



## “Majesco Limited Q1 FY19 Earnings Conference Call”

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Majesco Q1 FY19 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘\*’ then ‘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 IR. Thank you and over to you ma’am.

**Asha Gupta:** Thanks Lizann. Good evening to all of you. Welcome for joining Q1 FY19 Results Ended June 30, 2018, of Majesco Limited. Please note that the results are being 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 Limited and Founder & CEO of Majesco US, and Mr. Farid Kazani – Managing Director of Majesco Limited. We will start the call with a brief overview of the quarter which will be given by Mr. Mehta and that will be followed by Mr. Farid who will go into the detailed financials. We will then follow this with Q&A session.

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

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

**Ketan Mehta:** Thank you Asha. Good evening everyone and welcome to this conference call.

I am encouraged by this strong start to fiscal 2019 reflecting the solid execution of our growth-oriented business plan and successful transition to a cloud based operating model. First quarter results reflect the fourth consecutive quarter of revenue growth and profitability improvement. Revenue for the quarter grew to Rs. 229.4 crores which is 25.6% growth over the same quarter last year. Cloud revenues increased by 74.2% compared to the same quarter last year and now represent 36% of our revenue compared to 26% of our revenue for the same quarter last year.

Majesco’s profitability has strengthened as well, due to overall revenue growth, which is being driven by high margin cloud-based sales. Adjusted EBITDA as a percentage of revenue was 10.1% during the fiscal 2019 first quarter, a nearly 1079 basis points improvement for the same quarter last year and 71 basis points higher than the fiscal 2018 fourth quarter.

So, with this overview let's look at what is driving our results.

Business activity was favorable across many of our products in geographic markets, reflecting a growing momentum towards Digital Insurance 2.0. Across the industry, the insurance carriers are redefining and transforming their business to create compelling customer experience, meet new customer expectations, develop new innovative products and services and enter new markets

all in support of their growth strategies. To successfully accomplish these new growth strategies, they are increasingly seeking innovative forward-thinking strategic partners who provide the experience, expertise and next-generation platform solutions like Majesco and deliver them with speed and agility.

Cloud is becoming the deployment option of choice for insurer. Majesco's cloud platforms are becoming the solution of choice because of their low investment risk model with pay as you grow pricing, low upfront costs, with the ability to test and learn and speed to value. In addition, with our growing ecosystem of partners, our cloud platform solutions integrate innovative capabilities from InsurTechs and others such as artificial intelligence, machine learning and new data sources that are not easily available on on-premise solution. As you have seen over the past several years, Majesco has developed a leadership position in cloud platform solutions for insurance carrier and we now have 38 cloud customers, up from 32 customers a year ago.

We are working to expand Majesco's leadership in the cloud and during the quarter we officially launched Majesco's Digital1<sup>st</sup> Insurance platform, an innovative next-generation digital and micro services-based platform. After three years of development, we deployed this new offering through a new greenfield digital business unit. The potential for Majesco Digital1<sup>st</sup> is exciting and we have seen a strong interest in the offering in the first couple of months since the launch.

During the first quarter, we also announced the release of Majesco Life & Annuity and Group Core Suite. The new suite, version 10.0 includes Policy, Billing and Claims which supports individual, voluntary benefits and group insurance on a single platform to support the rapidly changing market demographics and innovative products demanded by group insurance customers.

One of our cornerstones for cloud leadership is our partnership with IBM. The MetLife program represents one of the largest cloud deals in the industry and our joint IBM and Majesco team are focused on the successful implementation of this cloud platform solution. Overall, our IBM partnership continues to gain momentum with a growing pipeline and we are actively pursuing several opportunities with Tier-1 and Tier-2 insurance carriers in both Life & Annuity and the P&C market globally.

During the quarter, a leading third-party administrator with a wide range of P&C programs selected Majesco P&C solutions including Policy, Billing and Enterprise Data Warehouse and Business Analytics to replace their legacy and support their platform growth strategy.

We believe that delivering speed to value remains our key differentiator. During the quarter, we had four Go-live events demonstrating the real-life examples of delivering speed to value to our clients. Majesco's P&C Billing went live in 90 days for a Tier-1 greenfield customer. Majesco's Policy and Billing for P&C went in production for commercial property and GL in 7 weeks for an InsurTech start up and Majesco's Policy and Billing for P&C for dwelling fire went live in 19 weeks from another InsurTech start-up. American Capital Assurance Corporation went live in 8 months with Majesco's P&C Core Suite inclusive of Policy, Billing and Claim.

Our first quarter results reflect growing momentum and strength in Majesco's business and the successful transformation to cloud-based model. Trends in the insurance industry are driving a shift to digital and cloud platform solutions to enable growth strategies and shift to Digital Insurance 2.0. Our solutions are uniquely positioned to benefit from this shift and we are excited about the opportunities to grow our business in fiscal 2019 and beyond.

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

**Farid Kazani:**

Thank you Ketan and good evening to everyone on the call.

I am pleased to summarize the first quarter financials of fiscal 2019. As Ketan mentioned that this is the fourth quarter of consistent improvement in the revenue and profitability performance of Majesco and we are pleased with the way the business is shaping up and hope to continue this positive improvement quarter over quarter.

Let me innumerate the key highlights on the overall performance.

The operating revenue for Q1FY19 was Rs 229.4 crores, reflecting an increase of 25.6% year-on-year and 5.9% sequentially in rupee terms. In constant currency terms, the operating revenue was up by 19.2% YoY and 1.9% QoQ basis. The growth came on account of the ramp up in our IBM program and increasing business momentum from new logo additions that we had in the previous quarters. In terms of total revenue for Q1FY19 we ended up with Rs 236.4 crores, reflecting a growth of 28% YoY and 6.7% QoQ basis in rupee terms. The adjusted EBIDTA for the quarter under review stood at Rs 23.2 crores which is 10.1% of the operating revenue as compared to an EBITDA loss of Rs 1.2 crores which was (-)0.7% of the operating revenue in the last year first quarter, indicating an improvement of 1079 basis points on a year-on-year basis while sequentially it improved by 71 basis points. The higher adjusted EBITDA margins were a result of better revenue profile supported by cloud business. Overall revenue growth combined with a more profitable mix of revenue and operating leverage drove the increase in profitability. Our net profit for the quarter under review stood at Rs 14.9 crores, reflecting a significant improvement year-on-year and a 48.1% improvement quarter-on-quarter basis.

The total revenue from cloud base customers was at Rs 82.4 crores which is 35.9% of operating revenue for the quarter ended 30<sup>th</sup> June as compared to Rs 67.9 crores which is 31.3% of operating revenue in the quarter ended March 31<sup>st</sup>, 2018 reflecting a growth of 21.4% on a quarter basis and up 74.2% as compared to the Rs 47.3 crores which was 25.9% of the operating revenue in the corresponding quarter ended June 30<sup>th</sup>, 2017. The cloud subscription revenue was at Rs 22.2 crores which is 9.7% of the operating revenue for the quarter ended 30<sup>th</sup> June, 2018 as compared to Rs 19.4 crores which was 18.9% of the operating revenue for the quarter ended March 31<sup>st</sup>, 2018 reflecting a growth of 14.5% on a quarter-on-quarter basis and up 35% as compared to the Rs 16.4 crores in the corresponding quarter ended 30<sup>th</sup> June, 2017. The total recurring revenue was Rs 70 crores which is 30.5% of operating revenue for the quarter ended 30<sup>th</sup> June as compared to Rs 61 crores which was 28.2% of the operating revenue in the quarter

ended 31<sup>st</sup> March 2018 reflecting a growth of 14.6% on a quarter basis and 49% as compared to Rs 47 crores which was 25.7% of operating revenue in the corresponding quarter ended 30<sup>th</sup> June, 2017.

Over the past 12 months, Majesco's revenues has been subject to a significant shift in the mix. While the revenues from on-premise implementation have declined 7.5% on a year-on-year basis, cloud revenues have increased 74.2% to fully mitigate this decline. We continue to believe that positive impact of a growing base of cloud revenues will more than offset the decline on on-premise implementation revenues.

The 12-month executable order backlog stood at Rs 571 crores which was \$83.4 million as on 30<sup>th</sup> June 2018 as compared to Rs 606.5 crores which was \$92.6 million at the end of the previous quarter ended March 2018 reflecting a drop of 5.9% quarter-on-quarter basis.

We added two clients during the quarter. Our total active clients are now at 175 and the number of cloud customers now stand at 38 at the end of 30<sup>th</sup> June, 2018. In terms of client concentration, the top five constituted 30.5% of the revenue and the top 10 constituted 45.3% of the revenue at the end of Q1 FY 2018.

We continue to make the investments in our product development. The R&D expenses for Q1FY19 stood at Rs 32.7 crores which was 14.3% of the operating revenue as compared to Rs 30 crores which was 13.8% of the operating revenue in Q4FY18 and Rs 25.6 crores which was 14% of the operating revenue in Q1 of the last year FY18. The increase in the R&D expense was focused on enhancing our cloud and digital offerings.

From a geographic standpoint the North America, UK and APAC regions represented 88.2%, 4.2%, 7.6% respectively for Q1FY19 as compared to 88.4%, 5.3% and 6.3% respectively for the Q1 of last year's fiscal FY18. In terms of business split, the P&C represented 72.7%, Life and Annuity represented a 26.3% in the quarter Q1FY19 as compared to 80% and 19% respectively for Q1FY18. The employee headcount stood at 2,486 at the end of June 2018 as compared to 2,472 at the end of the previous quarter.

Turning to the balance sheet, the total debt as of 30<sup>th</sup> June 2018 was Rs 91 crores as compared to Rs 91.9 crores at the end of March 2018 whereas the cash and cash equivalent grew up to Rs 422 crores at the end of June 2018 as compared to Rs 398.6 crores at the end of March 31<sup>st</sup>, 2018. DSOs at the end of June 2018 have remained more or less constant at close to 80 days as compared to March 2018.

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

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ganesh Shetty, an individual investor. Please go ahead.

- Ganesh Shetty:** This quarter has seen a significant change in our business model as we are migrating towards cloud. Cloud revenues have significantly contributed during this quarter. Do you think that going ahead that trend will continue, and we can see a better margin picture during the rest of the quarter during the year? Can you please throw some light on this?
- Farid Kazani:** This quarter had a pretty good shift in the cloud revenues and we expect that this 36% cloud revenue should increase by the end of the year and as you said the model is right model to be in which pays a better overall revenue profile and an improved profitability. So, with cloud revenues growing we would see a much better profitability metrics going forward.
- Ganesh Shetty:** My second question is regarding digitalization in insurance sector and as we have indicated that more and more customers are moving towards digitalization and our technology is really shaping up, can we now believe that Majesco's story has really started to pick up and we have a great future ahead with our capabilities and our technological strength?
- Ketan Mehta:** Absolutely true, we believe that we have a very differentiated story in this. As you know, we started on cloud quite early and adopted cloud platform, started investing on building a very strong platform solutions and that along with the IBM partnership has generated significant momentum for our cloud base platform solutions. As we mentioned, we also announced our new Digital1<sup>st</sup> platform which is cloud only platform, its multi tunnel, so we believe that our platform solutions are addressing the key challenges in the insurance industries for years to come and that should continue to drive the increased traction in the market for our solutions.
- Ganesh Shetty:** My last question is regarding QIP issue which you had in recent time and now we have got sufficient cash balance in our balance sheet and is it sure to believe that we can go for some good acquisition where we get an opportunity so that we can increase our revenue and we can increase the market share in the insurance tech sector? Can you please throw light on this?
- Farid Kazani:** We are obviously comfortable with the current cash position and that has helped us to build a decent chest for doing strategic acquisitions. Our focus would be to acquire assets in the Data Analytics and Digital space or a simplified course solution in an adjacent market. We are closely reviewing certain targets in these specific areas in North America and some of them outside of North America. However, these targets are moving in the sense they are through a sales process, so there will be multiple bidders and the valuations right now are definitely at a very high, so we are mindful of that fact. We will do and bid for an acquisition only if it meets certain criteria for us, both strategically and financially. So, whenever we get closer to signing up a LOI or closing a deal we will keep the markets informed.
- Moderator:** The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.
- Rahul Jain:** Just wanted to understand this cloud implementation, we saw the obvious reverse jump in the revenue sequentially, is this led by higher Go-lives or is it function of milestone-based revenue?

- Farid Kazani:** If you look at the breakup of the 36.5%, there has been increase in the subscription by almost 15% and there has been an increase in the rest of the implementation. So, it has increased both in the overall subscription means the business on the platform and it has increased in implementations building up on these cloud deals, including the minor ramp-up that happened in the IBM project, so that's the precise reason.
- Rahul Jain:** If you look at Q-o-Q it's like good jump of 24%, so is it to do with more billing in a particular quarter or how it works?
- Farid Kazani:** No, it is not in terms of billing. The way we recognize revenue is on the effort basis and in terms of the work that we have carried out. The billing is done on specific milestones and or going live, so it's not related to billing, but it's based on more resources and efforts that has gone into particular quarter.
- Ketan Mehta:** So, as you know over last couple of quarters our most of the new deal wins have been on cloud and as the implementation picks up on those cloud deals, the revenue tends to go up.
- Rahul Jain:** I was trying to see it this way that if last year YoY quarter if the revenues almost doubled on the implementation and number of customers would have moved from 32 to 38. So, how many of these 38 customers would also be helping us in implementation revenue? The companies obviously which goes live would not have this component?
- Ketan Mehta:** That is correct. This is only the customers who are in the implementation cycle. In some way you should also look at implementation revenue as a leading indicator for increase in subscription revenue because all the implementation work which is going on right now will translate into higher subscription revenue and the clients go live.
- Rahul Jain:** Let me put in different way, so if I have to see this current quarter implementation revenue on cloud, how many customers are giving this number versus the previous corresponding quarter how many customers are contributing to that number, maybe a rough number would also help.
- Farid Kazani:** I think there will be more than 20 odd customers giving us this subscription. However, the top 6 customers would be giving bulk of that subscription.
- Rahul Jain:** Implementation is what I was asking about.
- Farid Kazani:** The implementation would be the rest of the customers that are at some stage or the other in implementation and the balance are on subscription. So, there will be around close to 10 to 12 implementations going on right now.
- Rahul Jain:** This was same number would be like 5-6 customers in the corresponding quarter, is it?
- Farid Kazani:** Yes, if you look at it last year we had won almost 7 of the 9 deals in the US on cloud and those 7 deals are in implementation and some of the customers have gone into subscription. So, bulk

of these 7 are right now also implementation. The fact is that in this quarter good part of the 4 have gone live now and hopefully we should start building on subscription going forward.

**Rahul Jain:** So, the point I am trying to understand here is that this is a very strong growth and so far our cloud implementation revenue has been strong even on a sequential basis for the past several quarters. But technically there could be quarters where it would go down even on a QoQ basis, so how we need to model this?

**Farid Kazani:** You are right Rahul, so the fact is that as long as we get more customers on cloud we will keep on getting the implementation. But as we see a large implementation like MetLife when it goes live, there will be obviously a drop in that implementation and that will then move to a subscription where the subscription starts with the small amount and then it will build later. So, yes, there could be some lumpiness in that particular quarter and a drop thereafter. We still believe that we have good traction on the cloud deals and hopefully we should see this building further on new cloud deals coming in.

**Rahul Jain:** What part of our on-premise license are now term based or all of them are term based at the moment?

**Farid Kazani:** Most of them are annual license, there are couple of clients which are term based largely in the Asia Pacific and India region but those are very small quantum. I would say significant part, more than 90% of it is annual license.

**Rahul Jain:** So, this run-rate should moreover remain same even if we don't add new on-premise deals?

**Farid Kazani:** Yes, that should remain same, I said (+90%) is annual license.

**Rahul Jain:** While we see this implementation keep on going down for the on-premise side, so if you could firstly give of the breakup of this professional service in terms of IT services, revenue and implementation?

**Farid Kazani:** If you look at in this quarter, we would have roughly around 32% as the IT implementation revenue out of the total revenue here.

**Rahul Jain:** This is only on... you mean to say....

**Farid Kazani:** On-premise implementation. This quarter it was close to 32%.

**Rahul Jain:** Of the total revenues?

**Farid Kazani:** Yes, of the total revenue in this quarter.

**Rahul Jain:** But this also includes the IT services part?

**Farid Kazani:** No, the IT services is besides this, I am just talking about IP implementation.



- Rahul Jain:** So, what revenue would be IT services?
- Farid Kazani:** IT services was a little lower. I don't have the exact number, but it will be closer to 20% to 22%.
- Moderator:** We will take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** In one of the queries you mentioned that the kind of profitability we have seen we are looking at much better profitability driven by maybe shift to a higher cloud revenue?
- Farid Kazani:** Yes, that's right.
- Deepak Poddar:** What sort of share of cloud revenue you are targeting in next two years?
- Farid Kazani:** We have not given any specific guidance but between the last year and this year there has been a shift of almost 10% based on traction. And we believe that it will continue with this momentum. So, we are not guiding any number, we would be definitely looking at how best to reach at least a 50% in quick time. But it all depends upon a mix of revenue that comes in between cloud and there could be some on-premise deals.
- Deepak Poddar:** Does that mean that my EBITDA margin which is currently maybe 8-8.5% can go up to 10-10.5% as our cloud revenue increases basically?
- Farid Kazani:** Yes, that is one factor. The increase in the EBITDA margins is a function of two areas, one is the revenue profile that helps to increase the overall gross margin in the business and the second is the operating leverage. On a higher revenue how much of the fixed cost will get amortized. So, to that extent there is also possibility for us to extract some bit of improvement in margins because of an operating leverage.
- Deepak Poddar:** In terms of revenue profile also does the kind of growth we have seen this quarter, is that a sustainable kind of growth because we have seen quite a decent growth.
- Farid Kazani:** Again, we are not guiding to any quarter-on-quarter revenue increase or a year forecast. We are seeing good momentum, we have seen growth in the last four quarter and that growth has been strong on the back of a good backlog in order booking. We are expecting a good order booking which will again help to give us a much better order booking by the end of the year and we expect to keep the momentum on the revenues going forward.
- Moderator:** The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** My question is related to cloud implementation revenue so earlier in the last two quarters the cloud implementation was the sequential growth rate was around 8% to 6% which has jump to 24%, so in this 24% can you assume that the IBM implementation would be around 7% to 8% and the rest would be from the around new deal wins because if you see the growth in the top

five clients because it is where the IBM suits so the top five book has been flattish can you explain how much is the IBM and how much is others?

**Farid Kazani:**

So, IBM revenue in this quarter would be close to around 13% and I just like to correct some of the number that I just gave earlier I am correcting as if the on-premise revenue was 25.6% in this quarter not 32% so I am correcting that. So, coming back to your question on the growth in this number IBM obviously is constituting a good percentage. When IBM gets into production basis there will be a drop in the implementation revenues from the IBM and MetLife deal and we would then see build up in the subscription revenue. However, as I mentioned that as we see good traction on deal momentum there will be implementation revenues that will keep building from the other cloud deals that will come in. So, right now the combination of the cloud implementation which is around 26.5% and cloud recurring subscription is 10%, so we would see a range of anywhere between 35% to 40% in terms of how we end up on total cloud revenue for the year.

**Amit Chandra:**

Sir on the total TCV number that you mentioned last quarter it was \$216 million so what is the corresponding figure for this quarter and if you could provide that how much is fresh renewals?

**Farid Kazani:**

Last year the total orders that we closed in 12 months ended March 2018 was the India number put together was \$220 million. It included one large order which was the MetLife IBM that came in the first quarter because we have closed it in June of 2017. So, when you look at this quarter it has been a softer in order booking. We are expecting to do similar kind of overall order booking for the full year, but as the first quarter has been little softer we expect the momentum to increase from this quarter onwards.

**Amit Chandra:**

Also, on the IBM partnership so it has been a year that we have announced it first deal. so what is stopping us or what is the reason why we are not able to announce any another deals from the IBM channel is that longer sale cycle or the something related to macro reason?

**Ketan Mehta:**

No I think it is the longer sale cycle especially with IBM. We are targeting Tier-1 and Tier-2 clients both in P&C as well as in Life & Annuity sector and given the size of the client and strategic nature of the decision it takes longer, but we have some very active pipelines and few opportunities in the advanced stages so we feel the market traction momentum is strong it is just that some of these based are getting right shifted.

**Moderator:**

The next question is from the line of Madhu Babu from Prabhudas Lilladher Pvt. Ltd. Please go ahead.

**Madhu Babu:**

Sir which are the modules which you are seeing strong traction on the cloud side?

**Ketan Mehta:**

It is across the board – Policy, Billing and Claims. So, majority of our new deals are suite deals which means the client tend to take the complete Policy, Billing and Claim solutions from Majesco. There are few deals which are only Billing deals. The Billing is certainly our strong solution, but most of the deals are the suite deals which combined everything.

- Madhu Babu:** And just this order book I think the number has not been given trailing 12 months last quarter it was \$220 million. The corresponding number for this quarter and why is the sales head count declining?
- Farid Kazani:** So, the corresponding number for this quarter will be close to around \$165 million of as I said last year included the large order of IBM MetLife that came in the June 2017 and to answer to your second question it is not a decline in the sales guys. There is a part of the support team which was part of centre of excellence within our IT services team which have been regrouped and put as part of delivery because they are now supporting delivery of some projects because we needed them on delivery. So, it is a reclassification of some of the guys. Yes, we have had one exit but the rest of them are regrouped into delivery. So, that is why you see nos from 75 to 71.
- Moderator:** The next question is from the line of Shivam Gupta from CWC Advisors. Please go ahead.
- Shivam Gupta:** How is the management balancing this conundrum there the best on the asset in your space quoting a premium valuation whereas on the other hand you have white spaces in your portfolio which you I think need to fill to continue your journey over a 5 year period, just wanted your thoughts how you think to that?
- Farid Kazani:** Shivam, the valuations are based on multiple factors and we would not be able to do a discussion on this call. I think our focus as a management team is to do probably two or three things. One is to focus on core strength and our core strength has been building the technology which is relevant to customers and in the billing, the policy within the commercial lines policy, the group life and the growth and innovation platform we believe we have very strong assets and that is what we think we can sell and position ourselves strong with the customers. The other thing that we have focused on is to keep on improving our cloud and digital offering because that is what customers will be moving to both in terms of their requirement to get speed-to-value and in terms of cost advantage. And the third thing for us that we will focus on is improving profitability. So, I think for us the valuation factor is all linked to achievement of these three aspects and as long as management focus on these areas the valuation will correct on its own.
- Shivam Gupta:** One comment on the fact that couple of your go lives have been done in pretty short time like a 90 days - Greenfield go live somewhere would it be correct to say that your product is mature enough to let say that sometime in future maybe you can engage other SI kind of ticket even at a faster clef?
- Ketan Mehta:** I think products have definitely gained significantly higher maturity which helps us to deliver this speed to value. We continue to engage with number of SIs including IBM, Deloitte and others on number of program and we have some active program going on where we train some of the on our SI technology so that we can scale faster. Yes, we are absolutely on that path.
- Farid Kazani:** Yeah clearly that has been a significant shift that we have seeing in our relationship compared to the last 12 months. There are multiple SIs that we are now engaged in which one it gives us

clear confidence of our acceptability of our solutions. Secondly, is it gives us a good chance of winning into good deals, including in Tier-1 deals besides just the IBM partnerships.

**Moderator:** The next question is from the line of Dipen Shah an Individual Investor. Please go ahead.

**Dipen Shah:** I had a couple of question firstly on the R&D spent, we are consistently spending about 13% to 14% on R&D, so what in your opinion or what is the level in your opinion we have reached before or what will be that level before we need to start winding down on the R&D spend as a percentage of revenue either it could be because of revenue picking up or the product development reaching a kind of a level where we can afford to have a lower R&D spend something on that will be helpful and the second thing is on the IBM deal we were probably the preferred or the first or the second vendor with whom they wanted to tie up guidewire was also there. For some reasons they did not go with Guidewire and they came to us, is there any further competitive intensity because this contract is not exclusive that is what I understand. So, is there any possibility of IBM tying up with any other player and hence we are getting a lower share of the business?

**Ketan Mehta:** Let me take your first question as in terms of R&D spend we believe that for next couple of years we must continue to be in a 14% range. I think the products are the one which gives us the competitive edge and some of the investment which we have made has really paid off in terms of giving us the strong product and resulting into more wins and as well as faster deliveries. So, we feel that for next couple of years we will continue and at some point, we may start getting leverages the revenues goes up and the percentage may come down. In terms of IBM although the partnership is not exclusive both the partners are investing and committed to each other in a very strong fashion as I said we have a growing pipeline where we are speaking to the client as a joint solution and I feel that the strategic nature of the partnership continuous to get that level of attention both from IBM and Majesco. So, we do not expect any competitive threat at this point of time, commitment levels from both sides are very high.

**Dipen Shah:** As far as the annuity revenues are concerned we have been seeing a good amount of growth in the annuity revenue, but in the management own assessment what level of total revenues can be annuity revenue grow maybe over the next two to three years and whether the management is comfortable with it rising level or is there a level which you are targeting beyond which may not want to go for annuity?

**Farid Kazani:** So, when I look at annuity I am assuming this total recurring revenue which is now 30.5% of our revenue annuity revenue is a preferred route because that gives you sustainable income and over a period of time becomes much more profitable. I do not think we are looking at considering maximum limit that we would like to go to. Our thought is to try and build as much as annuity and recurring revenue within our portfolio which helps us build cash flow and profitability. Right now we are at 30%, our goal in the next two years is to get to 50%. I would say at 50% in the two years or earlier than that and then we take the next goal and target, but certainly not limiting that I think.

- Dipen Shah:** The annuity revenue is there a profitability level which you can give us as to what kind of margin this business enjoys and then we will probably arrive at balance part?
- Farid Kazani:** When you look at annuity or recurring revenue, it is a licensee which is highly profitability almost 97%, 98% margins flowing through in terms of profitability. The AMC has a profitability closer to 50-55% margin. The subscription revenue has a leverage that starts building up as volumes get built on the platform. It can start anywhere around 50%, to 55% and go as high as 75%-odd. We are seeing certain clients with that traction and that trajectory achieved even though the base maybe smaller and as they can build further from here you can see them reaching them at a level of around 70% to 75% gross margins. So, the largest area which keeps growing in this bucket is the cloud subscription and that has potential to improve the overall profitability for the company.
- Dipen Shah:** These are the gross margin you gave us or it the EBITDA level?
- Farid Kazani:** These are gross margins level and we relate that to gross margin which we share actually in our US results.
- Moderator:** The next question is from the line of V P Rajesh from Banyan Capital. Please go ahead.
- V P Rajesh:** Farid if I heard you correctly, you said your backlog has come down from \$220 million to \$165 million, so I was wondering if you can just give more color on decline in that number?
- Farid Kazani:** So, Rajesh let me correct you, it is not the backlog. I think there has been some kind of communication gap where the total order booking that we have had for last year at \$220 million is being considered at total backlog. It is not the total backlog. The backlog that we report is a 12-month executable backlog which is a cumulative of orders being executed in the next 12 months and those could be out of orders that were bagged across years in the last year and in the previous year also. So, to answer your question the \$ 220 million was the order booking in the last year April '17 to March '18. We would be looking at this year also to be strong in order booking. This first quarter has been softer and to that extent when you look at the trailing 12 month order booking, it is approx. \$ 165 million and also due to the MetLife IBM order that was higher and that came in the quarter of April to June 2017.
- V P Rajesh:** So, \$220 million just to make sure I understand this right was the total order booking in the last financial year which is what was the same number as the overall for a lack of better word backlog for the entire last year plus the year prior to that, is that the right way to think about it?
- Farid Kazani:** No, you please relate that as only order booking. The total backlog will be a function of all the booking that is booked across multiple years and outstanding which would be executable in next 12 months and beyond 12 months. The \$220 million is the nos for order booking that we achieved in the 12-month last fiscal year.
- V P Rajesh:** So, what is the total number total backlog which includes previous year at this point in time?

**Farid Kazani:** So, we do not give the total cumulative backlog nos or backlog beyond 12 months for competitive reason. However, what we give is only a 12-month executable backlog which now stands at \$83.4 million as compared to \$92 million that was there in the previous quarter.

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

**Amit Chandra:** So, just to provide macro picture in the US, so according to my understanding a lot of Tier-2 and Tier-3 peers insurers are going to replace their core and if you could provide a number that how many players are there who are actively looking to replace the core and what is the timeline related to it and when we can see absolution in the signing of deals there?

**Ketan Mehta:** Amit, it is number of analysts tracing these types of statistics, there is no clear answer and the reason for that majority of this implementation replacement of legacy happens in a phased manner. So, some carriers would have done it for one lines of business, but they still have not done it for another lines of business and there are opportunities there in the same carrier. Some carrier may have done let say billing solutions, but not the policy, etc., overall our assessment is that that the modern system which have been implemented is in the range of around 25% to 30% and 70% of the market is still using legacy system who will replace it in next couple of years. So, there still continuous to remain strong, untapped opportunity. However, what we also find is that mostly what carriers are doing is that putting more focus on launching new businesses, Greenfield initiatives and taking the cloud-type platform to launch that and once they do that they slowly takeover the legacy business and then take them new platform where they are putting that is why we find traction in the Greenfield initiatives in both Tier-1, Tier-2 and a smaller tier account.

**Amit Chandra:** What I have been reading somewhere is around 1000 P&C players are there in the US who are looking for upgrade the reason for that is because if you want to improve your frontend or improve your offering the digital offering that you are seeing in the banking space. The first step is to replace your core and then you can offer these kind of new age services on top of that so that is why I thought that right now it is the right time and all the players are looking to replace it?

**Ketan Mehta:** So, Amit what we find is that people are taking different approaches depending on what it makes sense. There are companies who prefer to add a digital layer on top of their current legacy system and offer a much better customer experience, but inherently if they really want to improve that the core replacement is required, but the sequencing is different some carriers are taking digital layer first and then going on to the back-office replacement, some companies are taking the replacement first addressing the core legacy issues first as well. So, we find both types of decision taken by the insurance carrier.

**Moderator:** Ladies and gentlemen we are taking the last question that is from the line of Rahul Jain from Emkay Global. Please go ahead.

- Rahul Jain:** My next question is in terms of the AMC revenues we saw a strong jump in this quarter from a sequential basis, is it like some of the old deals went live during this quarter on the on-premise side and what should the kind of run rate we should build based on the existing on-premise which are in pipeline?
- Farid Kazani:** Rahul the increase in the AMC is for two reasons. One is natural in terms of some of the clients that went into AMC. Secondly, we have some of the India projects there we did not break up under AMC specifically until last year, so we have just reclassified some amount which is a small quantum, and this is the run rate you will probably see going forward.
- Rahul Jain:** How many deals on the on-prem side must be under implementation at the moment?
- Farid Kazani:** I do not have exact number with me Rahul, but I can come back to you.
- Rahul Jain:** Just a bookkeeping, do we are sharing more order book data or just this \$83 million data is what we would be sharing going forward?
- Farid Kazani:** Rahul I think the numbers to be tracked, is the number of clients that we are winning and this 12 month executable order backlog itself. At this point in time we are not sharing anything more than this for competitive reasons.
- Rahul Jain:** What is the cash and debt level?
- Farid Kazani:** I did mention gross cash is I said around Rs 422 crore and debt was Rs 91 crores.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comment.
- Farid Kazani:** Thank you everyone who are on the call for your question and your continued interested in Majesco and looking forward to interacting with you and even talking to you in the next quarterly call. Have a good day.
- Moderator:** Ladies and Gentlemen on behalf of Majesco Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.