% in rupee terms.

The adjusted EBITDA for the third quarter ended December 31, 2018, was Rs 35.4 crores that is 13.9% of operating revenue as compared to Rs 31 crores that is 12.8% of operating revenue in Q2FY19, up 114 bps sequentially and up 748 bps YoY basis against the adjusted EBITDA of Rs 13.3 crores which was 6.4% of operating revenue in Q3FY18. Adjusted EBITDA for the 9-month period December 31, 2018 was Rs 89.6 crores that is 12.3% of operating revenue as compared to an adjusted EBITDA of Rs 18.8 crores which was 3.2% of operating revenue during 9-month's period ended December 31, 2017. The YoY increase in adjusted EBITDA margin was primarily due to higher revenue mix from cloud business and an improved operating efficiency.

Over to the details on the Cloud and Recurring revenue: total cloud revenue for Q3 FY19 was Rs 106.3 crores, that is 41.7% of the operating revenue as compared to Rs 94 crores which was 38.7% of the operating revenue in Q2 fiscal 2019, reflecting a growth of 13.1% on QoQ basis and up by 66.6% as compared to the Rs.63.8 crores which was 30.7% of the operating revenue in Q3 of FY18. The total Cloud subscription revenue was Rs.31.5 crores which was 12.4% of the operating revenue in Q3FY19 as compared to Rs.29.9 crores, which was 12.3% of the operating revenue in Q2 FY19, reflecting a growth of 5.5% on QoQ basis and 73% as compared to Rs.18.2 crores which was 8.8% of the operating revenue in Q3 of the last year. The total number of cloud customers now stand at 51 at the end of 31<sup>st</sup> December 2018.

As of nine months period ended 31<sup>st</sup> December 2018, the total cloud revenue stood at Rs.282.7 crores which was 38.9% of the operating revenue as compared to Rs.171.9 crores which was

29.2% of the operating revenue, reflecting a growth of 64.4% over 9MFY18. The growth has significantly offset the on-premise implementation revenue which declined 16% YoY for the nine months period ended 31<sup>st</sup> December 2018 to Rs.165 crores which is approximately 22% of the overall revenue for the nine months.

The total recurring revenue for Q3 FY19 was Rs.90.1 crores which is 35.4% of the operating revenue as compared to Rs.85.4 crores which was 35.3% of the operating revenue in Q2 FY19, reflecting a growth of 5.5% on QoQ basis and 66.8% as compared to the Rs.54 crores which was 26% of the operating revenue in Q3 of last year. For the nine months period ended 31<sup>st</sup> December 2018 the total recurring revenue stood at Rs.245.6 crores which was 33.8% of the operating revenue as compared to Rs.154 crores which was 26.2% of the operating revenue, reflecting a growth of 59.2% on YoY basis.

The product development expenditure was Rs.34.5 crores, that is 13.5% of operating revenue for Q3 FY19 as compared to Rs.33.1 crores which was 13.7% of the operating revenue in Q2 FY19 versus Rs.29.4 crores which was 14.2% of the operating revenue in Q3 of last year. For the nine months period ended 31<sup>st</sup> December 2018, the R&D expenses was higher by 21.4% as compared to the last fiscal and the same was focused on enhancing the cloud and digital offering. Net profit for the quarter stood at Rs. 19.8 crores as compared to Rs. 26.4 crores in the Q2 FY19, a drop of 25.2% sequentially but up 252.7% as compared to net loss of Rs.12.9 crores in Q3 of last year. The sequential drop is attributed to the one-time legal and statutory expenditure of Rs.3 crores for the Exaxe Holdings acquisition which happened in Q3 of FY19 as against an exceptional income of Rs.5.8 crores on account of the reversal of contingent earn-out in Q2 FY19 which was no longer required.

Net profit for the nine months period ended 31<sup>st</sup> December 2018 was at Rs.61.1 crores as compared to net loss of Rs.7.3 crores for the nine months period ended December 2017.

From a geographic standpoint, North America, Europe and APAC regions represented 82.6%, 9.9% and 7.5% respectively for the third quarter's operating revenue as compared to 88.2%, 5% and 7% respectively for the same period of the last year.

In terms of business split, the P&C now represents 67.4%, the L&A business represents 31.8% and the non-interest was 0.8% for the third quarter ended FY2019 as compared to 75.7%, 23.4% and 1% respectively for the same period of the last fiscal year.

In terms of client concentration, the top-5 clients constituted 27.9% and the top-10 clients constituted 40.6% for the third quarter of fiscal 2019 as compared to 27.5% and 43.3% respectively for the quarter ended December 31<sup>st</sup> 2017.

Turning on to the balance sheet, the total debt as on 31<sup>st</sup> December 2018 was Rs.95.7 crores as compared to Rs.84 crores as of 30<sup>th</sup> September 2018 whereas the cash and cash equivalent was Rs.457.7 crores at the end of December 31<sup>st</sup> 2018 as compared to Rs.458 crores at the end of September 30, 2018. This was after considering an upfront payment of Rs.53.7 crores for the

acquisition of the Exaxe Holdings consummated during the quarter. DSOs remained constant at 81-days at the end of 31<sup>st</sup> December 2018.

The 12-months executable order backlog stood at Rs.608.7 crores, that is \$87.2 million at the end of December 31, 2018 and in constant currency at Rs.632.5 crores as compared to Rs.546 crores which was \$75.4 million at the end of the previous quarter Q2 FY19, reflecting an increase of 15.7% in dollar terms.

Headcount was higher at 2,711 at the end of 31<sup>st</sup> December 2018 as compared to 2,585 at the end of 30<sup>th</sup> September. This include 36 employees that got added to the acquisition of Exaxe Holdings.

Overall, the third quarter reflects improvement across all key metrics, that is the revenue growth, customer acquisition, cloud-based metrics, margin expansion, order backlog growth and positive cash flow.

This concludes our prepared remarks. I will now pass it on to the operator to open the call for questions. Thank you very much and appreciate your continued interest in Majesco.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Shyamal Dhruv from Phillip Capital. Please go ahead.

**Shyamal Dhruv:** Sir, my first question is on the US geography front. So, in dollar terms, our revenue has been in the narrow range of \$29 - \$30 million from last consecutive three quarters though our MetLife partnership it is largely in the US side. So just wanted to know about the muted performance in US like whether it is due to the slower ramp up in the MetLife side or MetLife is growing as per our expectation but at the same time we are losing some other clients in US geography?

**Adam Elster:** I think it is a good question. A few things, right, we are happy with the MetLife project itself how it is going and we are coming into a critical junction, right. While we did the deal a year ago, we are now into the phase of actually implementation and going live. So, if you were to listen to MetLife on their last earnings report, they talked about the project, they talked about IBM and that is going live and that project will go live in the spring. Our anticipation is once that project goes live into production, that will accelerate the pipeline we have in some of the other opportunities and create some of that growth. We are excited about that and I think that is a timing issue is when we think we will see the results of going into production and going live. In addition, what is interesting is we have a few other customers where we recently won new deals. So, as you know of the way the model work, we just signed a number of these contracts in our Q3, so we had a strong booking in Q3 in our backlog increased on the 16% from the quarter earlier and now we are at the moment where these projects get booked and that will be getting implementation, so we can start generating that.

- Farid Kazani:** Another point that I would like to point out is actually you cannot look at the US revenue in isolation. You are aware that the significant part of on-premise implementation that is in the US and that has been reducing year-over-year and quarter-over-quarter. So, if you look at that sans that we have grown significantly in the US. Just to give you some data point on the on-premise implementation which was dropped in the US. On year-on-year basis there has been 16% drop. It has dropped from \$27.5 million to \$23 million. You will have to look at that in conjunction with the overall numbers for the North America geography.
- Shyamal Dhruv:** My second question is on the employee front. In your opening remarks, you mentioned that we had 36 employees from the Exaxe acquisition. I guess most of these people would be based out of UK. But our UK headcount has actually declined QoQ. Is it because we have higher employee reduction on Majesco front, any view on that?
- Adam Elster:** No, we have not had an employee reduction in UK. The Exaxe team is actually based in Ireland; they are actually based in Dublin. So, the 36 people that we have, while some employees in the UK, the headquarters for that is actually in Dublin. We have not seen a reduction in the overall business and in fact we believe one of the reasons for the acquisition of Exaxe is to give us a better platform for growth over our Ireland, the UK and Northern Europe.
- Farid Kazani:** But I will take your point, because it has got reflected incorrectly, so I will correct that, apologies for that error.
- Moderator:** Thank you. The next question is from the line of Amit Agarwal from Vindhi Investments. Please go ahead
- Amit Agarwal:** My first question is regarding MetLife - IBM deal. Till when implementation is expected to continue and what is the go-live date for the project?
- Adam Elster:** The go-live date is in the spring, there is not an exact date, but the expectation is that business is going to live from the spring, so believe sometime in that timeframe in the next several months that is expected to go live.
- Amit Agarwal:** Will there be any decrease in implementation revenue once IBM - MetLife goes live?
- Adam Elster:** Yes, there will be a decrease in some of the implementation revenue on go-live and we believe that over time if that rolls out you should see an increase in the product revenue as they generate revenue and again at the same time we sign a few other contracts with customers in L&A space and those implementations will begin.
- Amit Agarwal:** What we see your 12-months executable order book is increasing. Is it because of the new addition of the client?
- Adam Elster:** Increase in the backlog I would tell you is two things. We had a strong renewal quarter. So, we saw strong renewals of existing customers who have chosen to stay with Majesco and continue our relationship and on top of that we have these other seven customers who have joined us well.

So, it was not all new business, it was renewals too. So, the good news was it reflected the continuing commitment of existing customers to maintain the revenue and additional new customers who have joined Majesco.

**Amit Agarwal:** My second question is your view down the line two years, what will be the mixture of cloud revenue as overall percentage and recurring revenue as overall percentage?

**Adam Elster:** Overall percentage will grow. We do not give that specific guidance, but I think what you are going to see is we believe that our Cloud revenue will overall continue to grow and we believe it will offset any of the decreases from our on-premise business but we are not giving a multi-year guidance on that but we believe that our growth will continue to grow at market if not above.

**Moderator:** Thank you. The next question is from the line of Divyanshu Taneja, an individual investor. Please go ahead.

**Divyanshu Taneja:** My question is with respect to acquisition of Exaxe Holdings. Can we cross-sell Exaxe products to the Majesco's current clients? If yes, then what could be the potential of that?

**Adam Elster:** Yes, I do believe we have that potential. As we looked at the acquisition in itself, and there is a number of reasons to do acquisition, certainly geography was an interest to us, the leadership team is very strong, we also looked at the platform that Exaxe has for individuals and we believe that is the capability to add on and the number of our L&A customers want that capability. So, while we will be initially focused on continuing to expand that business, expanding it into other markets in Europe, we also believe there will be an opportunity to make that an add-on as a cross-sell to some of the existing customers that we have across the United States.

**Divyanshu Taneja:** My next question is in previous conference call you have mentioned that we have a target in line of \$215-\$220 million sales. By what time we can achieve that sales?

**Adam Elster:** I am not aware of that sales number. I will pass on this to Farid.

**Farid Kazani:** What he is referring to was the initial target that we had in mind when we actually formed the new Majesco and that was predicated on the on-premise and other parts of the businesses growing, but we have seen a significant change in the business model and it is in benefit of the company that we are seeing Cloud-based revenue, delivering more annuity-based and more profitable-based over a period of time; however, our expectation is to continue to grow the business at the rate that we have been growing and we are not specifically indicating when we will reach \$200 million target.

**Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** Sir, I just wanted to know the organic growth in this quarter because Exaxe was integrated this quarter. And also, the fall in legacy that you have mentioned, that is 16% YoY. So, if I just calculate the total revenue from the on-premise implementation is around \$30 million. So, what is the expectation from here -- this steep fall in the on-premise part of the business will continue or is it going to stabilize at some point of time?

**Farid Kazani:** Thanks, Amit for the question. We had a revenue of Rs 242 crores in the previous quarter, we have grown to Rs 254.7 crores in this quarter. We added roughly Rs.12 crores on account of Exaxe, so the rest is purely organic. So that is the answer to the first question. Second is yes, there has been a drop of 16% in dollar terms on the on-premise revenue but if you look at it in terms of rupee, there has been a drop YoY for the nine months period in the on-premise by around 10%, it has dropped from roughly Rs 179 crores to Rs.160 crores for the nine months period. What you see in the revenue analysis that we give; the professional services include on-premise implementation and it includes the IT Services part also. So, it is not just all on-premise in that tab.

**Amit Chandra:** So, the fall in the on-premise revenue that we are seeing at present, this fall will continue or are we seeing some stability there?

**Farid Kazani:** If you look at it over a period of the last six quarters, the on-premise was close to 40%, ended up if I look at the number for the nine months period last year in December it was 30%, now it is 22%. So, we do not expect it to fall with that particular speed and in that fashion. I think the fall is going to be very limited because there is still business in the UK, in the Asia Pacific and there are some still businesses that we have on, on-premise. Just to again expand on that, in the seven customer wins that we had in this quarter, we had five wins in the US, four of them are cloud and one was on-premise. So, considering that there is one of deals that do happen on, on-premise. I am not expecting a significant drop in the on-premise implementation revenues from here.

**Amit Chandra:** Sir, on the margins front, we have seen significant expansion in the EBITDA margins. If I just see the revenues from the Cloud subscription, in the nine months the revenue from Cloud subscription is Rs.83 crores and the EBITDA that we have done for the nine months is Rs.73 odd crores, and if I take 80% margin from the Cloud subscription, the 90% around of the EBITDA that we have derived is from the Cloud subscription revenues, so is it fair to assume that the incremental EBITDA that we will get from here will be largely from the Cloud subscription revenue? And for the other parts of the business, can we expect some improvement there also on the EBITDA front?

**Farid Kazani:** You are right, Amit, that the expansion the EBITDA margins has come around because of the improvement in Cloud-based business mix. Secondly, subscription margins are much higher. But the Rs 83 or 84 crores for the nine months period all is not at 80% margin as you just mentioned, they are at varying margins because they are at various levels of adoption and is on implementation. The aspiration would be to try and get these customers who move into full scale adoption to around that level around between 70% to 80% margin but the entire Rs 84 crores is

not at 80% margin. It is at a high margin but I cannot disclose the number for various purposes. The last year's cloud subscription was a total of around Rs.53 crores and because it was still at a lower base, the margin was much lower. So clearly the expansion in this year's EBITDA margin has come because of overall Cloud business growing and increase in subscription revenue.

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

**Aditya Shah:** Just wanted a clarification, Farid. You have mentioned about the Exaxe revenue working about Rs.12 crores. So that is for what period – one month consolidation or how much would that be?

**Farid Kazani:** It cannot be one month consolidation, it is for three months.

**Aditya Shah:** Secondly, obviously your P&C revenue has been more or less kind of static for the last 10-12 quarters now. Now with the increasing velocity of deals first with incremental growth on cloud, do you expect that now to finally see some sort of an improvement going over the next maybe one or two years?

**Adam Elster:** I do not think you will see it at the highest level. The reality is we believe that we will increase, but we think the mix is going to change. So, we believe that the mix of the P&C business that we are doing on-premise versus cloud, that is where the revenue is going to shift and then we believe that adoption is there and that is where you will see the growth.

**Farid Kazani:** In the past year it has actually been because all the on-premise implementation revenue in the US has been in the P&C area. So, you are right, from a drop perspective, yes, but going forward I think the catch up is going to be there and you will see P&C revenues increasing as the cloud-based revenue starts building up from new customers.

**Aditya Shah:** Farid, as to what percentage of P&C revenue, can we attribute to Cloud or maybe let us say how much what percentage of customers would be attributable to getting cloud revenue versus the on-premise, any kind of thing or indication on that front?

**Adam Elster:** Here is my indication. 80% of our existing pipeline right now that we are working on is cloud-based opportunities. As Farid said earlier, of the new deals we did, only one of them was on-premise. So, I believe that is an overall indicator of what we are seeing in the market. So, what we are seeing in the market is as the companies are looking for new platforms, they are excited with the ability to adopt a cloud-based solution for all the reasons, all of you know about cloud technology over the years. So, to me that is the forward-looking indicator as far as what we think of mix of the business will be but there will certainly be customers much like we had one this quarter, we said they wanted to do the solution on-premise. And in the same way when I look at our installed base, we are actively speaking with customers about building migration plans to move to the cloud but similarly number of customers who are existing on-premise solutions were working have chosen to continue to invest on the on-premise solution.

- Aditya Shah:** My clarification was that I was referring to your existing P&C business. So how much of that is left in terms of on-premise, how much maybe would continue to face maybe headwinds over the next one year, that is what I was actually referring to?
- Farid Kazani:** As I said that the significant drop that has been already happened. We would try to retain whatever there right now on-premise and there would be one-off project that will go off. So, I am not able to kind of give you any indications of how it will pan out in the next quarter or next few quarters.
- Moderator:** Thank you. The next question is from the line of Aejas Lakhani from Edelweiss. Please go ahead.
- Aejas Lakhani:** Quick query is that as recurring revenues are poised to grow, what is the plan of the management – are we planning to redeploy that money in the business and more of sales people or you hope to see an EBITDA margin movement over the coming years?
- Adam Elster:** We hope that we will be able to see some margin expansion but we also realize that we will need to make some investments at the same time. So I would not expect to see linear growth. We are looking at where we should make the right investments to continue the growth that we are going to blend growth with margin expansion over time and that is the way we view the business.
- Aejas Lakhani:** Second question is when do typically your clients fix their insurance budgets? And in case US has a soft landing, will that have an impact to the budgetary allocations regarding your line of products?
- Adam Elster:** It is hard for me to predict the finances in the US economy. So, I am not going to even venture to do that. But what I will tell you is we have a mix of customers, we do have many customers who operate on a fiscal year or calendar year. So, they have budgets that get allocated year-by-year and then typically within the first or second quarter, they then move into fund. But what is becoming more common also is not just people doing any of these but talking about strategic initiatives that budgets expand multiple years. And those budgets and those strategic initiatives do not necessarily align to their calendar or fiscal year because they are longer-term projects. What I will tell you at a macro level, every customer we work with has some type of budget that is flexible around driving innovation, around an overall digital transformation and business initiatives. I would take money of those budgets and initiatives, expand fiscal and calendar years for those customers because they are closely tied to initiatives which drive new business and revenue for that.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.
- Ashi Anand:** Just wanted some kind of sense in terms of how do we see margins from a longer-term perspective, from three to five years down the line? Also, as we move from more traditional software company towards Cloud structure, does the cost structure really change as in the hosting

become more important, then employees, are we looking at more capitalized cost, amortization hitting below the EBITDA line, could you just give some kind of outlook on this?

**Farid Kazani:**

The entire margin expansion would get predicated in, in terms of how the expansion of the Cloud business folds out. We have seen that in the last five quarters and when our Cloud business which was at 19% in the last fiscal and we had margins which were hardly in the low single digits and today the Cloud business has gone to 40%, resulting in the expansion of EBITDA margins. Going forward, I would think that if we reach a good level of subscription revenue mix, it will give us a significant improvement in the EBITDA margins minus what we would need to kind of spend on further investing on the products side and sales to increase our reach in the marketplace. There is no clear number that I would like to indicate in three years' time, but clearly there is exponential expansion in the gross margins or in the EBITDA margins if the subscription based revenue starts building up. Today the subscription based revenue is close to around 12.4% and if it double from here to 25%, I am sure that there will be a great improvement in the margins.

**Ashi Anand:**

But would it be fair to say that three to five years down the line, one subscription has ran that recently, could we be looking at (+20%) considerably, would be fair to say that was the product with revenue possibility targeting given higher levels, just trying to get some kind of ballpark in terms of the whole blend between spending for growth versus margins and more from a longer-term perspective, looking at (+25) level?

**Adam Elster:**

I appreciate the question. I got it but we are not in a position where I am going to make a prediction on what we believe the margins going to be in two or three years from now. I think we are going to do at logically. We are going to look at the business we have. We are investing in the cloud side of the business. We know that it is a higher margin business and we believe with that we will be able to increase our margins. At the same time, we would not be able to increase the margin linearly. We will have to make some reinvestments in cloud infrastructure, supporting customer success. So we are modeling what those things are going to look like in the next few years but we are just not prepared to give you the number at the moment. We are still trying to work through the modeling ourselves and it is still in the early stages of driving adoption around the subscription basis. So, with the business that we have now that is only small percentage in subscription it is a little premature for us to model the impact that could have on the other 80% of the existing business. So, it is not that I do not want to answer your question, we are just not prepared to and we are still in some of the early stages of modeling this out and again, as Farid said, the key to these types of businesses long-term is driving adoption. If you drive adoption, and you get that revenue that should drop mainly to the bottom line. But since we are in the early stages of implementing these cloud solution, we are only at the point of going live now with minimal revenue commitments on the product, but as that grow, there is certainly the opportunity, but we are going to need to see some quarters of the adoption growth and see the patterns of we are ready to predict what the model could look like in a couple of years.

**Moderator:**

Thank you. The next question is from the line of Amit Agarwal from Vindhi Investments. Please go ahead.

- Amit Agarwal:** I wanted to ask what will be IT Services percentage of overall professional services revenue?
- Farid Kazani:** The IT Services in the third quarter was around 16.5% approximately.
- Amit Agarwal:** What will be the other contributors towards professional services?
- Farid Kazani:** That is the balance part of on-premise implementation, which will be roughly 19% right now in Q3.
- Amit Agarwal:** Also wanted to understand what will be the overall cloud penetration for the software required by the North America insurer?
- Adam Elster:** I do not know the answer. It is a very good question. We will have to probably look at. The market opportunity is very large and what I am learning about the insurance industry in my first quarter here is it is not a situation where you buy one product or another that in many cases insurers have separate products for either policy building in claim and at the same time with different lines of businesses, they might have different solutions. So it is not the case we are more accustomed to or even say there is 100 customers, 20 own this, 20 own that and here is the white space. It is actually an opportunity where it is a growing market opportunity. And one of the things that is most attractive to us in the market is many companies are launching new product line and choosing new platforms to launch that. So, it is almost a growing market opportunity as they launch different lines, but it is a very good question, I do not have the answer to it, but I would say penetration in general, the market leader is legacy and home grown systems. So, I think there is still a vast opportunity for ourselves and even our competitors to drive further growth in the market, but it is a good question, but I do not think we have an exact lines on it right now.
- Moderator:** Thank you. The next question is from the line of Dipen Shah, an individual investor. Please go ahead.
- Dipen Shah:** Farid, I had a question on the sales function. If you can just give us some idea post you coming in, how is the sales function scaled up probably in terms of the number of employees, may be at senior and junior levels and more importantly, how do you see the pipeline which has increased post you coming, so maybe is the pipeline 20%, 25% higher as compared to the same period last year, if you can give us some idea, and also on the win rate which has changed over the past two to three quarters?
- Adam Elster:** I think in the last couple of quarters win rates have gone up and the pipeline has increased at a macro level. I would tell you when you ask me about the quality of sales function and what I am saying, I think what is interesting about it in general is we have seen some incredible wins over the last quarters, incredible work with customers, that is really that we believe is repetitive model, and I think the opportunity that we have as a company and one of the things that I am working with across the organization particularly with the sales team is to make sure we model those opportunities. So, we have the fine sales plays that are aligned. Our message in the market

with our sales plays with real results we have had customers, and at times we win some really incredible deals, and now one of the things I think we have an opportunity to drive our growth is to use those templates for how we go to market in general. So, you will see more and more information in the future about making sure we align our message with our sales play, with our products, because we won a lot of great deals, but now we need to move on to a volume, which is more repetitive, used cases in sales play against those type of solutions. But I am encouraged by the wins and I believe they give us a path to what great looks like and how we compete for other opportunities in a scalable way.

**Dipen Shah:** So probably we will await more details on the numbers about the pipeline and the win rates in the next couple of quarters because that will be a great help for us in terms of estimating the revenue growth one to two years down the line...?

**Adam Elster:** Yes I would not expect us to share pipeline numbers. We might get closer with win rates, we are starting to track those most closely, but we will give you ranges, I think we will be able to describe or rather will give you some finite numbers in that regard.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

**Rahul Jain:** My question is Adam, just wanted to understand your view in terms of the adoption, we have been hearing this for quite some time the legacy architecture has been a problem for very long now, what do you think in your opinion are the key inflection points and of an indicator and what do you think could be the top three reasons insurance companies may be looking for a much quicker adoption of this kind of system versus any time in the past?

**Adam Elster:** I think what you are going to see is for most insurance companies that I have been meeting with and talking to, for many who have profitable existing businesses, there is not always a large return on investment for them replacing a functional legacy system in a successful business. So I think while many of them have those initiatives, more of them are really trying to leverage new technology to meet new customers, provide better level of service. So, I am actually seeing less opportunities on wholesale replacement of legacy system and more opportunity... and again this reflects our pipeline, more opportunities for customers who want to launch brand new Greenfield initiatives or new product line where they realize they are limited by their legacy system. And as I said in my opening remarks, in order to leverage legacy system you lose the time to value. So many cases it is no longer, let me replace a large legacy system to launch a new product or rather what my launch a cloud product on a new platform that is agile, that is nimble that you can utilize APIs and modern technology to bring a quick speed to market. So I think that business and used case for us is where more of the growth that we are seeing right now and many of the new opportunities.

**Rahul Jain:** So, in that context if we consider that the newer deal even from a tier-1 would be relatively smaller in size to begin with, because most of them would be on cloud, the revenue pick up would be gradual. At the same time we are seeing that there is a possibility of that there would

be a random on the on-premise kind of a model. So, you think this as in combination would restrict the overall growth rate of the business till we see this transition happening.

**Adam Elster:**

No, we are not replacing ourselves. What is going to restrict the growth is the speed of the adoption. So when you look at our numbers and you see the blend of Cloud implementation, the subscription revenue, you will realize there is a laid effect. If I am to select Majesco and I choose to use our Cloud platform, there is an initial period where we will do a cloud implementation to bring them live. At that point the subscription revenue is going to be relatively flat. Once those projects go live and they go to market, you will see the ramp up over time of that revenue and they are going to be smaller deal and it is going to be more about volume of deals to grow, to create that live wheel. And this is the model all of you seen in the marketplace with other cloud vendors over the years and they did not get there in a quarter or a year was multiple years of driving that adoption for the businesses. And it is aligned to these new businesses, much like the MetLife program, that is a new business for MetLife and once that goes live and they are successful with the business, the revenue grows overtime. And that revenue when it grows though, it is highly profitable, but it takes time for that to develop and generate the revenue.

**Rahul Jain:**

Just an extension if I could. The MetLife program example which you gave, do you see this as a possibility or have you seen other evidences in the market where people would have started on the parallel program or the Greenfield program, but eventually shifted lot of existing business also into this kind of an architecture or ...?

**Adam Elster:**

That is the model, that has been successful with other larger cloud companies in other verticals, right. The model that they have followed and you can see with many other companies out there was even sales force, everyone else, the idea was not, hey, we can win new environment, new areas and then if those business become larger and more of them use the technology, it could grow overtime, right, everyone is very familiar with Amazon web services right, but sometime 10-years ago people were just using a credit card to put some simple application on to that environment, and over time more application and those applications grew and that is built over time and that is the Cloud model about adoption and winning these really land opportunities and then as soon as you land the opportunity, it is then all about adoption and expansion, and we are in the early stages of the land and we are just beginning as far as driving adoption as each one of these customers begin to go live.

**Moderator:**

Thank you. We will take the last question from the line of Nitin Raheja from AQF Advisors. Please go ahead.

**Nitin Raheja:**

Just a little bit of book-keeping question. When I look at your gross margins on a sequential basis, in Q2 your gross margins were almost 35% and now they come down to 31%. Can you throw some light in terms of what drives the change in this gross margin?

**Farid Kazani:**

One is that you should look at gross margins at the US level, because that is the right reflection of gross margin. You are right there has been a marginal drop in the gross margin and that has been primarily for two reasons. One is there has been a salary impact in this quarter for the

middle and senior level grade that takes place in October on a fiscal year basis., The second impact is we hired additional staff for the growth expectations that we have. And if you have seen the headcount has increased by almost close to 100 people and there has been an impact on account of that and they will start delivering the revenue in the coming quarters. So that is the reason why there has been a marginal drop in the overall gross margin.

**Nitin Raheja:** What accounts for the increase in the depreciation in this quarter?

**Farid Kazani:** It is a combination of depreciation and amortization. We had Rs.2.7 crores as amortization linked to the Exaxe acquisition that we had and those are related to the intangibles based on the purchase price evaluation methodology.

**Nitin Raheja:** So that is one-off basically?

**Farid Kazani:** No, that is not one-off. When you are acquiring a company, you would reflect the entire valuation of the business that has been acquired and since it has greater amount of intangibles, there is an amortization of intangibles that takes place. So, the large part of the amortization is the technology and that gets amortized over a five-year period, so the impact for the quarter has been roughly Rs.2.7 crores, which has come in because of that. So, that is the reason for the increase when you look at the depreciation or amortization figure.

**Nitin Raheja:** So henceforth this will be in the same range roughly around?

**Farid Kazani:** Yes, it will be in the same range.

**Moderator:** Thank you. That was the last question in queue. I now hand the conference over to Adam for closing comments.

**Adam Elster:** Excellent. Thank you all very much. We really appreciate the opportunity to speak with you and the very thoughtful questions. We are very pleased with the results this quarter. Believe it puts us in a good place in the market and we believe at least some more time I spend, the more and more I see validation that our strategy is aligned to the market and our customers, and we believe the opportunity for Majesco is very good and are happy with the progress for making. Thank you all very much for the time this evening and look forward to speaking to you again. Take care.

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