



## “Majesco Q1 FY17 Earnings Conference Call”

**August 10, 2016**



**MANAGEMENT: MR. KETAN MEHTA -- NON-EXECUTIVE DIRECTOR,  
MAJESCO LTD. AND FOUNDER & CEO, MAJESCO U.S.  
MR. FARID KAZANI -- MANAGING DIRECTOR,  
MAJESCO LTD.**

**MODERATOR: MS. ASHA GUPTA – CHRISTENSEN IR**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Majesco Q1 FY17 Earnings Conference Call hosted. As a remainder, 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 for an operator by pressing “\*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen. Thank you and over to you.

**Asha Gupta:** Thanks Zaid. Good morning and good evening to all who have joined into this call. We welcome you to Q1 FY17 Earnings Call for Majesco Ltd. Please note that the results have been mailed to you and you can also view it on our website at [www.majesco.com](http://www.majesco.com).

To take us through the results and to answer your questions today we have with us Mr. Ketan Mehta – Non-Executive Director of Majesco Ltd. and Founder and CEO of Majesco (U.S) and Mr. Farid Kazani – Managing Director of Majesco Ltd.

We will start the call with a brief overview of the quarter given by Mr. Ketan Mehta and that will be followed by Mr. Farid who will go into the detailed financial.

I would like to remind you that everything said on this call reflects in the outlook for the future, which can be construed as a forward-looking statement, must be viewed in conjunction with the answer to the address that you face. These uncertainties and risks are included but not limited to what we have mentioned and which we can find on our website too. That’s it. I will now hand over the call to Mr. Ketan Mehta. Over to you sir.

**Ketan Mehta:** Thank you, Asha. Good evening everyone and welcome to Majesco Q1 FY17 Conference Call. I am pleased with our first quarter results which was the fourth consecutive quarter of the revenue growth for Majesco in our short history of the four quarter reported year-over-year.

Revenue for this quarter increased 46.6% in the fiscal 2017 as a result of adding CoverAll business to Majesco as well as the organic growth to the tune of 14.6% compared to the same quarter last year.

Let me outline some operating highlights that occurred during the quarter: We had 3 successful implementations of our products during the fiscal 2017 first quarter. This includes a Tier-I group insurance in UK who went live with Majesco policy for Life & Annuity and Group, a mid-market insurance with Majesco Billing as the first phase of transformation. In addition, we had an existing insurer using Majesco P&C Suite in the cloud expand into additional state. With each successful implementation and go live taking customer into production, we enhance our brand and customer relationships. We had several recent examples of our successful enhancing existing client relationships. As we stated in our original strategy, cross-sell and up-sell to existing clients is key part of our strategy.

Let me show some results during the last quarter.

- We enhanced our relationship with an existing Tier-I insurer who have extended the use of Majesco Billing for their commercial line business.
- We expanded our relationship with Homesite, a Tier-I insurer, to support their broadening product portfolio and geographical presence in US on Majesco's Cloud platform with ready-to-use content, including ISO ERC integrated content for the commercial line of business.
- In addition, we enhanced our relationship with Colorado Farm Bureau Mutual Insurance Company, a mid-market insurer, who will upgrade to Majesco Policy for P&C as its strategic enterprise platform.

I am particularly excited about our June 2016 release of Majesco CloudInsurer, an out-of-the-box repeatable, scalable cloud platform which is designed to provide a business platform with broad appeal for all insurers from Greenfield, new start-ups and incubators to mid-market, MGAs and Tier-I insurers. Recent industry research has indicated that cloud is at a tipping where more carriers are selling cloud based hosted solutions as compared to on premise based solutions. Our cloud offerings are well positioned to capitalize on this changing dynamic in the industry.

During the first quarter, 18.4% of the revenues came from the cloud. Our Majesco CloudInsurer offering is uniquely positioned to help emerging carriers as a result of its scalable model, ready to use content, rapid launch and speed to value. A key part of Majesco CloudInsurer offering is a Majesco partner ecosystem of partners with solutions, data and content that are pre-integrated and extend Majesco Solution to provide leading edge, unique and innovative capabilities. During the first quarter, we added two new partners which are iSIGN and eGain to our partner network.

One other trend which we noticed is the emergence of the start of Greenfield and incubators insurance carriers, which also includes some of the established insurance carriers offering a new initiative in the form of a division or a start-up mode. Majesco is engaged with 6 such initiatives as their client base and we see that as a growing segment for Majesco's future growth.

As a part of our strategy, we invested significantly in both Research & Development and SG&A last year to build a foundation to enhance our growth. We will continue to make this investment but we expect to achieve benefits from our scale and improve the profitability.

Before I turn the call over to Farid, I want to remind everyone who has followed our industry, that our business is characterized by the long sales cycle and an inherent risk involved in the complex transformation and modernizing initiatives. As a result, there is an inherent volatility quarter-to-quarter in our sales, order book and deal flow, as well as revenues which we expect will continue. I encourage investors to evaluate us on trailing 12 month and full year results which will eliminate some of the inherent volatility in our business model.

While we have seen improvement in the revenue and EBITDA margins in Q1 FY17, we have witnessed a slow down on one large program, coupled with certain planned project competitions this is likely to have an impact on the revenues in the immediate quarter. However, the current

opportunity pipeline is likely to see strong conversion in the second-half of the year leading to an overall strong growth for the year.

So to conclude, I continue to believe that InsurTech is very vibrant market with fair amount of investments taking place both by carriers as well as the venture community. Majesco, with its size, scale, domain expertise and the platforms is very well positioned to take advantage of this opportunity. We have excellent leadership team and exceptional work force that continue to drive growth while expanding the existing customer client relationships.

Now, I turn the call over to Farid to discuss the financial drivers for the quarter.

**Farid Kazani:**

Thank you, Ketan. And good evening to all the participants on the call today. Let me begin with summarizing the Q1 FY17 financial performance, and I will start with the revenue for the quarter.

We ended the June quarter with an operating revenue of Rs. 220.1 crores as compared to Rs. 221.6 crores in the previous quarter March 2016, reflecting a minor drop of 0.7% in rupee terms. However, it is an increase of 0.7% in constant currency terms. Last year the same quarter we achieved a revenue of Rs. 150 crores which reflects an increase of 46.6% in rupee term on a year-to-year basis.

The organic growth, as Ketan mentioned, was 14.6% in rupee terms and 11.4% in dollar terms. The year-on-year growth in revenue was determined by ongoing revenue expansion in our P&C and Life customer and the addition of the CoverAll business that was prevailing in this quarter.

In terms of total income we have ended up with Rs. 222.3 crores as compared to Rs. 223.8 crores in the previous quarter, down 0.7% on quarter-on-quarter basis. While in the corresponding quarter of previous year our total income was Rs. 154.4 crores, reflecting an increase of 54% in rupee terms.

The product R&D spends during the quarter stood at Rs. 30.7 crores which is at 13.8% of the total income as compared to Rs. 31.5 crores, which was 14.1% of the total income in the previous quarter and Rs. 20.0 crores which was 13.0% of the total income as compared to the same period in the previous year. The product R&D expenses were higher by 53% on a year-on-year basis and this increase was mainly due to the addition of CoverAll business and the R&D program which are focused on executing our strong product roadmap in both our P&C and L&A business suite. It is important to note that the Company has a policy of expensing all the R&D cost through the P&L account.

EBITDA for the quarter stood at Rs. 7.7 crores, which was at 3.5% of the operating income in Q1FY17 as compared to an EBITDA before the exceptional items at Rs. 2.7 crores, which was 1.2% of the operating income in Q4 FY16.

In terms of net profit, we ended up at Rs. 1.46 crores in this quarter as against a net loss of Rs. 1.97 crores in the previous quarter of March 2016. The improvement has been largely due to the

overall operational performance and the lower cost in travel and other expenses. Last year in the similar quarter we did Rs. 1.6 crores.

From a geographic standpoint, the North America, the UK and APAC region represented 88.6%, 7.3% and 4.1% of the operating revenue as compared to 88.7%, 7.2% and 4.1% in the previous quarter of March 2016.

The P&C business has seen some growth, it has ended up with 79.7% of operating revenue, Life and Annuity (L&A) represented 18.2% and the Non-Insurance business has now reduced to 2.1% in this quarter. Similar numbers had been 77% for P&C, 20.6% for L&A and 2.4% for the Non-Insurance business.

In terms of offerings, License revenue constituted 3%, Implementation and Professional Services constituted 61.9%, Cloud and ASP implementation constituted 18.4% and the Support and Maintenance was at around 16.7%. The similar numbers for the previous quarter were 62%, 19.2% and 13.3%.

In terms of client concentration, the top five client constituted 28.3% and the top 10 customers constituted 42.2% in this quarter as compared to 30% and 43% in the previous quarter.

We continue to expand relationship with the existing clients and the total client base including India clients now stand at 164.

Our 12 months' order backlog stood at Rs. 434.5 crores at the end of June 2016 translating to \$64.3 million in constant currency and Rs. 427.6 crores in rupee terms as compared to Rs. 485 crores at the end of Q4 last quarter. This reflects a drop of 10.4% in rupee terms. Our 12 months trailing order booking for the period ended June 2016 stood at \$154.5 million as compared to \$158.1 million at the end of March 2016.

Total headcount has remained more or less at the same level, it was at 2,487 at the end of 30<sup>th</sup> June, 2016 as compared to 2,465 at the end of March, 2016.

Quickly turning on to the balance sheet now. We have seen an overall improvement in the cash position. The total cash and cash equivalent in the consolidated Majesco Group now stands at Rs. 205.8 crores as of 30<sup>th</sup> June, 2016 as compared to Rs. 127 crores at the end of 31<sup>st</sup> March, 2016. Our debt stands at Rs. 138.2 crores as compared to Rs. 91.9 crores at the end of March, 2016. So on a net cash basis, we have seen an overall improvement of Rs. 32.3 crores primarily due to improved collections during the quarter. The DSO stands at close to around 67 days for the quarter under review.

With that, I conclude the overall update on the financials. Ketan and I would now like to open the floor for questions. Thank you very much for your patient hearing.

- Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Saurabh Shah from AUM Advisors. Please proceed.
- Saurabh Shah:** Hi, this is Saurabh Shah. Question on your revenues, just seeing the License revenues for this quarter have gone down significantly, almost half compared to last year and even compared to the January to March quarter. And services piece, on a year-over-year basis there is a very high increase, Support has obviously doubled from a year earlier. So what is happening to the model, are you seeing significant increase in Professional Services and Support versus the License fee which has kind of halved? Is this an odd kind of quarter, or what is going on there?
- Farid Kazani:** So, let me just explain. There are 3 specific reasons and the background for this. One is, when you compare to the last year we did not have CoverAll, and CoverAll comes with a much higher Professional Services and Support component, so that has obviously impacted in this quarter when you compare it like-to-like over the previous year. Second is, even in the License revenue that was there last year, there was some amount of perpetual license fee which obviously would have spiked up the overall license fee when you look at it on a pure License basis, as compared to what you see right now is we have moved to a situation where we are having the annual license fee where we are billing customers. The third aspect is that we are seeing fair bit of cloud kind of projects being implemented and therefore the component of where you would have seen a License revenue on an on-premise is still getting reflected in the Cloud kind of overall fee where it gets embedded as part of subscription fee that we are receiving from those clients. So, these three would be primary reasons. There will be some quarter-on-quarter variations, Saurabh, so this number will fluctuate between 3% to 5% or 6% depending upon how things shape up between on-premise and cloud businesses building up.
- Saurabh Shah:** So, would there be a correction out here in the lifetime revenues and the like-to-like basis would there be growth in this quarter versus last year?
- Farid Kazani:** No, if you look at it there was a perpetual license that was there in the last year, so to that extent there is a little reduction in the overall license fee. But when you look at it at an overall basis with a percentage of the cloud fee which is at around 18.5%, there has been an increase in the cloud revenue as compared to when you look at last year, and within that there is an embedded license fee that is included.
- Saurabh Shah:** Maybe I can get in more detail offline. Second was on the cloud itself, how do you, I mean, that is your platform right, so how do you bill on the cloud platform, is it per month basis, pay-as-you-use basis, how does that work?
- Ketan Mehta:** So, typically the cloud pricing varies but the general framework is that there would be initial setup fee or implementation fee. But majority of, what we call, a cloud processing fee is related to the percentage of the premium income which a client puts on the cloud platform. And what we find here is that initially the client puts a smaller part of the business on the platform, but as

they expand and put in more and more business on the platform, the cloud fee increases. So it is pay-as-you-go model.

**Saurabh Shah:**

Ketan, is it possible to get some more color on your customer and revenue environment, your active clients have kind of remained the same, also your large clients' percentage of revenues are declining a little bit, marginal, but what is going on, if you could give us some color?

**Ketan Mehta:**

So, broadly speaking, in the industry if I look at the trend, I certainly see that there is a trend towards a cloud type of a model, primarily driven by the focus on the increasing speed to value. And the clients want to get into production quicker and as opposed to a long duration implementation type of work. And if we look at our pipeline, which is building up, over 60% to 70% of the pipeline is we find them are the cloud types of opportunities. So, we find the nature of the engagement is getting more towards cloud and more towards feed to market, but the interest towards modernization, interest towards the technology investment continues to be as robust. And as I mentioned in my initial comments, one other area which I find interesting and where we see a fair amount of growth is the start-up greenfield, it is not only new venture but the existing large insurer who create a division, so Homesite being an example where it is a Tier-I insurer who created a start-up and built a new business model. Now their overall business has been always primarily working through agencies, but they tied out direct to consumer model in a completely new initiative operating almost like a start-up. So, we see many of those activities also taking place, these are again pretty strong technology intensive initiatives primarily driven by cloud model.

**Saurabh Shah:**

Just on the cloud model, in terms of the billing itself for the solution, do you see the cloud model becoming kind of reducing revenues for providing the solution? I know it is difficult to estimate because we do not know how long the customer will continue, but, say, assuming it continued for a period of three or four years, do you see revenues getting cannibalized by using cloud or you see them actually increasing?

**Ketan Mehta:**

So, what we find is that the initial ramp up of the revenue is slower compared to the on-premise or a license model, but it is likely to go up significantly as they put in more business on the platform and many of the initial implementation work is converted into annuity based recurring revenue type of a model. Now, cloud business is a pretty sticky business because once they run their whole business on the platform, we expect the clients will continue operating on that environment for long-term. We have many customers who operate on our hosted environment for over 10 years now and they still continue to run business on the platform because it is a very sticky relationship.

**Farid Kazani:**

So, Saurabh, just to expand on that, if you look at it on a, let's say, a seven-year period, the revenue that we would earn from the cloud on a total basis would be higher than what we would have earned for the same product implementation on an on-premise. But for a customer it is ultimately going to be a lower TCO, because he does not have to spend on various items that you would have spent on an on-premise business. And as Ketan alluded that in the initial stage,

the revenues are likely to be lower compared to what you would have got on premise implementation and they get evened out between the third of fourth year.

**Moderator:** Thank you. Our next question is from the line of Shraddha Agarwal from Asian Market Securities. Please proceed.

**Shraddha Agarwal:** Couple of questions. First is, you have indicated some slowdown in a large client which is going to impact our revenue in 2Q. So, is this a client specific issue or is it a fallout of general weakness in macro environment which is getting reflected in this particular account? And then probably chances of other repercussions on other clients also?

**Ketan Mehta:** No Shraddha, this is a very client specific issue, it is a large modernization initiative which a client has taken, I think the slowdown has occurred on the count of both their internal readiness as well as speed at which they can implement some of those initiatives. So we do look at that as a very specific client base issue.

**Shraddha Agarwal:** Has there been a delay or a shift out from one quarter to another, do you see a perpetual loss of business in this account?

**Ketan Mehta:** No, it is definitely just a shifting, ultimately the total amount, how they plan to do it remains the same, it is moving, if the program slows down what we expect to occur in our current quarter and the following two quarters will be lower than expected, ultimately it will pickup and have the similar revenue expected out of the program.

**Farid Kazani:** So, basically what it means is it is a slower ramp up and a right shifting of the overall revenues could be by a couple of quarters. We do expect that once there is an improvement in the readiness of the client, the businesses start scaling up. So overall, Shraddha, these kind of things happen in large implementation projects because these are very-very large transformation kind of initiatives that the client takes. And while there will be some variability in our business from quarter-on-quarter basis, there are other businesses that will help to shape it up. So, these things will get offset by other improvements in the businesses that we will see.

**Shraddha Agarwal:** No, but then just one question here is, have you got any indication from the client that this program has got shifted by two or three quarters but we would be on target of whatever the commitment was by quarter four or quarter one of next year, has there been any committed timeline given out by the client?

**Ketan Mehta:** Shraddha, the way some of these things work, client is still very much engaged, and as I said, it is a slowdown, it is not a pause in the program. But many of those are dependent on many factors for which clients would not make a specific commitment in terms of how and when they will pick up the steam. But, our assessment based on the client engagements and all is that it is a slowdown for a couple of quarters.

**Shraddha Agarwal:** And sir, just to probably further on this, I mean, is it amongst the top five clients for us?



- Farid Kazani:** Shraddha, I do not want to discuss any specific client positions or numbers, we do believe that these variability's will happen on a quarter-on-quarter basis and as I mentioned, while some of the revenues from this client has shifted right, we will see how best this gets made up by the other businesses that we have to pay.
- Shraddha Agarwal:** Sure. And just, I mean, the earlier participant also asking on the client metrics wherein order book number has come down, contribution from top clients has come down. So, I mean, one reason why the order book number has not been able to show a material jump up from the last three-four quarters, it has been hovering in the band of \$55 million to \$65 million. So any comments there would be helpful.
- Farid Kazani:** See, the order backlog has improved tremendously in the previous quarter, so it has moved up by almost around 40% odd last year and in March we were at almost around \$73 million. It has been lower in this quarter primarily because of right shifting of the order book position. Ketan also mentioned that we are quite confident about the build up that has happened in the pipeline and we will see good amount of bookings that will happen in the second half of the year. So, they will come back to a decent level in terms of the order booking as we see the business in the following quarters.
- Ketan Mehta:** One other thing I will add here is there we traditionally see first quarter has a lower order book compared to the other quarters, so that is why if you see the drop, the trailing 12 months' order book number has only marginally changed compared to what it was last quarter.
- Shraddha Agarwal:** Sir, any comments on the overall demand environment in this case would be helpful, because there have been companies who have talked about insurance slowdown, I mean, I agree that those companies are basically catering to the UK market, but overall demand dynamics in insurance, how are your fillers like, has there been any slowdown in the discretionary spend by clients in insurance, specifically in the US market?
- Ketan Mehta:** I have not seen any pattern regarding the overall demand issue, I did see a couple trends which we see is more interest towards cloud, some of the greenfield and start-up getting momentum and steam. So those are all the broad indications which you have seen in the market, but other than that the interest in the insurance technology and investment, I have not seen any significant difference compared to what we maintained before.
- Shraddha Agarwal:** Just last one question from my end, any update on the QIP which you would want to give to us?
- Farid Kazani:** So Shraddha, we obviously entered the quite period because of the results announcement and once we are done with this we will go back and work towards seeing how the process on this QIP is to be completed. And I see interest of certain investors who would be looking at the QIP seriously and depending upon how the price movement is we will update you in some time. So, I think we should get an update on this in the next, say, three to four weeks.
- Moderator:** Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please proceed.

- Mohit Jain:** Just one on the order book, why there is no YoY growth in the order book despite us adding CoverAll during the year? So that was one. And second is, how much impact should we expect from this 2Q weakness, is there a possibility of a decline as well and therefore our annual target of 15% sort of a growth, is it a risk because of this?
- Farid Kazani:** So, Mohit, I did eluded to it, there has been a right shifting of the order book in Q1, which is why you are seeing the overall total order book at around \$155 million as compared to \$158 million at the end of last quarter.
- Mohit Jain:** No, I am comparing it YoY, so I was just hoping that YoY 1Q 2016 did not include CoverAll order book as well, so therefore 1Q 2017 something should have been added on a YoY basis which does not look like the case in dollar terms.
- Farid Kazani:** No, so in affect typically Q1 is always a softer quarter, so we added some order book. But obviously our execution has been higher at around \$32.5 million, so to that extent there has not been much movement and you see an actual drop in the backlog and overall order book stands at around \$155 million. So, we do expect that in the next three quarters there will be a good level of order booking which will help to kind of both increase - the total order book and the current backlog going forward.
- Coming to your question on the variability and the impact, I am not giving any specific guidance for Q2, but yes, Ketan did mention that there will be impact because of this program going slow and some project completion. So there will be some impact in the next quarter, immediate quarter. But we are confident of a very strong organic growth on an overall basis because we see the rest of the year with the second half being much better.
- Mohit Jain:** So this second quarter, I mean, can we get any number in terms of...
- Farid Kazani:** I am not guiding to any specific numbers, Mohit, for an immediate quarter of the year. What I would suggest is, we have given two leading indicators, our total order book and the backlog, you can probably do your estimated working, you will be able to kind of figure out what will be the organic growth considering where we stand today and what is the order backlog position.
- Moderator:** Thank you. Our next question is from the line of Sagar Lele from Motilal Oswal Securities. Please proceed.
- Sagar Lele:** Farid, while you alluded to the fact that the order book has grown year-on-year if you exclude for the right shifting of the deal, at the same time Ketan also said that 70% of the pipeline is in the cloud and that probably initially cloud deal sizes would be smaller. So, does this by any chance result in a situation where your future revenue is kind of flattish because your order book will be negated by the smaller deal sizes in cloud?
- Farid Kazani:** No, actually I did mention also that when you look at the cloud on a longer-term basis, the cloud revenues would be higher than an on-premise deals that would be there. But at least in the first few years, which is the first couple of years or three years, when you look at it from a revenue

kind of recognition perspective, there could be a possibly lower revenue that would be there as compared to what would have happened if you were implementing it on-premise. It is not that all the deals are moving on cloud or that we are winning all deals on cloud, what we are seeing is that there is great amount of preference in some other deals that are there in the pipeline to be on cloud. If we do have those deals, it gives us couple of advantages, it gives us long-term deals, it gives us consistent and recurring revenues. So cloud deals are definitely preferable. On a longer-term basis they are also much more profitable. So our preference will definitely be on cloud deals. There will be some impact when you look at it at a 12-month order backlog or on the immediate revenue perspective, but when you look at the total order booking that will be there from the client, it will be much higher on a longer-term basis.

**Sagar Lele:** And secondly, would you be able to give us some qualitative color in terms of the R&D expenditure, the kind of skew it would have either in terms of P&C or L&A or solutions specific, say, policy, billings or claims or even the kind of spend on cloud or digital?

**Farid Kazani:** So, while this is a little confidential information, I will just share very top-end kind of understanding. Roughly around between 65% to 70% of our product R&D expenses is happening on the P&C side, close to +30% is happening on the Life and Annuity side. The way we have our spend right now getting incurred, you would have between 20% to 25% which is clearly due to kind of a maintainable R&D kind of spend that happens, roughly 50% odd would be there for the new rollouts, new kind of models that are getting initiated. And the balance 25% to 30% would be on the data digital side. So that would be the rough cut of how the spends are happening. We have details of each and every item where we are spending and how each of them needs to get converted and be delivered for our business objectives and for our client expectations. But since it is a confidential information, I cannot share any further details on this.

**Moderator:** Thank you. Our next question is from the line of Rahul Jain from Systematix Shares. Please proceed.

**Rahul Jain:** The first question which I want to ask is, what are the trends in the legacy modernization that we are seeing? Are we seeing here, because what we hear from peers are concepts such as progressive modernization and so on, are we seeing such a similar trend in our client base?

**Ketan Mehta:** So, I think legacy transformation and modernization continues to be high priority for the insurance carrier both in P&C as well as in Life and Annuity side. Of course, because it is such core to the client, each client adopts a different approach, some of them do big bang, some of them take smaller module-to-module approach and then go slowly and then build it up, some of them prefer a cloud type of a model and also some of them take on this new initiative almost like a start-up keeping the legacy as it is, but implement the new initiatives in a very different platform altogether. We have seen a mix of all of those initiatives, what we find is the overall industry dynamics is such that the technology base modernization initiative continues to be of high priority item at Board and the CEO level within the insurance carriers just because the competitive dynamics, the consolidation within insurance industry, the focus on introducing innovation and new product to really retain their market share as well as new demographics of

customers demanding much better digital experience, all of those are very strong trends which drive these initiatives.

**Rahul Jain:** So, any mix if you could see, is it more like open source, agile, APIs or any established end-to-end solution, what are the success factor for these kind of differentiated offerings?

**Ketan Mehta:** So, what we find is that by and large clients look at as much possible as bought out solutions as opposed to an internal build, that is a clear preference in that direction. And when you look at the bought out solution, it most likely, most of the vendors they do not offer open source, open source based components are part of the stack, so just as Majesco has in that stack many of the open source components but it is also mixed out some of our own proprietary platform which bundle those platforms into overall solutions. And our competitors have a very similar approach. So we see that mix environment taking place with most of the carriers.

**Rahul Jain:** And just one small question, in the current quarter we are seeing this UK - EBIT and ROC looking pretty strong, any reason why this number looks so healthy?

**Farid Kazani:** I think it was based on milestone achievements, so there has been a project completion, UK this project went live, so to that extent there has been a good kind of build up for the profitability in UK. You would be aware that 7% of our business comes from the UK, there is obviously an impact on the Pound. So we have not seen a great amount of impact in this Q1, but there would be some impact on the Pound related issues that will happen in the next quarter. So, this is obviously a good quarter for the UK.

**Rahul Jain:** So you can say this is more like a cost and revenue appearing in different quarters?

**Farid Kazani:** No, I would say that it is for the quarter but the impact of the Pound which typically on 7% of our revenue will be seen from the next quarter onwards, we do not have any Pound exposures booked.

**Rahul Jain:** But on constant currency this number is normalized, this is now one-time kind of a thing?

**Farid Kazani:** No, there is no one time.

**Moderator:** Thank you. Our next question is from the line of Bhaumik Bhatia from Girik Capital. Please proceed.

**Bhaumik Bhatia:** My first question is about the slowdown that you witnessed on one of our large programs. So, with regards to that where do we stand on the FY18 guidance that we had given earlier? And a related question would be in terms of, earlier you alluded to inorganic opportunities also, so how far or how close we are on that front? And the second question would be on the gross margin, if I see the gross margin for the June quarter that has come down by almost 430 basis points Q-o-Q, so any color on that?

- Farid Kazani:** So, let me answer the first question. Ketan has already given you some qualitative background on the impact of the slowdown on that project. As far as the FY18 numbers are concerned, those were the financial goals that we did put out which included both our organic built up and the acquisition related revenues that would kick in. While we are quite confident that we will have a good amount of organic built up in this year and the following year based on how we see the pipeline and the order booking expected. There is bound to be uncertainty with respect to acquisition related revenues because while we are pursuing acquisitions and various stages of exploration, the timing and the size of these acquisitions are really not in our control. So depending upon how these acquisitions close out, we will be able to see the true visibility of our goals which we had considered at \$200 million. So at this point of time I will not be able to kind of either confirm or deny any of those numbers till we know how the acquisitions start shaping up.
- Bhaumik Bhatia:** So just to put this a little differently, so on the organic front the plans that you have had for FY18, they still continue to remain?
- Farid Kazani:** Yes, I think we are fair bit within the range that we had expected, we should be at that level on the organic plan, except for these minor aberrations that we did discuss a short while ago. And if we do a good order booking in this year, so we should see a decent level of organic growth in the next year, because we have a good strong order book position and order backlog.
- Bhaumik Bhatia:** My second question was on the gross margin.
- Farid Kazani:** On the gross margins, I think when you look at it at India reported P&L, you do not see the gross margin in the right perspective because it is important that you look at it where we declare the numbers in true gross margin perspective at the US GAAP number. So if you compare the gross margins that we achieved in this quarter, we did better than the last quarter, we were at 46% - odd in this quarter as compared to 45%. So we had some improvement in gross margins in this quarter. What you see here in the financial statement as per the Indian GAAP, you see all the cost plugged into as employee cost which includes cost for the sales & marketing where we have had obviously increase in the product related employee cost also plugged into the same employee cost bucket. So I think the true reflection of gross margin is reported in our US GAAP numbers, so if you refer to that we have had an improvement in this quarter as compared to the previous quarter.
- Moderator:** Thank you very much. Our next question is from the line of Kaustubh Bhubna from SKS Capital. Please proceed.
- Kaustubh Bhubna:** If you could please just breakup your revenue based on Licensing and Cloud again for me?
- Farid Kazani:** Yes, so if you look at this quarter the License revenue was 3% and the Cloud was around 18.5%.
- Kaustubh Bhubna:** And the rest?
- Farid Kazani:** 62% was the Implementation and roughly 16% was the Support and Maintenance.

- Kaustubh Bhubna:** And could you please compare that year-over-year?
- Farid Kazani:** So, last year when you look at the same quarter it was around 8% odd was License, 62.6% was the Implementation, 17% was the Cloud and 11% was the Maintenance. Now the shift has been primarily because last year in the same period we did not have CoverAll which obviously comes with perpetual license fee that was there in the last year and less amount of Cloud.
- Kaustubh Bhubna:** Also, could you just, this question is very similar to what the previous guy asked up, but I mean I just had a question on your three-year plan, I would assume right now, as you said, 2016 with in comparison to US standards in your first year of your plan, right, based on all your investments?
- Ketan Mehta:** Yes.
- Kaustubh Bhubna:** So, how do you see yourselves go about in your plan for FY17 and FY18?
- Farid Kazani:** So, when we put out our financial goal for this three years which was at the end of March 2018, we said that the year one will be the year of investments, year one will be built up of the revenues. So in the full year we achieved the year, we made the investment, we achieved a good level of order booking and backlog built up. Year two is the year of revenue growth, obviously, which is what we are targeting this year. And year three will be further expansion of profitability. So, clearly for us this year has to be a year of built up organic revenue, try and accomplish some of the acquisitions that we have in the pipeline, improve our profitability by the end of the year and create that as a strong base and platform for a strong in the next year, both on revenue and profitability.
- Kaustubh Bhubna:** Would you, I mean, I would realistically say that no one reaches, it is tough to reach here 100% efficiency to your target, but do you think you can get till like 95% of what your target was?
- Farid Kazani:** Again, I did allude to this earlier also that we are not specifically commenting on the FY18 numbers in terms of whether it is achievable or not achievable. Good part of it is linked to the acquisition, if you are able to close out an acquisition which is as soon as possible and at a size and value and which gives us great amount of benefits, I think we will be in the closer to the range that we are talking about. But if the acquisitions do not happen or if it gets delayed or the value itself is much lower, than obviously we will see our self-falling short of that overall number. Now, I cannot determine at this stage and tell you how much we will be, whether we will be at 170, 180, 190 or where, it is difficult to put out a number right now. But if you look at purely the organic numbers, if you are today right now run rating at \$32.5 million a quarter and if we look at how we would end the year, at the end of the year what will be the Q4 run rate, and next year if we get decent organic growth, we should do a fair bit of that \$200 million in the next year.
- Moderator:** Thank you. Our next question is from the line of Ravi Menon from Elara Securities. Please proceed.

- Ravi Menon:** I have two questions. One is that, I think you had said earlier in Q3 FY16, if I remember right, most of the growth for your FY18 goals will be organic and you are looking at your historic growth it has been +20% CAGR. So just now the comment seems to serve that a lot of it is going to be inorganic. So just wanted to make sure that I understand this right.
- Farid Kazani:** There is a fair bit of inorganic that we will need to happen to reach that \$200 million odd, but I think we are fairly confident of being a decent kind of an organic growth in this year and if we do a good order booking, it will give us a good platform for doing a very strong organic growth in the next year.
- Ravi Menon:** And secondly, trying to look at the cost as a support part of the revenue, if I understand this right, license fee and support revenue are very much interlinked and support is coming from kind of license maintenance fee that customers pay you in the years after you make a license sale. So there was really not much cost associated with that, would that be a fair assessment?
- Farid Kazani:** There is no cost associated with license but there is definitely cost associated with the support and maintenance.
- Ravi Menon:** But would you say that that is higher margin than your Professional services?
- Farid Kazani:** The support and maintenance would be at a margin of anywhere close to around 45%.
- Moderator:** Thank you. Our next question is from the line of Mayank Babla from KRChoksey Shares. Please proceed.
- Mayank Babla:** Actually it was a bit broad based on the industry, we constantly are reading like Majesco is being compared to the likes of Guidewire and the other big firms which are dealing in this industry. What my question is, what is Majesco doing differently on a strategic basis that will help you catch up to that, at least partially to that stage?
- Ketan Mehta:** So, clearly what we find in the industry, there are 50 to 60 vendors who are offering the core platform, if I focus on P&C market which is close to 80% of our business, what we do find is that the market is getting consolidated in the top 4 or 5 - Guidewire and Duck Creek being prominent competitors in the marketplace. Now, our essentially business model and the value proposition in the market is different compared to some of the competitors. I think the key areas where we differentiate is our engagement model, we have a single point of accountability, relatively lower cost of ownership as well as a bundle services which are important in a cloud area where they give platform along with the bundle service as a package set of solution for the client which differentiates Majesco when compared to some of the others in the industry. And if I look at our winds coming up in the last couple of quarters, it is mainly on account of some of the reasons I mentioned.
- Mayank Babla:** And my second would be a follow-up, for example, just a hypothetical situation, there are 10 clients, what is the probability or what is the scenario where how many clients out of those will Majesco will be able to acquire as compared to these bigger peers?

- Ketan Mehta:** So it is difficult to say as each of the competitors do not operate in all the opportunities, every one focuses on their sweet spot, on their target area. So, for example, Majesco is very strong into specialty lines and commercial line insurance, we have a pretty good engagement model suits well to the mid-market insurer. So these are some areas where our win ratios are better than competitors. So each of us focus on to the areas of the strength where we tend to build upon a greater success.
- Moderator:** Thank you. Our next question is from the line of Harit Shah from Reliance Securities. Please go ahead.
- Harit Shah:** Farid, I just had a query about the reason why you feel that the second half will be stronger, if you could just try and give some minimum granular understanding as to why you believe this is likely to be the case? Is it because we were expecting some incremental orders or is it more a result of increasing ramp up of your existing order wins, some sort of detail on that will be quite helpful. Thanks.
- Farid Kazani:** So, Harit, a couple of things. We did say that there has been right shifting of the orders that we would have wanted to have come in Q1, but we could see that in the following quarters. And second is that the pipeline itself is showing good signs of increase as compared to what we saw a quarter or two quarters back. And again, within that, both P&C and L&A are looking good, with P&C showing good kind of cloud deals between 60% to 70% of the deals are on cloud. So considering that where we stand in terms of positioning on these deals at a stage at which they are, so we do feel that optimally the second half is going to be much better which helps us to feel that we should do a better order booking and a better revenue build up as compared to this quarter in the first half.
- Harit Shah:** And secondly, sorry to push this on your target or your aspiration as far as FY18 is concerned, so you had mentioned that a significant part of it is inorganic, so \$200 million odd is your approximately kind of an aspiration for FY18. So of that maybe if you could specify how much do you think or how much are you, maybe, targeting through acquisitions, any color on that?
- Farid Kazani:** I did say that, Harit, it is going to be very difficult for me to kind of conjecture any amount on the acquisition because it will all depend upon what acquisitions fold in and what is the size and timing of that. I think at this stage it is going to be difficult for me to share any of that break-up. But as I mentioned, the organic is still strong, it is still good.
- Harit Shah:** And one more final question from my side, are you see any kind of impact on account of Brexit that you have seen, as for Bank of India has gave some comments that they are seeing an impact in terms of reduction in investment commitments by UK firms because of Brexit. So are you seeing or maybe, are you getting any indication that this might impact your UK business because of the Brexit issue or nothing of that sort at this point?
- Ketan Mehta:** No, at this point we do not find any significant impact from our client base as well as the prospects on account of that. I think, as Farid mentioned, earlier the only place where we see



impact and not a very strong impact on us is on account of the Pound devaluation. But since UK is only 7% of our business it is not a very material impact to us even from that perspective.

**Moderator:** Thank you. Ladies and Gentlemen, that was our last question due to time constraint. I now hand the conference over to the management for closing comments. Over to you.

**Ketan Mehta:** So, thank you everyone for your interest in Majesco and I look forward to speaking with you in the next quarter. Thank you.

**Farid Kazani:** Thank you very much.

**Moderator:** Thank you very much, Members of the Management. Ladies and Gentlemen, on behalf of Majesco, that concludes today's conference call. Thank you all for joining us, and you may now disconnect your lines.