

"Majesco Limited Q3 FY20 Earnings Conference Call"

February 11, 2020





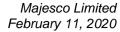
MANAGEMENT: MR. ADAM ELSTER - CHIEF EXECUTIVE OFFICER,

MAJESCO (U.S)

MR. FARID KAZANI - MANAGING DIRECTOR & GROUP

CFO, MAJESCO LIMITED

MODERATOR: Ms. ASHA GUPTA, CHRISTENSEN IR



MAJESCO

Moderator:

Good day, ladies and gentlemen, and welcome to the Q3FY20 Earnings Conference Call of Majesco Limited. 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 '*' then '0' on your touch tone phone. Please note that this conference is being recorded. And I hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you Ms. Gupta.

Asha Gupta:

Thank you, Margreth. Good morning to all of you who have logged into this call. Welcome to Q3FY20 Results of Majesco Limited for the quarter ended 31st December 2019. Please note that we have mailed out the results and also you can view it on our website, at www.majesco.com.

To take us through the results and to answer your questions today, we have with us Mr. Adam Elster – Chief Executive Officer of Majesco U.S. and Mr. Farid Kazani – Managing Director & Group CFO of Majesco Limited.

We will start the call with brief overview of the quarter, which will be given by Mr. Adam and then this will be followed by Mr. Farid who will go into detailed 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 forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have 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 Mr. Adam. Over to you sir.

Adam Elster:

Thanks, Asha, and good morning to everyone on today's call.

We are very pleased with our third quarter results as they reflect ongoing momentum of our business and increasingly better execution regarding our strategy.

Overall revenue for the quarter was Rs.269.4 crores with adjusted of Rs.36.4 crores. We continue to see an acceleration in our overall Cloud business, and Cloud subscription revenue grew over 39% year-over-year. This is a direct relation to our cloud wins as well as our reduced project implementation timelines. Our subscription business model allows us to generate rapid cloud services revenue during the implementation phase and product revenue begins as soon as the project is live. The Cloud subscription revenue then continues to increase over time in line with continued adoption and direct written premium volume. Overall, our recurring product business now represents more than 40% of total revenue and the product business growth has more than offset the continued decrease of on-premise services.



Once again, we were very pleased with new sales in Q3 and our 12-months backlog continues to climb and is at a record \$102 million. Some of our new wins leveraging Majesco's Cloud Insurer platform include:

- A New Jersey based Tier-1 global insurer who is implementing Majesco billing
- A California-based Tier-3 carrier focused on non-profit communities who is implementing
 the full Majesco P&C suite (Policy Admin, Billing & Claims) for its North American
 business, including a broad spectrum of commercial products.

We also had several multi-year renewal commitments:

- A Tier-2 insurer carrier renewed its commitment to Majesco billing for additional 5 years
- A large Tier-1 insurance carrier continued their expansion of Majesco billing across the entire enterprise
- A large Tier-1 carrier renewed its commitments to the P&C suite for additional 3 years
- A Puerto Rico based insurance carrier signed up to transition its business to Majesco CloudInsurer platform

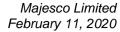
Just like in Q2, we were excited to have nine customers go live in Q3! Highlights include:

- CCMSI, the largest privately held third-party administrator in the US. They are now live
 on Majesco policy and billing for P&C along with our data and analytics platforms in all
 50 states
- Arch Insurance Group implemented Majesco billing for P&C on our cloud platform and they did it in seven months
- Our first Digital1st customer, Burns & Wilcox went live this quarter

Other major highlights in the quarter include:

- Aite Group named Majesco the Top "Best-in-Class" Vendor in P&C Policy Administration
 Aite Matrix Report
- We also hosted our 12th Annual Product Council Meeting in November with more than 100 customers and partners who attended in person.

I am thrilled to announce the acquisition of InsPro Technologies, a US-based software leader in the L&A market. The addition of the InsPro team will only help to strengthen and expand Majesco's depth involuntary group and work site benefit markets, enabling successful digital transformation journeys for insurers. They have a strong list of top-tier insurance customers and this acquisition continues to advance our strategy and focus with our partners, specifically Capgemini. Cap has selected Majesco's L&A Cloud Platform as their standard platform, and at the same time, they have a very large TPA business that currently runs on InsPro's Technologies. As focuses, we are selling direct to insurance companies, many use TPAs third-party administrators to manage their back-end business. This is an important route to market for us.





Lastly, many of you been asking for much more detail regarding the timeline and go live launch material associated with the IBM partnership and MetLife project. In mid-December MetLife held their annual investor day and they shared extensive collateral about their commitment to the project and business. It is all publicly available through the MetLife investor website.

Overall, I am very pleased with the quarter and it continues to validate our strategy as more and more companies are looking to Majesco to help them grow their businesses by leveraging modern, cloud-based solutions

And with that, I will turn it over to Farid.

Farid Kazani:

Thank you, Adam and good morning to everyone on the call.

Majesco's transition to a product focused company successfully continued through the third quarter of fiscal year 2020 and I am pleased to summarize our financial results as we continue to experience positive revenue and profitability trends across key performance metrics of the business. Overall the third quarter has been a successful pull back from the previous quarter across all operating metrics.

Let me enumerate the key highlights on the performance for the third quarter. The operating revenue for the quarter was Rs.265.1 crores, an increase of 10.6% in rupee terms and 8.3% in constant currency from the Rs.239.8 crores in Q2 of FY20 as well as an increase of 4.1% in rupee terms from the Rs.254.7 crores in Q3 of last year. The total revenue for the quarter was Rs.269.4 crores, an increase of 9.3% from the previous quarter. The growth was primarily on account of increase in cloud revenue with projects going live and new business additions in the P&C group. The operating revenue for the ninth month period ended 31st December 2019 was Rs.763.8 crores as compared to Rs.726.6 crores in the similar period of the previous year, reflecting a growth of 5.1% in rupee terms and 4.2% in constant currency.

In terms of total revenue, we ended up with Rs.779.2 crores for the nine months period under review as compared to Rs.750 crores in the similar period of the previous year, reflecting a growth of 3.9%. The increase in the revenue during the nine months period ended 31st December 2019 was on account of the growth in the North America business with significant increase in the product revenues, especially in the P&C segment.

The adjusted EBITDA for the Q3FY20 was Rs.36.4 crores, that is 13.7% of the operating revenue as compared to Rs.27.1 crores which was 11.3% of the operating revenue in Q2 FY'20 and Rs.35.4 crores, which was 13.9% of the operating revenue in Q3 of the last year. Sequentially adjusted EBITDA increased by 34.7% which is directly related to higher subscription revenue and better operating leverage. Adjusted EBITDA for the nine months period 31st December 2019 was Rs.97.1 crores, which was 12.7% of the operating revenue as compared to Rs.89.6 crores which was 12.3% of the operating revenue for the similar period of the previous year.



Over to the details on Cloud and Recurring Revenue: The total revenue from Cloud-based customers for Q3FY20 was Rs.116 crores, which is 43.8% of the operating revenue as compared to Rs.92.4 crores which is 38.5% of the operating revenue in Q2FY20, reflecting a growth of 25.6% on QoQ basis, and an increase of 9.2% when compared to Rs.106.3 crores, which was 41.7% of operating revenue in the Q3FY19. Total Cloud subscription revenue grew by 21% to Rs.43.8 crores, which is 16.5% of the operating revenue in Q3 of FY20 as compared to Rs.36.2 crores which was 15.1% of the operating revenue in the previous quarter Q2FY20, and an increase of 39.2% as compared to the Rs.31.5 crores, which was 12.4% of the operating revenue in the previous year Q3. For the nine months period under review, the total Cloud revenue was Rs.305 crores, which is 40% of operating revenue, reflecting a growth of 8% and the total Cloud Subscriptions stood at Rs.110.4 crores which is 14.5% of the operating revenue, reflecting a growth of 32.1% when compared to the similar periods of previous year. The total number of Cloud customers now stand at 63 at the end of 31st, December 2019. As you can see, there has been a steady increase in the subscription revenue each quarter with projects going live on successful and rapid implementation and additional new cloud customers each quarter.

For the third quarter, our total recurring product revenue (which includes License fees, recurring cloud subscription and the support & maintenance revenue) was Rs.109.8 crores, that is 41.4% of the operating revenue as compared to Rs.99.8 crores, which was 41.6% of the operating revenue in Q2 of FY20, reflecting a growth of 10% on QoQ basis, and an increase of 22% as compared to the Rs.90 crores which was 35.4% of the operating revenue in the Q3 of last fiscal. The total product revenue was Rs.320.4 crores for the nine months period 31st December 2019, representing 41.9% of the operating revenue and a growth of Rs.30.4% as compared to similar period of the previous year.

In the third quarter, the product development expense stood at Rs.33.2 crores, which is 12.5% of the operating revenue as compared to Rs.31.4 crores, which was 13% of the operating revenue in Q2 FY20 and Rs.34.5 crores which was 13.5% of the operating revenue in the previous Q3 fiscal. As you may be aware, during the quarter we launched the Version 11 of the P&C suite, the L&A Suite and the Distribution Management Platform. We also introduced Additional Features on our Digital1st Platform recently. For the nine months period ended 31st December 2019, the product R&D expenditures were higher by 2.2% as compared to the nine months period of the previous year. The company continues to invest based on the R&D roadmap to create products which are more out of box solutions.

The Net profit for the quarter was Rs.30.1 crores in Q3FY20, an increase of 79.1% from the Rs.16.8 crores in the previous quarter Q2FY20, and an increase of 52% of the Rs.19.8 crores in the Q3 of the last fiscal. The nine months profit for the period ended 31st December 2019 stood at Rs.58.9 crores as compared to Rs.61 crores in a similar period of the previous year.

From a geographic standpoint, the North America constituted 88.6% of the business. And both UK and APAC region represented 5.7% for the third quarter of operating revenue



In terms of business splits, the P&C represented 76.9%, the L&A represented 22.8% and the Non-Insurance at 0.4% for the third quarter's operating revenue as compared to 67.4%, 31.8% and 0.8% respectively for the Q3 of the last fiscal. The decrease in the Life and Annuity as a percentage of the revenue was due to the reduction in the implementation revenue as a major customer prepared to go live in this current fiscal year.

In terms of client concentration, the top five clients constituted 21.7% and the top-10 constituted 36.1% for the third quarter of the fiscal 2020.

Turning onto the balance sheet. Majesco's balance sheet as of 31st December 2019, continues to reflect a debt-free company. The company is generating cash sufficient to fund its operations ending with the total cash, cash equal and short-term investment of Rs.359 crores as of 31st December 2019 compared to Rs.391 crores as of 30th September 2019. This was after making an investment of an amount of Rs.113.1 crores for acquiring 4.7% stake in Majesco US in December 2019. Excluding the investment, the net cash addition has been approximately Rs.80 crores built upon overall good performance in Q3 and an improvement in the working capital. The cash balance provides us a significant flexibility to invest in growth producing opportunities.

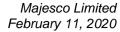
The DSO was approximately 100-days at the end of 31st December 2019. Strong booking in the third quarter ended 31st December 2019 reflected a continued momentum in the business. The 12- month executable order backlog increased 19.3% to Rs.726.3 crores which is \$101.7 million as compared to Rs 608.7 crores which was \$87.2 million as compared to 31st December 2018.

Operationally, we have we are focused on effectively managing resources to ensure client projects are properly staffed while still investing in products and innovation areas. As of 31st December 2019, total head count stood at 2,507, which is a 67 from the previous quarter 30th September 2019, the headcount was 2,574.

I would like to quickly update you on our Majesco's US Subsidiary Acquisition. So on 30th Jan 2020, the company's US subsidiary, Majesco entered into a merger agreement with InsPro Technologies, a US-based software leader in the Life and Annuity Insurance market. In consideration for the merger, Majesco will pay the seller US\$12 million which is subject to adjustments, including the cash and certain debt in InsPro upon the closing of the transaction, which is expected in April 2020. Accordingly, upon the closure of merger, InsPro will become a directly wholly-owned subsidiary of Majesco and a step-down subsidiary of this company.

So overall the quarter and year-to-date financial results demonstrate strong results across key metrics, including revenue growth in key product lines, customer acquisition, cloud-based metrics, margin expansion, order backlog growth and positive cash flow.

This concludes our prepared remarks. I will now pass 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. We will now begin the question-and-answer session. The first question

is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Firstly, on the Digital1st going live in one account, so what it changes for us from our marketing

pitch to existing as well as potential client? And how big it could be from a revenue potential

vote to existing as well as potential vent on this product?

Adam Elster: We are very excited by the Digital1st go lives with Burns & Wilcox. We have done about a half

dozen deals so far with Digital1st. They were the first to go live. So we are excited about adding this new business line and that the product was only launched a year earlier. And what we are finding is certainly some companies like Burns & Wilcox who are looking to use the platform as their core platform, but we are also finding a number of our existing customers who you want to use digital first to augment what they are already doing with us. So we are excited about the business. It is a very small business for us now; it is only a few million dollars in revenue at the moment, so it is a small business, but we believe it has tremendous potential in the future for most new small companies as well as add on sales to our existing base, but it is a little early in

the lifecycle to predict a long-term revenue.

Rahul Jain: Secondly, on the earn out failure in the Exaxe acquisition, so how much the miss was there on

the growth and EBITDA target if you could share that?

Farid Kazani: Rahul, the target was only the EBITDA and we had obviously kept a pretty stiff EBITDA for

them to achieve. The earn-out worked in such a manner that they do not get paid if they do not achieve a minimum 75% of the targeted EBITDA. They achieved close to 65% and they fell short by some marginal amount which really did not give them any payout in the first year. Though they were tracking pretty much in the first two quarters on that target, they had a slip up in the third quarter which actually resulted in going below the 75%. They are quite optimistic of achieving the target for the next two years because they have a three year earn-out but unfortunately they could not make the first year and which is why we had the figure which was reflected as contingent consideration has now been reflected through the P&L account and added

back to our reserve.

Rahul Jain: So that way, in case if they do not achieve this, the similar entries would also happen in the next

two years on the same period?

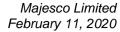
Farid Kazani: The determination period is January to December. Whatever reflection in terms of their

achievement will get reflected in the next two fiscals.

Adam Elster: We do not expect them to miss the results for next year. When you boil down the issue they face,

they have one customer who cancelled a new project. Without that one issue, I think they would

have hit the marker. So, we are not expecting them to miss next year.



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Rahul Jain:

Next in terms of InsPro's acquisition, you gave some opening thoughts on that. If you could bit elaborate in terms of what are the true potential out here and how the Capgemini relationship also can be leveraged in this thing, so if you could give an overall L&A potential with InsPro and Capgemini in mind?

Adam Elster:

Yes, absolutely. So we were excited last May to announce the partnership with Capgemini. And Capgemini had decided that their focus for the partnership with Majesco would be the L&A business. So that was a new business line for them and obviously, a newer business line for us. So we were excited about the partnership. One of the things that we are doing with them is we are certainly focused with looking at new customer acquisition with new deals and partnering with them and have built some pipeline. But at the same time, they have a very large business where they operate as third-party administrators. So, what that means is for many insurance companies, rather than do all the systems and maintenance work and all that administration, they actually hire third-parties like Cappemini to do that work. And those teams then in turn have to use technology and have systems to manage it. So, Cappemini has a large business headquartered in the southern United States where they support a lot of marquee customers. And you can go on the InsPro website and find the names but they are very many name brands who are currently using the InsPro Technologies as the backbone. So we see a two-fold; one, now that Capgemini is using us for new opportunities. We also have a deep partnership with this acquisition of their existing book of business. And we can not only sell new opportunities, we can do cross-sells of our overall technology and platform and have a large pool of Capgemini resources who know the InsPro Technologies, who can be trained as well on Majesco. So when we looked at acquisitions, this one checked many boxes. We knew we wanted to invest in L&A, it was an L&A business. We knew we were invested in partners like Capgemini, Capgemini is already invested in that. We knew that we needed to acquire new customers in L&A, the InsPro gives us marquee names of customers in L&A. And last and certainly not least, they were not that expensive. So honestly speaking to get a multiple of revenue the way we got it, we are excited about the price as well. So, in the scheme of acquisitions, this checked basically all of the boxes we were looking for. Hopefully, for many of you that was a lot more information on InsPro and that was helpful.

Rahul Jain:

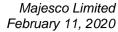
Just to extend the same thought a bit more. So, are we trying to say that there is a big overlap between the client who were already using Cappemini as a TPA and are also InsPro customer, and what is this overlap on a customer base and what are the incremental things that we could sell to existing customer while they have overlap?

Adam Elster:

So overlap as far as different lines of businesses use the different technology. So it is not overlapped, the same line of business is using both. So it is new lines of business. And then when you look at our portfolio, we have a much broader portfolio than InsPro. So it allows us to pivot across our entire portfolio within their install base. Thanks. I appreciate the questions.

Moderator:

Thank you. The next question is from the line of Rohith from Marshmallow Capital. Please go ahead.





Rohith Potti: My first clarifications on the order book. Am I right to think that this order book that is

executable over the next year broadly expected from the new clients and the minimum

subscription from the existing implementations already done and nothing else?

Farid Kazani: Yes, it will include implementations from the Cloud customers which have been acquired. And

it only includes the minimum subscription revenue, it does not include potential increase which will be either on adoption any increase or new lines of businesses that they add on beyond what

has already been signed up.

Rohith Potti: So it includes only the cloud revenue that we expect over the next year?

Farid Kazani: That is right. The revenue that we will account as cloud revenues next year only. It does not

include anything beyond that.

Rohith Potti: Yes, but what I am asking is it includes pure cloud revenues and no services or license or any

other revenue?

Farid Kazani: Whatever is there for implementation is typically the professional services fee and then there is

cloud subscription. If there is anything that comes on top of that is not included at all.

Rohith Potti: The second question I had was again, our cloud implementation revenue seem to have gone back

to the levels we were seeing when IBM was going on. So, is it a single customer or are there

largest customers who are going through implementation right now?

Adam Elster: A lot of it was related to what I talked about in the third quarter. We had nine customers go live.

So obviously we are working on a lot of projects in our third quarter to bring the customers live. I think it is a closer reflection on the order book over the last nine months. As you have seen the order book grow, there been a lot of new projects that we have started and go live. So, compared

to the IBM from dollars perspective, I understand the comment, actually, I would tell you it is

much healthier revenue, because it is not one customer, that revenue is spread over multiple new customers. So actually, the revenue and the increase is very helpful for our business model.

Rohith Potti: My third question is on the acquisition by Majesco India of the Majesco US stake. Could you

explain the rationale because this particular stake from Mastek was available for a long time, so

what changed the management's mind to buy that portion of stake in the US entity this quarter?

Farid Kazani: I think it is pretty much the confidence of the business that is doing pretty well. As you have

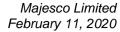
seen that the Majesco US entity is now doing pretty well on their operating revenues on the cash

flows and have generated significant amount of cash in the last 12-months. The cash that was

lying at Majesco Limited was actually parked in treasury funds which was yielding around 6%. We did believe that, making an investment of another 5% or 4.7% in the Majesco US is a good

value investment on a long-term basis for Majesco Limited shareholders. Secondly, if you look

at on a going forward basis, Majesco US will need funds for doing large acquisitions whenever





it comes across the right value acquisition. And at that point in time when it dilutes Majesco Limited, it does get an additional 5% room further. So the dilution does not happen significantly beyond the 70% that we were earlier. So, I think that was one reason. Ultimately we are buying into a company that we feel very confident in terms of value, that value can be accreted over a period of time for all the shareholders.

Rohith Potti:

So two questions here. So first one is with the amount of cash that Majesco US has and which is pretty healthy there, do you still see the potential for dilution? And the second question is on Majesco India's 70% to 75% holding right now, one worry for shareholders is the holding company discount that seems to be there. So, I agree with you that the Majesco US is a wonderful asset and it will be nice to own more of them at the price that they are quoting there right now. So why did we not buy more of it if the asset is so cheap deep and we understand it so well?

Farid Kazani:

One is obviously limited to the extent of the cash available in our Majesco Limited book. If you look at the total cash took for the acquisition, we had around \$21 million. We spent \$16 million to buy the 4.7% and we have kept a \$5 million which is still good enough for us to hold on to. I do not think we wanted to leverage to go and buy any additional. So, whatever we could buy in our capacity based on available cash, we bought the 2 million shares for Mastek. To the earlier question that you had is Majesco US will only require cash if it requires for a large value acquisition. And that is not something that we can determine at this point of time. The good part is that it is generating between \$10 to \$12 million of cash every year, more than a million dollar a month, and I think over a period of time, they will be generating a good war chest of funds to do a good decent acquisition. Out of the \$45 million that they already have, they will be expending the \$12 million for the InsPro acquisition and they will still be having close to \$35 million even after the acquisition. So the fact is that Majesco US is generating good cash flows, that allows them even to do some decent, small acquisition. Only for big acquisitions that requires additional cash, at that point in time, we will decide how to structure a deal whether it has to be in the form of debt at Majesco US or it has to be in the form of any further dilution.

Moderator:

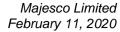
Thank you. The next question is from the line of Vijay Lohia from Maxim Asset Management. Please go ahead.

Vijay Lohia:

Two questions from my side. So I wanted to understand a little bit on the cloud subscription business. So, we do know that it is linked to the volume of the policies written, but I wanted to understand if there is a minimum subscription limit and then goes up or down depending upon the volume of policies written by your clients or how does it work, is that the right way to think about it?

Adam Elster:

That is the exact way to think about it. It does not go down. So that is the good news. What we do is when we sign a contract, we come up with a minimum revenue commitment, we call that an MRC. So what we do is we say in the contract based on a certain amount of money that you are going to put on our platform, you pay us a minimum revenue commitment every month. And that is a number that is calculated against how much direct written premium that they have put





on the platform. And then way the contracts work is the tiers. So you might pay us a certain rate between zero and \$50 million of policy on the system, and then you will pay us a higher rate if you go from \$50 to \$100 million on the policy. So what we do is on a monthly basis, we calculate how much premium is written on the platform and whether they broken through to a next year, where we could increase the amount of money that we bill. So at the moment, the majority of our customers are still in their first year of minimum revenue commitment. So they would not go down, but at the moment, we are waiting for more premium to be put on the platform so they start breaking through the levels where we are able to build more money.

Vijay Lohia:

So the number of cloud customers that you are continuing to win is pretty impressive. Just wanted to understand or get a sense whether you internally have any market share aspirations or the number of cloud customers that you think you can gain over the next 5 years or 10-years?

Adam Elster:

Do I have aspirations? Yes. How well calculated the market share is? I would tell you, that is a very tricky thing to do in the insurance industry. And in fact, what we are finding is many other competitors are double and triple counting market share. So I honestly am not very confident when I hear my competitors talk about the numbers, because we all talk about the exact same customers. So, if I am running in a tier one customer and I run billing, I count that customer. And if they are running claims, they count the customer. So at the moment, my aspiration is to win at least 30% of the deals that we are participating in. I think that would be a really good goal for us. We are in probably at about 25% right now. So I am more focused at the moment in our win rates and looking at the number of deals, But market share right now, I would tell you one of the things that gets me most excited about this vertical, is that still I would tell you 80% of the insurance industry and direct written premium is still sitting on legacy on-premise systems. So, the reason I am excited about the business and not to the point where counting the pennies on market share is the majority of insurance companies are still using legacy systems and there is still a lot of opportunity for all of us. So I know it is not a clean answer or exactly the one you want. What I would tell you is I am right now more focused on our win rates than I am on competitors and market share, because I still think there is a great deal of white space in the marketplace.

Vijay Lohia:

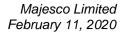
So, would it be fair to assume that your win rates will improve from here on? In 2019, you did about 19 customers.

Adam Elster:

It will improve slightly. What is interesting is the number of deals that actually happened for core systems annually, has not really changed in the last year. So let us say roughly 100 new core systems are put in place every year. We are winning as much as our top-two competitors. We are winning the same number of deals. So we hope the volume of deals in the market increases and our win rate gets a little better. But we think that your numbers are pretty accurate where we think it is going.

Vijay Lohia:

Your revenues are increasing, you are expanding, you're gaining new clients, but we see the headcount is going down. Is there any particular rationale and if you can sort of...?





Adam Elster:

And again, it is a great question, and I have answered in most quarters, because it is exactly what we talked about with our strategy. Over the last several years, the amount of on-premise services has decreased. In fact, if you look at our on-premise services year-over-year, it is down, I think, almost 20%, 25%. So as a result, we are seeing such an increase in our product and subscription revenue. But what we have been doing over the course of the last year and if you look at the headcount quarter-over-quarter-over quarter, we have a number of legacy on-premise businesses that have been decreasing, and we have been adjusting our overall costs in line with those businesses. So what we have seen is we have actually seen an improvement in our margin and services by doing some of the things that we have done, and we have got some of the legacy businesses more in line with the market, and that has been directly associated with some of those costs and it is something I have talked about, most quarters since I joined the company and I think now you are really starting to see some of the effects when you look at the profit

Moderator:

Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta:

I wanted to know your sense on operating leverage. So, at what level do we really need to start expanding the establishment, add headcount or current OPEX run rate, where could it take us?

Farid Kazani:

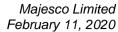
So just to give you a specific number on the product R&D, we are actually running at around \$4.5 million a quarter and I think this spend will be in the region of \$4.5 to \$5 million on running basis link to some of the stuff that we still need to kind of build especially in our L&A, and in our digital solutions, which means if the revenue grows faster, you will see further operating leverage in this particular area. On the G&A, it obviously has two components; it has an S&M and it has a G&A. This G&A is pretty much invested in because there is no further spend of the G&A. So, the total SG&A is close to 30%, and it is roughly split around almost equally 14%, 15% between S&M and G&A. We do believe that we need to invest on the S&M side especially in the places that we believe to increase our bandwidth on the partnerships which Adam did allude to and in some areas that we believe we need to get more reach around the cloud business in North America. On the G&A it will remain flat. So, if I have to kind of conjecture how this particular 30% will move, you will see anywhere between 100 to 150 basis points improvement each year linked to how the revenue builds up. If the revenue is faster, you may get a faster kind of operating advantage. And in quarters it will vary based on activities that are specifically linked to the sales and marketing efforts.

Gautam Gupta:

Second is more of a housekeeping question in nature. The on-prem revenue, would it be possible to kind of break up between license, services and support?

Farid Kazani:

I do give the break-up in the revenue analysis sheet but in the professional services which you see which has two components, which has an on-prem services, and it has Majesco Consulting Services. So, if you look at this quarter, the total professional services roughly was 31.4%, the breakup is roughly 15.5% and 16%; 15.5% for on-prem and 16% for the Majesco Consulting Services. If you compare with the previous quarter, I think professional services was close to





35%, the breakup was 17% for on-prem professional services and roughly 18% for Majesco Consulting Services.

Moderator:

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

Amit Chandra:

Sir, my question is related to the on-prem revenue decline that you mentioned the decline is around 20%, 25%. So this is in line with the decline we are seeing for the last four, five quarters. So, if you can elaborate how is the on-prem revenue split between P&C and L&A and what part of the customers are seeing the highest impact? Can we see some stability there on the on-prem services, because we are seeing the cloud for the revenue accelerating well, but this on-prem revenue if it stabilizes, then we will see the acceleration in the growth at the overall level?

Adam Elster:

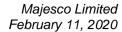
All of the on-premise services are P&C. So, 100% of this on-premise services are P&C. And what we have been seeing is as far as the deceleration, over the next year, we will continue to probably see a slowdown of that overall on-premise services. We think for the next year, we are still going to see some decreases in that. Many of those customers have either gone live with projects or are moving to the cloud. So we think we are still going to see some decreases over the next year. Probably, maybe 10% over the next year.

Amit Chandra:

On the Cloud subscription revenue, so right now on the last four quarters, we are doing roughly \$20 million of cloud subscription revenues and we have around 63 Cloud customers. So just to get a sense that 63 Cloud customers, how many would be contributing to this cloud subscription and what kind of growth we can see in the cloud subscription and how many of them are roughly at? I am not asking for a number, but just to get a sense that how many would be above the threshold limit?

Farid Kazani:

Amit, there are customers that are there in various buckets. We have broken them up into the customers that are gone into implementation and during implementation they give some very small percentage of subscription which is called pre-production subscription, which is a very small component. But if you look at bulk of customers who have then gone live, they start giving us the MRC. So basically, a large component of our customers are on MRC right now. There again, we've actually consciously grouped them up into four buckets, customers that we do expect high growth, moderate growth, low growth and no growth. So we do believe that there are customers that will perform exceedingly well as they kind of expand their business and add more premiums on the platform, and that is where we will see maximum growth. So if you look at the growth that we have witnessed this year, it has been on the back of multiple customers that have gone from implementation into MRC. So, the MRC is now almost at \$6.1 million. If you look at the subscription, it is at \$6.1 million in this quarter and overall it has actually grown on a year-to-year basis by 26%. Now, we should end up with a much higher growth by the end of Q4 because Q4 is likely to be also better. Going forward basis, as Adam did mention that as customers move out from MRC into adding more business and adopting more, that customer will give incremental subscription plus on the back of additional new customers that we add





from now till next year, we will see the overall subscription bucket increasing. I will not want to give any percentage growth forecast, but we do expect a very good and aggressive growth in our subscription revenue next year.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please

go ahead.

Rohith Potti: My question is a follow up to the previous participant. So just wanted to understand broadly of

the total 63 customers that we have, what number is on the MRC bucket?

Farid Kazani: Roughly around 20 customers would be in the implementation, so they have not gotten to MRC.

You have to assume that the rest are already on MRC and couple of them would have gone into adoption. That would be the rough number but I do not have exact numbers to share with you

right now over the call.

Rohith Potti: Excluding the implementation customers, you would say that more than 80% are on MRC and

probably very little have gone to the next bucket, am I right?

Farid Kazani: So there are customers that have already gone into MRC first line of business that they have

adopted, but there are customers who are on MRC, but they are adopting the second line of business because they are expanding their business. So there are customers who are giving me implementation for the second line of business, but MRC when they have already gone to the

first line. So there are multiple such customers. So therefore it is very difficult for me to give the

break up the way you are asking.

Rohith Potti: In such a case where the customer initially came to you for one line and then he is adding another

line, do you double count him or is he seen as one customer in your...?

Adam Elster: There is no double counting. The way to think about it is if I have one line of business, I will

business on the platform, while I can keep selling additional Homeowners insurance to put on the platform or I can go sell automotive insurance and maybe I will move that automotive insurance onto our platform. In either case, we would be able to increase the amount of revenue we generate from the customer. So either because their business is growing, and they are writing

make a simple example, Homeowners insurance, and I go up and live, and I put some of that

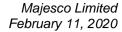
more direct written premium on a line of business or they decided to put another line of business

on the platform as well. So, in many cases, while we might be in an MRC, there is multiple ways in which we can grow and break through those levels over the course of the next several years.

Rohith Potti: So from one customer there are two ways in which we can increase revenues; one, we write

So from one customer there are two ways in which we can increase revenues; one, we write more premium from the line of business that we have given in software for, and the second is

we add newer lines of business for the same customer.





Adam Elster:

That is it. Exactly right. And obviously, once you get one line of business up and running, it is much easier to speak to that customer and convince him they should put another line of business on it. And for most of these customers, they have, as you can imagine, probably eight to ten different lines of businesses. So, this can really multiply over the coming years.

Rohith Potti:

Follow-up here again, what are the same customers give you in separate geographies, does that add additionally again on top of it or line goes across all geographies that they are operating in?

Adam Elster:

It typically includes additional services to do some configurations related to how each state operates. So typically the contract will be for a line, let us say homeowners or auto insurance, those are simple examples. But the way it works is each state has different regulations for how they do reporting and billing and other things. So typically it does not really affect the product revenue, it can increase the volume, obviously if they put on the platform, which is helpful, but there is also some services that typically go with it to do some of the configurations. So, it definitely helps, more states better, but there is definitely some one-time cloud services that goes with it as well.

Rohith Potti:

Last question related to this from my end of is of the 63 customers, how many have you seen add additional lines to whatever you already are giving them, do you have a broad number there?

Farid Kazani:

I do not have a number. There are quite a few of the clients which are doing that.

Adam Elster:

If you want, our investor day in May last year, there is a page in there where we actually list how many lines of businesses for each one of the products. But we have not updated that publicly so I do not have that material handy.

Moderator:

Thank you. The next question is from the line of Vijay Lohia from Maxim Asset Management. Please go ahead.

Vijay Lohia:

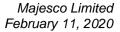
So your cloud subscription business continues to grow at pretty healthy clip. In that context, how should we think about the consulting practice because I see that your consultant revenues are broadly flat sort of over the last two, three years. So what kind of linkages are there broadly in consulting practice with incremental cloud and non-cloud business, how should we think about this going forward?

Adam Elster:

The consulting business has been a pretty flat business for us. But it also continues to produce good margin. So we are happy with that business. But we are very much focused on the cloud subscription business moving forward.

Vijay Lohia:

Should the trend continue? Should we think of it has sort of the way it has been behaving over the last few years?





Adam Elster: I do not think it is going to materially change. We have been pretty happy with the performance

of that business.

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

Rahul Jain: Couple of things; firstly, on this IT services business, which is the professional services business,

what should be the strategy out here, this business has been sort of declining in the past, how

much it is relevant for our existing offering and what should be the future out here?

Adam Elster: We think of it is a flat business. So, it has been a flat business we think that business will likely

perform similarly in future and we believe that there is a margin opportunity associated with it.

Rahul Jain: Is it relevant that we count license revenue as part of our recurring revenue since we have

changed the accounting methodology in Q1?

Farid Kazani: Rahul, just to give you a clarity on that and the way we reflected also in the US is recurring

product revenue and it includes the license. So, in my call, I also just clarify that again, the recurring product revenue includes license fee, the support maintenance and the cloud

subscription. So we stick with that.

Rahul Jain: When we booked a large number in Q1, I think that was related to some prior period that we

used to book annually, has that changed now?

Farid Kazani: The booking is going to be based on how the ASC 606 standard is in the US. If you draw a

license fee where there is no further obligation of the software that you deliver to the client, you book the entire term license, so if the term license is for three years, you book the entire three year license in revenue on that date whereas when you look at it in actual fact you are billing the customer on an annual basis and recovering the money from him on an annual basis. So, one of the reasons where you see our unbilled outstanding has increased because to the extent of that license is already taken as revenue, but not yet billed and collected from the customer which gets done on an annual basis. But from a nomenclature that we reflect recurring product revenue, since it is recurring because till the time it uses our system, we will keep billing them, it is

counted as recurring product revenue.

Rahul Jain: Just to ensure that I am getting the thoughts right. So, when we say, we booked Rs 11-odd crores

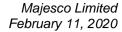
of revenue in this quarter on the license front, this includes the entire tenure of the deal which we might have won on the on-premise basis or is it only the annual part of that deal which we

have booked in this quarter?

Farid Kazani: We have not won any license deal in this quarter, so there is no booking of a single license deal..

This is actually annual license fee which is accounted for the Q3 on a proportionate basis at the

bottom of the past wins.





Rahul Jain: So if we do not add anything else now, this should remain the run rate?

Farid Kazani: Yes.

Rahul Jain: We saw a good growth in the top five clients. If you could share any thought where it came from,

what are the incremental driver for that?

Farid Kazani: As you are aware that IBM is among the top five clients. So whatever little implementation and

the subscription revenue that is there from them. There are other large clients which are giving us business. So, I have not seen a major movement in the top five clients. But if you compare it with the last year, last year we had large revenue from MetLife-IBM project, and therefore last year the top five clients were much higher and I think it is around 28%, now it is around 21%.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference

over to the management for closing comments.

Adam Elster: Great. Well, thank you, everyone. We appreciate your time today; we appreciate all the

questions. Again, we are very excited about our results from Q3. I think they reinforce our improving execution against our strategy, and we look forward to speaking with you all soon.

Thank you very much and have a good day.

Farid Kazani: Thank you.

Moderator: Thank you. On behalf of Majesco Limited, that concludes this conference. Thank you for joining

us and you may now disconnect your lines.