ramco

August 02, 2021

National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
Plot No:C/1, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051
Scrip: RAMCOSYS

BSE Ltd.,
Corporate Relationship Department
Phiroze Jeejheebhoy Towers
Dalal Street, Mumbai – 400 001
Scrip: 532370

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Further to our intimation dated July 28, 2021, regarding analyst/ investors call, please find enclosed the gist of the points discussed based on the presentation made and the fact sheet as on June 30, 2021, in the Con-Call held on July 29, 2021.

The aforesaid intimation is also being hosted on the website of the Company www.ramco.com.

Kindly take on record the same.

Thanking You,

For **RAMCO SYSTEMS LIMITED**

RAMCO SYSTEMS LIMITED CHENNAI 600 113

VIJAYA RAGHAVAN N E
COMPANY SECRETARY

Debrief of Analysts & Investors call for Q1/ FY 2021-22,
Held at 4.30 pm on Thursday, 29th July 2021 - through Microsoft Teams

From Ramco Systems Limited, **Mr. P R Venketrama Raja,** Chairman, **Mr. Virender Aggarwal,** Chief Executive Officer, **Mr. R Ravi Kula Chandran,** Chief Financial Officer, **Mr. Sandesh Bilagi**, Chief Operating Officer, **Mrs. Gayathri R**, Vice President - Finance and **Mr. Vijaya Raghavan N E,** Company Secretary participated in the call.

R. Ravi Kula Chandran (CFO) welcomed the attendees and thanked them for joining the con-call. CFO informed that the agenda for the call would be opening remarks by CEO explaining the performance with a presentation for Q1/FY 2021-22, followed by the views of Chairman and question and answer session.

Business Updates by CEO:

CEO has shared the presentation - outlook for each business line and outlook for the coming year.

- Q1 FY 2021-22 ("Q1") Revenue stood at $19.23 Mn as compared to $20.60 Mn in Q4 FY 2020-21 ("Q4")
- Q1 Bookings down $19.74 Mn compared to $23.52 Mn in Q4
- EBITDA 1.92 Mn as against $4.61 Mn – 22% in Q4
- Q1 Net Loss $1.22 Mn as against Net Profit $1.02 Mn in Q4

Borrowings continue to be NIL as at the end of Q1. Cash flow is positive. Last financial year, we repaid close to Rs.100 Crs in borrowings. We continued to maintain cash positive outlook. Booking was relatively lower than normal due to some deals got deferred and booked early in Q2 FY 2021-22 and another was complete lockdown in Asia, which is our main market - countries like Malaysia, Indonesia, Philippines and few others - affected the business significantly. The prospects here traditionally prefer meeting in person, shake hands and give business and now they are doing remotely and also usually sign the documents physically and so this resulted in muted Q1 bookings. Revenue was muted in Q1 primarily because, a large aviation deal of 5 M plus, came as a pure cloud SaaS model, unlike other Aviation deals, which usually come with licence component. So, the revenue that we normally get in these types of deals did not happen. As we discussed in the previous call, we move towards software as a service model, whereby which are subscription rather than upfront license, continues to move whereby at a company level, it got reduced to 16% revenue from license, compared to 24 - 25% in the previous years. HR payroll business further came down to 12%, that was one of the key factors for muted Q1 revenue, apart from lower bookings which resulted in lower Q1 revenue. Otherwise, the other factors are normal in terms of accrual of services and other matters.
Q2 FY 2021-22 ("Q2") had a good start for the month of July 21. We have a hope for significantly sizeable deal in HR and payroll business and we should be in upwards of $25 Mn, which has been the norm in the past with that deal happening. But if that deal did not happen, we will be similarly in the Q1 level. But there is a good chance of happening. Q3 and Q4, we have sizeable deals in both HR and payroll business and in Aviation as well. We have enough number of deals close to 15 of them, which are sizeable. Even if we close two of them in each quarter, we should be upwards of $30 Mn in terms of booking. This is outlook for the coming year.
Overall pipeline is well in upwards of $500 Mn, of this - Aviation is $150 Mn plus and HR and payroll business continues to be $250 Mn plus, ERP and logistics are relatively muted but, we are seeing logistics beginning to pick up again. In terms of region trends, US business booking has been very strong last year. It grew almost a hundred percent year on year. This year also the first quarter has been good. For the Enterprise business, non-aviation business has enough opportunities coming from Oracle and enough business closing from that partnership gives hope

that US centered business will be contributing to the growth. Australia, we are beginning to get invited to very large deals. We continue to have some growth in European business - both for enterprise business and for our Aviation business, which is primarily because of the large deal in Iberia - $10 Mn plus deal we won last year resulted in our name being spread in the market and receiving some positive lights. Asia lockdown is continuing to be troublesome. We had the lowest booking in past 3 - 4 years in Q1 and even last year, it was a significant reduction from the previous year. It was almost half of the booking that we used to do in previous years. Asia being the biggest booking region, so it continues to affect us. Other regions – US working as normal, Europe is beginning to work relatively more freely, Australia is working with starts and stops but not long lock down like ASIA. The pipeline is more skewed towards Q3 and Q4. Large deals pipeline are known - 15 deals mentioned are more than $5 Mn TCV, out of which 8 are in aviation and 7 are in HR & payroll business. 4 of these deals are above $10 Mn. Logistics and ERP do not have a $5 Mn plus deal at the moment right now.

Global HRP business, which is a $24 billion market with a lion's share of 63% is from North America, other markets are also significant. We are one of the key players in this market. What makes our HRP product unique is, we have 50 plus countries on a single platform, which in our opinion no other competition has on a single source base, we have not acquired any company, while other companies acquire other companies and that's how they claim to have more countries or they use about 30 providers. These 50 plus countries soon to be 62 countries around our single platform single source with no acquisition. Increasingly we have seen the payroll providers have started building their own HCM software, which means none of the big players like Workday, Oracle want to do business with them primarily because they are becoming competition to these players. We are among the few neutral players who have a platform of its own, with no conflict of interest in the market with those HCM providers and thus getting favored by them. We have formal partnerships with Workday and Oracle and we are building connectors for them now and it should be certified soon. Entire product is available on BOTs and extensively uses the AIML - Artificial intelligence and Machine Learning and the AIML capabilities started getting deployed with one client - four and a half thousand employees just got deployed - a global multinational from US and getting deployed for a telecom provider in New Zealand and so on. So progressive deployment of AIML is taking place in the market in a continuous manner from now on. Q1 HRP bookings are one of the lowest. We have already crossed what we have booked in Q1 within first 26, 27 days of July and the fact that we have more than two months left and a possible one large deal as well, we definitely will do much better than last quarter and really exceeding the number by very significant margin compared to last quarter one exists, in case if the large deal materializes.

The focus on partnerships with Oracle and Workday had led to the significant growth through these partners. We have active pipeline going up to $185 Mn. from the partner network. There are other partners as well in this $185 Mn, but the primary drivers of this growth are Oracle and Workday which are the two of the largest HCM software providers globally. With Oracle we had in the past few quarters four wins, one as recently in this quarter in July and one in the previous quarter from the US and one each in Malaysia and Middle East & North Africa. So active pipeline in Oracle is $50 Mn plus range, two deal closed already and 10 Projected closures by the team in Q3 and Q4 and this is increasing pipeline. This is despite the fact that we have not had our press release on our connector. We will be announcing our ready connector along with Oracle hopefully by August 2021. Ramco is already available on Oracle Cloud infrastructure. We have two clients already installed on the Oracle Cloud and customer can see in Oracle Applications Ramco's payslips and payroll data from Ramco payroll system. So that's the level of integration that we have achieved with Oracle.

Workday partnership is also proving reasonably good. We had six wins with them already in the various regions, with Middle East a bit more because in the Middle East, Oracle has its own payroll, so they do not want our payroll. But Workday is very happy dealing with us there. We have $20 Mn pipeline with Workday, that will grow significantly once we announce the connector. Country by country announcement takes place with Workday, where they give a certification, so we are hoping to get certification on Workday by August 2021 and need to keep getting the certification for many other countries on a continuous basis. The subsequent certifications will be a lot more quicker because, only minor variations will be there from country to country.

Aviation business is very good last year and this year also, the pipeline is significant and looks good. Drone appears to be one fast growing area for us. Drones include air taxis, military drones and so on. We have signed up with some proof of concept with an Air Taxi Company. We have enquiries for logistics Defense also we have signed up on the providers. We have big four customers in this area and this segment is attracting a lot of venture capital funding. Aviation also has become a complete ERP product now, so we can combine the functionality of multiple products in a single offering. It offers everything including manufacturing as well. The latest addition is manufacturing. So with this coverage, Airline or helicopter operator or a company involved in maintenance and manufacturing both can run their entire business into it. We have also added a very big module for Defense compliance called DCMA DCAA for US Defense. This gives us formal clearance to be working and bidding for a lot of Defense contracts. The trend in the pipeline is that Defense segment, which was 5% in 2018 has become 29% now. Drone and eVTOL segment, which was negligible then, has grown to 4% and seems to be growing. The opportunities start opening up at a rapid pace.

In ERP, we will be focusing on few segments and apart from the area we have deep expertise on Cement, Assets in heavy industry like power plants and so on. Logistics we will be focusing on large enterprise for digital transformation and we will be investing in significantly on user experience and UI refresh and technology modernization for the whole thing - so that's a productive revamp for ERP product going on right now. Other products, the general feature addition is happening but more focus on the look & feel for the ERP product is going on.

Chairman's Remarks:

As our CEO talked about in his presentation, our outlook continues to be strong and we are confident about making significant inroads in the digital transformation story across the world. But unfortunately, this quarter has been very slow, especially because of our Asia markets slowing down dramatically and also the significant buildup we are doing worldwide on preparing for these large tickets. So we are recruiting worldwide and our expenses are going up but we are preparing for these large deals so that we can execute flawlessly. These two things combined have affected us this quarter. And we hope as we said in the presentation, the things do come around and we have a significant order wins in the coming quarters.

The questions and answers session then followed, which is summarized below:

We have done after several years of struggle and we have really come out last year very brilliantly. Can you share the 3 year – 5 year vision and how you would like to see Ramco over a longer term than five years? Secondly, we are going move towards SaaS business. So how do we ensure that our profitability, because in SaaS, revenue booking will take little longer over the duration of contract. So, will we able to book and maintain the profitability or rather growing the profitability?

Over the next five years, I'd like to see Ramco systems grow significantly. We would like to be a dominant force in Aviation and defense industry, because today our software seems to be one of the best in that industry and people who are seeing the software really engaging this and these deals take up quite a bit of time. So that is why our bookings have not come faster, but the momentum will pick up. Also we would like to become one of the leaders in the HRP space, providing payroll, working with Workday and Oracle and other companies, become dominant there. That's a significant market, which we would like to capture and we are putting all of the sources there. As far as the logistics is concerned, our product is becoming very strong over time because it's one of the most difficult softwares to develop, to make a generic one. In ERP, with a complete product revamp, we have two opportunities - one is go for a complete digital transformation and the other whether we can go into the SaaS market for medium size and small industries that we haven't made a decision yet. That depends on how simple we can make the very complex product and make people to automatically use it without any help. The debate is happening, but lot more confidence in the market with the depth and breadth of our product. We have shifted towards SaaS also for large deals. Therefore, there are ups and downs in every quarter, which will happen for the next few quarters or at least a year or so before we can show a steady state flow. As we talk about the revenue, the focus will be on booking because with more and more going to SaaS and focus will be on booking and how quickly we convert this booking into cash flows and revenues. Once that stabilizes, the profitability will stabilize too. But at this stage of switching towards less license and more and more of subscription model, we are going to see this hit, but that will be compensated by some of the aviation and defense deals because we will have some license coming there. So that should balance it out for the next year. Then we should hit a good steady state. The key here for Ramco systems is the ability to handle the larger deals and scale to handle the larger customers who are now starting to look at us. All these years, we were working mostly with small and medium customers. But now the large customers are coming in and our ability to deal with them and execute flawlessly is what we have to ramp up. So, the recruitment worldwide is picking up and our expenses are going up, but that is an investment we should make. That is why we are seeing this uptick in costs. But luckily because of lot of these revenues, which we are talking about as deferred license and all those things have started flowing, our cashflow seems to be stable. Hence we may not to borrow too much to grow. Our hope is that we should be able to manage the cashflow in a very good way.

Is more recruitment required to enter more in the developed market where the pricing is much superior with Vis-à-vis emerging market countries, correct understanding?

That's correct, because we used to focus mainly in Asia, but now interest in our products have picked up in US and Europe, especially because of the sophisticated offering in the aviation defense market, which is one of the top products actually as of now. But from a market share point of view, for them to start shifting towards what we have is because it actually starts replacing multiple products into one. So a significant amount of business is going to depend on these products. For us three - four good companies have taken our product and are implementing it and the implementations are going well and new companies have started looking at it. People have been surprised at the depth and breadth of our product. So these things take time to start switching over and gain momentum. We have to keep investing to make sure that we can execute once those things come in. We cannot wait and worry for profitability because expenses are going up. Then when those things come in and we are not prepared, we will be in trouble.

For longer term funding, are we really looking at some kind of VC who are giving a very high multiple to the SaaS based company, to meet immediate the requirement?

Immediately, we did not have a big requirement for funds because the cashflow we have and the teams we have, are able to switch towards these SaaS products, because our product is actually quite ready from a technology point of view. But from the usability point of view and simplification point of view for SaaS, is what the work is going on. There is investment, but not that we need a huge investment from venture capital companies. Once we settle down and have a proper outlook and a steady state and good growth coming, then we probably look at what we can do to increase the value of significantly more. But it's premature now.

Any expected numbers for next 4-5 years?
We like to be very big.

First is - when looking at the financials for last year and also for current quarter, as compared to our revenue, there is a very big portion that we have to provide a every time as bad debts. Last year, it was Rs.47 Crs on a Rs.600 Crs revenue. And this quarter it was Rs.13 Crs. I wanted to know like why as a company, you have to go out so much as bad debt?

And second question is in the other expenses, like on the same revenue figure like last year June, but the other expenses have gone up from Rs.35 cores to Rs.55 Crs. Can you explain a bit in detail what has led to this?

As far as Bad debts are concerned, basically we have lot of ERP implementation more than 200 odd projects are going on worldwide, but the issue is some of these projects do go wrong. Sometimes, we have to write off those recognized revenues or sometimes we compensate. About 3 to 4% of these things have been going wrong historically, but now we are getting control of it, though one or two things do happen for eg. sometimes we get orders, but there's a hostile environment and they do not cooperate. So these things may go wrong. In this scenario, we will continue to provide to take care of these potential things that could go wrong and have already gone wrong. We have been consistently doing this and it's not something new.

Is going to continue to be like 5 to 10% of the revenue will be as bad debt? What about other expenses?

It may not be 5 to 10% - as volumes increase, it won't be 5 to 10 %, but the amount, about one to two Mn USD will continue to be that. But as our revenues go up and bigger deals happen, the number of things that go wrong will be much less and the bigger companies are much more mature to be able to take our products.

Compared to last quarter, this quarter has gone up from $6 Mn to $7.5 Mn, basically four - five items, one – as noted, we have provided for additional provision for debtors from $1.6 Mn to $1.78 Mn. The other major item is in sales commission, where in Q4 there were reversals in sales commission, while in this quarter we had commission payable – the impact is nearly $0.7 Mn. Our hosting costs have gone up by $0.1 Mn during the quarter; advertisement had gone up by $0.1 Mn and lower R&D capitalisation. So these four - five heads caused increase. Compared to Q1 of last year also, these items have contributed for the increase.

What does the bad debts in book that need to be provisioned the exact amount as of today?
Secondly, as per global wire report, global ERP cloud market likely to grow by 17.4% CAGR from 2020 to 2025 from $46 to a hundred billion dollars. When are we likely to host all our products in the cloud?
We need to have some clarity as to what is a bad debt that needs to be provisioned as of today.

It was not like fixed asset or R&D capitalization, which we have to amortize. Then you have figure in the books. For eg. if Rs.250 Crs of R&D capitalization is there – it will be amortized over say 10 years. But bad debts is not that case like that. It is contextual and we have to assess as and when the things happen. We periodically assess and we had assessed this in the beginning of the year and we felt at least 1.7 Mn per quarter will be warranted. So, this will be again assessed at the end of the year.

During Q3 earnings call you had mentioned that for about six quarters you would be writing off somewhere close to Rs.12 Crs per quarter of which about two quarters have already elapsed. So, do I take it as somewhere between Rs.40 to 50 Crs that's still there on the book. What is the cash flow from operation for Q1 because you have not mentioned in your earnings release?

On the cash flow, we will come back. But a quick answer is, we are cash positive and there is no net debt addition to the borrowings. So, we had zero borrowing at the end of March 2021 and we continue to have same zero level at June 2021, despite the increase in costs and lower revenue.
Cash flow from operation for the quarter was about Rs.24 Crs.
On the bad debts the answer is same. We have assessed, we have to provide for that. There are problems in some projects which are going on, we may have to reassess our position end of the year.

For a smaller company like us, writing off between Rs.40 Crs to 50 Crs is huge. It's almost Rs.16 - 17 EPS. Unless strict action is taken, it's just going to be a disastrous for Ramco?

Point noted. But if you observe last year also we have made a PAT of $7.5 Mn, after $6.6 Mn. Provisioning. So, we want to play safe. So, we want to provide for the possible cases.

There is report by global wire, it says that it's likely to go from $45 - 100 Bn So when is Ramco going to have all the products in the cloud, how quickly can we do it? That we also can take part in the growth phase.

So, this quarter, we had our highest ever cloud revenue reported. We are moving to cloud and that is reflected in our HR & payroll business, which used to be having about 30 - 34% of the revenue coming from license in the current quarter got reduced to 12% and for the whole of last year it was 16%. This quarter we have 51% as cloud revenue overall. Aviation business, which is defense related is something which is not amenable to go to cloud for very large customers. HR & payroll businesses is pretty much already moved on to cloud, 85 % or more is on to cloud now. The new orders are coming on the cloud and march is on. As a product company, we are comfortable with all cloud environments. We are on AWS and we are now moving to Oracle cloud and we also offer multi-tenanted cloud and even shared database. All the technologies are available with us. ERP as a product line, as our Chairman mentioned, we will consider that, we address smaller companies. If we address smaller companies, they will be done only on cloud. Only for larger Companies where digital transformation is required, we may do on premise. So, in short, we are not positioning ourself as a hundred percent SaaS company, because in enterprise space for large customers, there is some degree of customization required, because the number of models and the ERP are very large. However, businesses which are more uniform like payroll business, the number of modules are fewer, we are already there. So, we are moving there rapidly, other than aviation business, which will be dependent upon the client profile. If the client profile becomes more and more defense, then it will not be cloud. In the US, it can be still cloud because defense is willing to host on US Government cloud, but non-US, it is unlikely a defense will go on to the public cloud.

What is the percentage of business that you have done to cloud last year? And what is the percentage that you hope to do this year?

We were averaging little less than about 45 - 46% for last year - 40% plus, current quarter has been 51%, primarily because of one large aviation deal going to SaaS. Every year, this percentage will keep rising. In HR & payroll business, recurring CAGR revenue, which is up 27% for the business, which is reflective of the cloud nature of the business. License part of the

business, same way has come down for them. Recurring means hosting, subscription, BPO these elements to combine 27% CAGR last five year. The license part has come down from 32% or even higher than that to 16% last year and 12% in this quarter.
Upwards of 40% for sure and ranging towards 50% and for a HR and payroll business, it will continue to keep growing. We have a significant services portion as well. If you remove services, then we are pretty much almost 85% on cloud right now for HR & payroll business.

What is the pending order as of Q1 end?

For the entire company it is about $ 189 - 190 Mn.

What is the projection for the pending order for FY 2021-22? How much do you think will be the pending order? About $500 Mn deals that you're chasing. And what would be the conversion rate from deal to order, how much Ramco was doing for the last two - three years?

18% or so.

Do we take it about close $90 - 100 Mn would be the booking?

A little more than that with what we did last year. Last year I think we did $110 Mn of booking. The previous year I think we did around $95 Mn of bookings.

What would be revenue to pending order, how much would it be approximately – 80-85%? I think $107 Mn and $84 Mn you did last year. Would that be the number that can be taken as standard for Ramco?

Revenue to order booking in the year doesn't have the correlation, the correlation is there for the unexecuted order book - like what of that unexecuted order book gets executed. So it is close to about $60 Mn business - which we call existing business. That is the kind of business reasonably secure in the sense, even if no order comes, we should be in the range of that business. Rest is coming from new licenses or other revenue sources for the business gained during the year. If we book 100 Mn, typically it may translate to 20 Mn revenue order. So we book $110 Mn means, $22.5 Mn will be the business coming. Existing business on order already unexecuted is in the range of $50 Mn and above - closer to $60 Mn. So quarter by quarter residual order book keeps decreasing. If we book upwards of $30 Mn, this number will be increasing.

In the past Ramco has a history of not being able to deliver it on a consistent basis good numbers. Whenever there is a growth trend shown for a few quarters, we investors are negatively surprised by below par performance. That is why all the marquee investors have left the company in the last five - seven years. So going forward, should we expect the same trend to continue ahead and the cyclicity surprises in the results? Does the management feel that we'll be able to change this? When we are going to get some cyclicity surprises in the business, certain negative performances impact the investors.

This negative performance is not something we can predict, but what we are building up is towards, to become a very steady state performance company. The trend seems to be positive in a sense now we are being recognized by larger more marquee customers and we are able to get larger deals, which will get us much more steady state growth. As you see, it is a change in the kind of businesses we are getting. Unfortunately, we have been hit very hard in Asia this quarter which has shown this negative performance. But I would not say that the management is not willing to perform in a consistent manner.

My question is in Q4, we had a revenue of around Rs.880 Mn and our employee expenses were Rs.320 Mn. While the revenue has dropped considerably in this quarter to Rs.689 Mn and employee benefit expenses gone up substantially to Rs.392 Mn. So what is the reason for such a sharp raise in employee expenses when revenue has dropped so drastically and second continuing on this bad debt, other participants also observed. So, I cannot understand the logic of continuing with a business, which continuously throws bad debts. Your comments please on these points?

With respect to number of employees - we do not operate on a variable basis. The employee head count increases as we increase our product reach and enter into new geographies. We have a steady base of employees and it is not variable.

Reasons for the rise in employee expenses that you have alluded to - one is 10-12 employees in Spain - this is a recent addition over past two, three quarters. We have some additions in Melbourne Australia for some Logistics related customers. Because of the defense nature of business, we are having only US nationals and we are not allowed to do any work from India. Indian employees cannot even see the data. We hired 14 - 15 American nationals in US now. That is one reason for the increase in the employee expenses. Second reason there was some increase in the headcount as well, that has taken place over the last six to nine months. This was more to do with the product refresh that we have been doing for ERP product in particular, to a more pleasant looking user interface. Other than that, because of COVID, a huge demand of manpower and in the Indian IT industry, salaries are beginning to rise again significantly. So, to keep that relevant people, we have had to give that kind of increment that was required to retain the manpower that we need to the business. So, these are the three reasons that come to my mind.

We are comparing fourth quarter of last year with this quarter, you have employed 13, 14 US nationals over the last six, nine months, they were already on your role. So, we are comparing just preceding quarter. Revenue is declining sharply and employee cost is going up sharply mean this does not add up. Please explain?

Some of the things that you mentioned are also because there were reversal of some provisions in Q4 for employee sales incentives and some other items which has resulted in lowering of Q4 number, thereby making Q1 appearing higher compared to Q4. There is a natural increase in employee expenses as well.

What type of salary increases you offered in terms of percentage?

Current additions that are there, more overseas, these are recent. The Spain additions are recent. Additions in Australia are more recent. US additions in the last quarter are just one or two, not significant number. Other increases head count got added. So, salary increases we have to get to select group of people.

Expenses gone up from Rs.71 Crs to Rs.74 Crs. There is only a Rs.3 Crs increase.

Referring to the expenses side - which has increased almost a 55% compared to Q1 last year, 25% compared to Q4 of last year, that is what is really concerning. From Rs.44 Crs, it has moved to Rs.54 Crs from Q4 to Q1 and compared to last year Rs.35 Crs, it has moved to Rs.54 Crs.

Rs.44 Crs to Rs.54 Crs. is the increase in other expenses which are explained earlier, like increase in the hosting costs etc.

The salaries have gone up by about 12.5% by the same time last year and about 5% Q on Q. But it's the expenses is really concerning. That is why the profitability is hit massively.

One more item is we have paid significant consulting charges for building the payroll for Europe.

Issue is consultancy charges are paid but revenues are not moving? That is the concern.

The product is getting ready, is not for the repair work, is for the development of product. We are preparing for the African payroll and some of the European payroll, where we have to expertise.

Unfortunately, all the IT companies are reporting outstanding results in the mid cap and the large cap IT companies. The benchmark is set in the IT industry with respect to growth, as also the recruitment that is happening. Unfortunately, Ramco tends to fail on that front and that causes so much of disappointment amongst investors.

We probably have to be treated a bit differently. We are a product company, not a pure service player. The dynamics are very different.

There is a pipeline which has moved in aviation from 5% to 29%. Is this what you are referring to the total contribution of aviation in the overall pipeline for us?

It was Defense pipeline, US defense, which was 5% of the Aviation pipeline has moved to 29%. So, we are showing the change in the mix. Earlier the market that was available to us for aviation was very small. We used to say that aviation does not have much growth potential because the market is limited. We already have 70% of helicopter market is with Ramco. The opening of US defense now and the drone segment, opens up a totally new chapter. That is what we are trying to portray that it has become one third of our pipeline. Just imagine how big the possibilities are. We are just kind of getting registered with all the compliances in the software. The other item mentioned was DCMA, DCAA compliance. That compliance allows us to bid for US government contracts. Apart from that, we have partnership with five US major defense contractors which normally bid for large contracts and we are partnering with them, so that we are included because we are not directly bidding with US Airforce or US Army, but we are bidding through these contractors. So, it was 5 to 29% for the defence segment.

An extension to that was what is the real right to win out here? So I think one point you highlighted is the DCM compliance you spoke about and in this eVTOL kind of a business, what separates us from some of the competition and what is the truth like to win for us here?

Right now, nobody offering any software for the eVTOL segment. We are positioning ourselves as the only player right now in that segment. Currently since the segment is new, it's venture funded, so we are getting either proof of concepts, or we are getting small deal size. And most of these companies are starting with a hundred drones, but the pricing that they ask is upto million drones. So that is a kind of growth that we are expecting all the major players like Amazon, various other players are entering into the market for delivery of parcels, using drones. The logistics companies are entering into the game. And they are also looking at a very large number of drones in the segment. Every airline is investing into air taxis as you land in, let's say, JFK, you go to New York city by air taxi, which is eVTOL, which is five to eight seaters equipment, which runs on electric batteries like Tesla. That is the technology revolution taking place. And if you were to look in the news articles, each one of them have order close to billion dollars of air taxis, like from United Airlines and everybody else. That is the reason we are positioning ourselves for that segment aggressively because currently there is a void in that segment and it is good news for us it is regulated like helicopter and we have 70% of the large segment of the helicopter. Eight of the top ten helicopter operators run on Ramco software. The regulation provides them to be regulated like a helicopter and that's how we are positioning ourselves for that market.

HR business, you have shared the input in terms of the pipeline, that $15 Mn for Oracle and $20 Mn for Workday. What is the trigger point that could possibly drive this large pipeline into faster convergence the way we see these companies growing. Is that the connector element which you shared and what are the roadmap to that?

The connector element is a trigger element, because once that connector is there, then their sales people will be officially allowed to pitch directly with us. Till such time all arrangements so-called are not official. Oracle case their sales team is very aggressive. So, while the official connector is yet to be announced, they're proceeding ahead with full speed. That can be a big trigger point for us to grow that business and that can grow the pipeline multifold for us. That is also the reason we are lighting the Europe payroll because Oracle or Workday, they may want a single source for provision of these countries. So that is why consulting expenses we have incurred because we are covering 12 more countries now from 50 to 62 countries. We have to pay the money to these consultants to give us the statutory reports on these countries as to what are the laws applicable and that is a cautious expense increase we did to get ready for that segment. So that can be a big trigger point. That is the reason we took that trouble of highlighting one slide each on Workday and Oracle that these two items can add and to take advantage of any pipeline that comes we have to automate in such a manner that we are able to implement very fast. That is a step we are taking right now in terms of being able to automate very fast. I mentioned about AIML, we are working on automatically generating the configuration for a country, using AIML. If 50 customers are configured for a country using those data, I can configure a new customer with 95% accuracy. So that is the area of focus right now. If there is any jump in that segment possible, it is on account of the connectors.

Connecting the dots now - we have the partnership where we have sort of proven the point that it works very smoothly between the two systems. Once the connector is in place, it gives the green signal to all the sales team, a large sales team. So if all of this happens, from a 20, 30 odd sales member team of Ramco, which is trying to sell the Ramco software, possibly the sales team becomes 200-300 odd number.

3,500 or so for Oracle. And I don't know how many sales people Workday has. In Oracle, two sales team will sell. Oracle cloud team will sell and Oracle at HCM team will sell. Currently only Oracle cloud team is selling. HCM team is waiting for the green announcement that connector is certified. The connector is ready, but not certified. Similarly Workday that connector from our angle is ready, but we need an official certification of that. The official certification also involves a customer endorsement. The customer has to also sign off that I am using Ramco, I'm using Workday, I'm using that connector and it is working well. So without a customer endorsement, it doesn't work. Like in Australia, Workday is involving a customer, the process is very elaborate.

So we already have these customers and it's in process, that's why you are given a timeline from when we see that happening. You said we are moving from a 50 payroll to 12 more coming, mostly from European region, which itself can drive the overall pipeline opportunity exponentially. So we have two, three triggers coming up, one trigger, possibly coming up from this connector, releasing the bandwidth of kind of a sales team that we will have in a way, indirect sales team, which itself widen the overall pipeline. And secondly from an European perspective where 12 payrolls add up to it. And third element you were saying is about, using AIML to do a faster

configuration. So does that mean, we will be able to implement these deals when they happen much, much faster than what to be typically do?

AIML tool is ready. That is demonstrable. We have begun to use it in new customers that are coming. We are doing it in a more controlled manner. We will roll out to the entire implementation team. This tool we have written in our Singapore office and it works beautifully. And we have also released a self-explaining payslip, which is also artificial intelligence based, for an US customer, with operations in Asia and in New Zealand. So whereby you don't need a help desk support or a BPO operations, it can do pretty much 75, 80% of the tasks, which a BPO operations will do. Any question that a human being can answer is answered by the system. And so far right now in India, people are using this for Form 16 the maximum at the moment right now. So it is very beginning to extensively get used. Nobody in the market is anywhere close to this. You can see a video of this on YouTube.

On the ERP side of the business, what are the updates like how we should model this business now, both from the kind of demand we are seeing in the logistic and non logistic part of it. And secondly, from this investment, which we are doing on the customer experience side, when we think this is going to complete and how it translates into a better demand scenario for us?

Would like to be cautious about Logistic product. The product has a phenomenal appeal, it’s a world beating product. It is that we have not been executing well. So I'll honestly admit that we have trouble in executing. That is the reason while it's a world class product. We are cautious in terms of what we can achieve, because we need to prove to ourselves that we will be able to execute smoothly without trouble. So that is the main attempt right now. Otherwise it's a very unique offering in the market. Nobody else offers everything in a single platform. And now it is scaling up to a much higher volumes also.
For ERP, we are doing a major refresh because is a generic market, generic segment, which we fight the battle with the large players. We are again trying to move towards a concept called zero touch in everything - that is, you can do your payment of supplier bills, with 90% lesser clicks. So objective is 90% lesser clicks that is objective with vision. We call it the zero touch concept. I will say that we are investing in the area that is somewhat away. You should not expect any major thing from ERP. It will take us some time to deliver the new product. In the meanwhile, some customers we are taking up, but right now we will say the numbers will be muted to a negative for ERP till March. We have deployed some portion of the product in our own office to see whether it works. Our Finance team is using the product. Whatever is ready we are deploying in our own office to see whether it genuinely reduces the number of clicks and so on. We realized that we come with a similar looking product as what, as anybody else has we don't have a chance. So that's the reason we are embedding AIML into the product so that we can automatically anticipate what data needs to be entered and eliminate the need of the data entry. So we call it 90% fewer clicks and fewer data entry. We call it the zero touch ERP. It is far off. I will not give unnecessary hopes on that. The biggest differentiator continues to be Aviation business and our HR and payroll business. Now Logistics is a big differentiator, but right now I do not want to give much hopes until we get our act together in terms of how we will expect.

Just a small input - since we are investing so much in some of these things, which may not necessarily reward us in next 12, 18 months. If we try and quantify that number just for the bookkeeping purpose, then possibly we will be able to see what is the kind of a real operational profit, that we are incurring because some of these expenses may come in the P&L, which may move the number very adversely in the quarter, when revenue recognitions are softer.
Some of that will get capitalized. Since we are using newer technologies, it's very difficult to get people. It's almost impossible to get people because we are competing with startups in those

areas. The impact can be much higher than what we were earlier telling. Right now, for ERP alone can be $2.5 to 3 Mn upto March. We have to, looks like, deploy kind of people they use in the start-ups.

It is important that we invest, because if we look at the product, the depth and breadth of the product is very, very deep. It is difficult to compete from a feature and depth point of view. The product is very worth, usability and the usage, it looks outdated in ERP. That is why we have to do this completely revamping. And when we are doing the revamp, we have to leapfrog the competition. The minimum implementations we have done with certain customers and in India and abroad on the full digital transformation, they are extremely delighted because now they can run their company with the no Excel, all the reviews are completely online. That sort of experience we can actually give to customers, but that happens only when people believe us and start giving us the order and basically implement the product. But the barrier is in terms of the look and feel and that freshness for the product is probably a barrier in many of our engagements that has fundamentally changed for the flood gates to open. And that's what we are investing on ERP. And I'm confident from what I have seen so far what CEO has been explaining and seems to be very compelling and I'm looking forward to that.

Last five years, our revenue CAGR has been quite muted in terms of 6, 7%. Few years back, we have grown at maybe 15-20% upward. Now given the size of opportunity and the significant pipeline that you're talking about, during the next 3-4 years, do you see that historical 20-25% growth that we had done in the past, can repeat? Or do you find it quite uncertain?

We will talk more from the booking angle, because as we shift more towards SaaS business, booking is more relevant and important and your observation is right. Given the product that we have, we should be able to encash it in the market, given the differentiation that we have. Attempt is on making sure that we stay focused on encashing Aviation product, which is differentiated and our HR & payroll product, which is differentiated in the global market. We should aim at 20-25% growth in booking for sure. The booking growth takes place revenue growth is a lag indicator of that. Definitely that should be there.

Are you envisaging booking growth of 20-25% growth from this year onwards?

We want that to happen. Asia was our biggest market and not able to come out of the lockdown, so we had a major decline in Asia. In US, we had a hundred percent growth in booking last year and in Europe, we had some large deals signed up. We had suffered in Asia, booking went from $40 Mn upwards to $24-25 Mn last year. So those kinds of drops in bookings had hurt us and whole of last year, Asia went through severe lockdown and continues to be in lockdown. We are right now, a little bit uncertain and this year because of the COVID lockdown and unfortunately Asian customers want to meet you in person culturally, rather than give an order over email or a video call, like it happens in US, Australia and others. So that is a bottleneck we are facing and our staff is unable to travel to any of these countries as well. We are unable to go and meet in person. So I would say there's a degree of COVID uncertainty which hangs the world ahead because of Asia closure is very high. Other IT companies has very little exposure to Asia. For us at a point of time, 40% in Asia and now coming down to 24-25% should be reasonable. Our exposure in Asia is reducing. But definitely, it is not a overnight case. Barring COVID, 20-25% is possible.

What is the timeline from booking to revenue translation?

Timeline there is no exact formula, but it will be a lag of almost 18 months.

I just want to understand whether the expenses column, whatever we have for this quarter, in the other expenses column, can we take as a normal for the coming up quarters basically because anyways, our expenses will continue to grow in that direction. Either because of debt or either because of some things that you have reversed in Q4 that have come up in Q1. So will that continue in Q2 Q3 as well? So can we take this Rs.55 or 50 Crs as normal expense in the other expenses column for the coming up quarters?
Secondly, what is the annual revenue target, that you are targeting as a company. So will it grow beyond Rs.700 Crs or something like that?

For your first question, you can take that as the benchmark, given the nature of operations, it will be that other expenses and that could be in range of Rs.55 Crs. On the revenue target, normally we do not give guidance.

The follow-up of that, if you don't give the guidance, can we assume that around Rs.160 to 170 Crs could be our break even point, if our expenses are growing that much, in that other expenses column and with the employee expenses also ramping up with the workforce. So what is our breakeven point for the sales? Is it Rs.160 - 170 Crs? I know it's a lumpy business and each quarter growth, revenue might not be consistent. That's why initially my question involved revenue?

Yes. If our expenses are going to be in the range Rs.150 Crs per quarter, annual revenue has to be Rs.600 Crs to breakeven. There's no interest cost in that because, that is zero and we did not expect that debt to grow large. So it could be that figure.

I just have a follow-up question on the bad debts. Just for my own understanding, you suggested that this is the anticipatory provision you are making for the revenue you may generate and for the bad debts, which may happen in the future, is that right? Or this is the bad debts pertaining to the past revenues that you booked?

No, this is not for the future revenue. It is because of bad debts have to be provided, only when we are not really sure of collecting whatever we have taken as revenue. We recognise the revenue, then bill the customer and we should collect it. If there's going to be any challenge in that, provisioning will be required. So this is not for the future revenue. It is what we are providing, for what we have already taken and where we are not sure that we'll be able to collect.

Out of the current level of debtors, how much is those debtors where you have doubts on the collections, how much is that quantum?

The quantum will be the same level of the $1.6 - 1.7 Mn per quarter for the present. What we provide now, it's not likely to get reversed in future. So that is the quantum. This doesn't mean that customers have become bad. It is when we expect some challenges in the project implementation and consequently the ability to bill and collect from the customers. So we anticipate some based on experience.

My point is $1.6 Mn can continue for how many quarters, because you already have the visibility as to how many debtors may be doubtful at the current level?

We had answered earlier. $1.78 Mn will be there for another four quarters and we will take stock then. We have reviewed and felt we should be making this quantum of provision for this financial year. That we have averaged out and we are providing every quarter, 1.78 Mn. Probably we have to take a look again at the end of the year to assess the scenario.

I see some disconnect in HR business because as we understand, HR is a recurring business. So once we changed the model from licensing to recurring business, I think this would be any lumpiness or a significant degrowth in HR particularly changing the business model. So what explains these, the de-growth in HR business because, I see some disconnect. So can you please clarify?

In HR business $5.5 Mn of business per quarter is close to recurring, because it has an element of services also. The rest of the business that $900k to $1 - 1.5 Mn is something which varies. The recurring business that we are talking about, which consists of hosting, BPO and subscription - that has grown 27% 5 years CAGR and that continues to grow. It grew last year also up to $14 Mn from $11 Mn or something like that. So that is a consistent growing business. So that is the SaaS part of the business. There are still some accounts with which there is some occasional license, or one-time lumpiness of the business. We will not see a major jump either in HR revenue or major decline as well, because 80% of the revenue is pretty much covered with the steady business, this percentage should keep rising on a continuous basis as we more and more move on to SaaS model.

Based on last quarter commentary in the last conference call, we had unexecuted order book of $90 Mn in HR. So based on that, maybe $30 - 35 Mn should be the existing revenue. Then there will be addition of new orders coming in HR. This $7 Mn or $6.4 Mn for this quarter is on a very lower side. If we want to do $35 Mn for the year, I think the balance three quarters need to compensate. Maybe, at least we'd need to be in the region of $9 - 10 Mn per quarter. So, are we confident of doing that, achieving $9 - 10 Mn per quarter for next three quarters?

I don't think 9-10 Mn dollar will be feasible. This is because the $90 Mn of order book translates to revenue over four to five years in a SaaS model, like a five-year SaaS. Assuming some deals are for 5 year period and some deals are in some stage of execution already. So it gets executed over 4 year period. We have pointed out that we suffer because we are going live slow than we want to. So that's the reason we have talked AIML based configuration and so on. And that delays the revenue realization that we may have. The customer has given order for five years and if we are able to go live in say 12-15 months, we may lose that much period of the order. That number expectation is very high, because ultimately that much number of more payslips have to be processed every quarter. And for that, we need to be able to go live significantly faster. So that is the attempt. The reason why we have money in the bank and we are not able to encash on the ATM is because we are taking much longer to go live. And that is the reason we are attempting or the hyper automation in the implementation. That number is not achievable - what you are suggesting $9 - 10 Mn, because otherwise we'll have to resort back to going into license mode for our HR and payroll business, which we don't want to because we want to convert it into a pure SaaS model. We will not chase the short-term revenue for that reason. There is a possibility some customer may ask for on-premise license occasionally, but not our intention. We are firmly moving for that business, definitely in cloud.

One thing on the unexecuted order book, $190 Mn plus the good pipeline we have. So do you want to envisage what can be the effect 21-22 growth rate? So a historically it's been 3 to 5% in USD terms. So would you like to envisage any number for the current year?

As mentioned, that we have large deals visibility only in Q3 and Q4. Normally for us, Q1 and Q2 are much more muted than Q3 and Q4. Typically, Q3 is the best and Q4 is also on some years had been very good. But this year, Q1 is particularly more muted because of Asia lockdown. We are unable to project very clearly what the numbers will be. But we do have very large pipeline, 15 deals in that range. In the past also we had given you the name of the deals and most of them have materialized sooner or later. Some deals may take much longer. At this stage, we will not hazard a guess because, we really don't know where else what happens, given the situation that is there. The recovery that has taken place in the aviation segment, whether it continues or not because, Europe and US should not start locking down again. So based on the current visibility and the Asia opening up Q3 and Q4 looks at better possibility. Q2 also, we may have a better booking, but revenue wise, we think Q1 & Q2 will be more muted and the Q3 and Q4 should be having better chance, provided we are able to convert the large deals that we have.

If I look at the fact sheet, the Indian business has come down to $4 Mn. So from $4.5 - 5 Mn, it came down to $4 Mn. Compared to this Q1, last Q1 was one of the worst period in Indian corporate history. The reported numbers are still lower than the last Q1. So is there any one-off deal in Indian reported numbers?

In India we had some very large deals. One single deal had a license component of $3.5 Mn. We had few more very large deals from Indian conglomerates and this $3.5Mn license deal can be called as one off. Those kind of deals do not repeat often. Rest of the deals that we had are normal deals. We did have a very large industrial conglomerate signed up with us, also for digital transformation. So this will have lumpiness as Chairman explained, because these deals are large digital transformation in nature. We should focus for the year up to March our attention onto Aviation and HR and payroll business. If you have seen the 15 large deals, we have shown all 15 of them are either in HR and payroll or in Aviation. We have not mentioned any large deal either in logistics or ERP. Until we have the new look and feel ready for the ERP product - these may still happen, but that is not an area where we can look for growth.

In these two segments of aviation, eVTOL and drone, has there has been any order booking for $180 Mn for these two segments?

We had order booking. We closed two small orders in Q1, one in US and other in Europe small ones, but nevertheless, we entered into the segment. Before that we had closed in US Q3 last year, another defense drone manufacturer. So we can say, of this $190 Mn, about $4 - 5 Mn will be in this area right now. The other deal that I'm talking in US is not drone base they do other businesses also. We signed two deals in Q1 and we have a build up of pipeline and level of interest is very high. Some of the largest players in the market, logistics players in the market are talking to us in this area. This segment is rapidly growing segment and lot of funding is coming in. That is the reason why our positioning is changing rapidly towards the eVTOL and that has meant everything else reflects more and more eVTOL and drones, because this is going to explode in the market.

So last year at the end of March 31st, 2021, we had an unexecuted order book of around $183 Mn. Of this, how much pertains to Asia given that Asia has not come out of the lockdown?
Q1 and Q2 could be muted quarters and Q3, Q4 would be the best quarters traditionally. In absolute terms, as well as in terms of profit margin PAT to revenue, are we confident of maintaining the same margins, the 8 to 9% or even in absolute term, the $7.56 Mn as our PAT on a whole year basis for FY 2021-22?

For Asia, $64 Mn was the unexecuted order book, while it is $55 Mn as of now.

Last full year, PAT was $7.5 Mn. This year's PAT again really depends on the top line, because our costs are going to be more or less fixed and will depend on our order booking and the consequent revenue flowing into the P & L. Already for Q1, we had minus $1.2 Mn. If have to make good, that we have to make $8.7 Mn profit in the next three quarters, which will be unlikely, unless we get some one-off big deals, some windfall is happening, but that it's unlikely to happen.

And what about the margins? Are we confident of maintaining the same margins, the PAT $7.56 Mn to Revenue $84.72 Mn - I mean the 8.99% margins?

May not be because, you are talking about the PAT margin. The EBITDA we had 30% in Q4 and we have now only 10% for Q1. When this EBITDA is going to fall drastically, the PAT margin will be difficult to maintain at the same level.

After this, the meeting concluded.

Note: This is not an exact transcript of the call. We have made best efforts to capture the essence of the call. The voice modulations and the vocal emphasis cannot exactly be translated. For any clarifications, please reach out to: R. Ravi Kula Chandran at rkc@ramco.com.