

Annexure 9

Management Discussion and Analysis

Management's discussion and analysis of the financial condition and results of operations include forward-looking statements based on certain assumptions and expectations of future events. The Company cannot assure that these assumptions and expectations are accurate. Although the Management has considered future risks as part of the discussions, future uncertainties are not limited to Management perceptions.

Company Overview

Newgen Software Technologies is a software products Company offering Enterprise Content Management (ECM), Business Process Management (BPM) and Customer Communication Management (CCM) platform that enables organisations to rapidly develop powerful applications addressing their strategic business needs. The applications created on the Company's platform enable organisations to drive digital transformation and competitive differentiation.

The Company, with its best-in-class products and solutions, deep domain expertise and global experience, is enabling 520+ customers across 60+ countries to transform their business through its enterprise solutions. It offers products and solutions across 17 industries and has been a preferred partner of some of the world's leading Banks, Insurance companies, Healthcare organisations, Governments, Telecom companies, Shared service centres, and BPOs among others.

Newgen's commitment to delivering innovative products and solutions makes it one of the few software products organisations which have attracted multiple recognitions from leading advisory and research firms from time to time. It has been positioned as a 'Leader' in Dynamic Case Management, Digital Process Automation and Enterprise Content Management by Forrester, a leading Independent Research Firm in its Wave™ Reports. It has also been positioned by Gartner in its Magic Quadrants. During the year, the Company has been named as a "Niche Player" in Magic Quadrant for Content Services Platform and a "Visionary" in Magic Quadrant for Intelligent Business Process Management Suites.

Given our constant focus on Research & Development, during the year, we have continued to enhance our solutions to take advantage of market trends and released our product upgrades for our customers. We have new offerings including Mobility (Newgen Enterprise Mobility Framework), Virtual Repository Services, Dynamic Case Management, RPA with BPM, Digital Sensing and Flexible Designing and Authoring creating a highly connected and digital workplace.

Newgen continues to be a global business; well diversified across geographies, customers, revenues and verticals. We have an active customer base of 520+ clients running their businesses and critical operations on our platforms in countries including India, USA, Canada, South Africa, UAE, Saudi Arabia, UK, Philippines, Indonesia, Singapore and many more countries. We are providing solutions to some of the world's leading banks, insurance companies, healthcare firms, global manufacturers etc. We have made substantial customer wins during the year and added 120 new customers including some Fortune 500 companies.

During the year, the Company's initial public offer received an overwhelming response and was oversubscribed 8.25 times the offer size. The total size of the IPO was ₹ 425 Crores which included a fresh issue of ₹ 95 Crores, which the company would utilise for purchase and furnishing of office premises and general corporate purposes. The Company was listed on the stock exchanges on January 29, 2018.

Industry Overview

Ovum's key indicators of digitalisation reveal that the rapid pace of adoption of digital and enabling technologies is increasing across enterprises and end users globally. Global technology spending is estimated at USD 2,385 billion in 2017. Spending is projected to grow at CAGR 3.36% from 2017 to 2021 and reach USD 2,722 billion by 2021.

According to the Ovum Report, the Company's core addressable market (i.e. global ECM, BPM and CCM markets) were estimated at USD 14,935 million, USD 6,100 million and USD 1,460 million, respectively in 2017. Newgen has expanded its addressable market by developing solution frameworks in key verticals including banking, government/PSU, BPO/IT and healthcare. The Ovum Report estimates aPaaS to account for a major share of PaaS spending. The global PaaS market is estimated at USD 17.61 billion in 2017 and forecasted at USD 46.66 billion in 2021. The Indian PaaS market is expected to grow from USD 379 million in 2017 to USD 1.46 billion by the end of 2021.

Ovum Reports forecasts that while ECM will grow at a CAGR of 7.13%, BPM and CCM will grow at a CAGR of 8.39% and 9.99%, respectively between 2017 and 2021. This reflects the fact that ECM is a very mature market and that there are fewer opportunities, while CCM will enjoy new market opportunities afforded by the adoption of the technology as a marketing tool to support the customer journey.

Financial Performance

Consolidated Financials

in ₹ Lakhs

TABLE 50

(All amounts in ₹ Lakhs, except per share data and unless otherwise stated)	FY 2018	FY 2017
Revenue		
Revenue from operations	51,242.78	42,709.80
Other income	760.98	826.78
Total revenue	52,003.76	43,536.58
Expenses		
Employee benefits	24,887.78	21,004.64
Finance costs	520.68	525.60
Depreciation and amortisation	580.67	491.82
Other expenses	16,601.38	14,682.49
Total expenses	42,590.51	36,704.55
Profit before tax	9,413.25	6,832.03
Profit after tax for the year	7,288.68	5,133.01
Other comprehensive income/(loss) for the year, net of income tax	82.31	-37.18
Total comprehensive income for the year	7,370.99	5,095.83

Revenue from Operations

The Company's business has multiple revenue streams including from:

- **Sale of software products:** one-time upfront license fees in relation to the platform deployed on-premise
- **Annuity based revenue:** recurring fees/charges from the following:
 - **SaaS:** subscription fees for licenses in relation to platform deployed on cloud
 - **ATS/AMC:** charges for annual technical support and maintenance (including updates) of licences, and installation
 - **Support:** charges for support and development services
- **Sale of services:** milestone-based charges for implementation and development, and charges for scanning services

During the year, we delivered broad based growth across geographies through expanding our sales distribution, both direct and indirect, with an emphasis on expanding our recurring revenues and operating cash flows.

It is important to note that we have adopted Ind AS accounting standards in this Financial Year. On a consolidated basis, the Company's revenue from operations stood at ₹51,242.78 Lakhs reflecting an increase of 20% in FY 2018 as against ₹42,709.80 Lakhs in FY 2017. Over last 5 Financial Years, the

Company has been able to maintain 20% compounded annualised growth in its revenues.

Newgen's License revenues were ₹13,695.06 Lakhs and witnessed a 17% growth YoY. The Company witnessed strong growth momentum in our annuity revenues which grew by 25% during the year. The SaaS revenues specifically (though smaller in base) grew 3 times.

We have made substantial customer wins during the year and added 120 new customers (including some Fortune 500 companies) and currently have an active customer base of 520+ clients.

Geographically, India comprising 35% of the revenues, EMEA comprised 33%, USA comprised 23% and APAC (excluding India) comprised 9% of revenues. EMEA and APAC were two strong growth centres for Newgen. In USA, the business is focussed on SaaS/Cloud and thus the upfront revenues are in line with the business model, but these are better quality revenue streams.

Newgen continues to strengthen its horizontal product platform with vertical service accelerators to enhance the overall portfolio. During the year under review, 54% revenues came from the BFSI. Moreover, the contribution of IT / BPO and government/PSU orders to the topline was 8% and 14% respectively.

Profits and Margins

The Company witnessed substantial improvements in the operational performance, which reflect in the

39% increase in EBITDA (adjusted for other income). The Company reported the EBITDA (adjusted for other income) of ₹9,753.63 Lakhs in FY 2018 as against ₹7,022.67 Lakhs in FY 2017. PAT improved by 42% from ₹5,133.01 Lakhs in FY 2017 to touch ₹7,288.68 Lakhs in FY 2018. We continue to strike a fine balance between investing for our future growth and managing our margins.

Share Capital

Share Capital of the Company consists of Equity Share Capital. The Equity Share Capital comprises of 6,92,35,701 shares of ₹10 each. At the time of the IPO, the Company had issued 38,77,551 shares of ₹10 each. In addition, shares issued during the year to Newgen ESOP trust were 10,50,000 shares of ₹10 each. 13,51,584 shares are held by the Trust.

Other Equity

The total retained earnings as on March 31, 2018 was ₹22,055.71 Lakhs. During the year, the Company earned net profit of ₹7,288.68 Lakhs. Newgen has proposed a dividend of ₹2 per share.

Securities Premium account stands at ₹9,196.49 Lakhs and witnessed additions during the year on account of Securities Premium on issue of fresh issue of shares and Securities Premium on issue of shares to ESOP Trust.

Others comprised of Capital redemption reserve, General reserve, Capital reserve, Foreign currency translation reserve, Newgen ESOP Trust reserve, Share Options outstanding reserve as well as items of other comprehensive income and stands at ₹2,481.65 Lakhs

Property, Plant & Equipment, Capital Work in Progress and Intangible Assets

As at March 31, 2018, property, plant and equipment stands at ₹6,757.93 Lakhs against ₹6,103.12 Lakhs as on March 31, 2017. There are fresh additions of ₹1,188.75 Lakhs during the year. The Company has Capital Work in Progress of ₹1,659.48 Lakhs as on March 31, 2018.

The intangible assets of the Company are at ₹89.56 Lakhs

Investments

Investments comprise of investments in unquoted bonds and mutual funds. The aggregate value of these investments is ₹5,022.07 Lakhs

Trade Receivables

Our trade receivables (net of allowances) as on March 31, 2018 are ₹22,201.67 Lakhs (allowances at ₹4,139.83 Lakhs), against ₹19,957.12 Lakhs (allowances of ₹6,325.98 Lakhs) on March 31, 2017.

During the year, Debtor Days stood at 158 days as compared to 171 days in FY 2017.

Other Financial Assets (Current)

Other Financial Assets largely comprise of unbilled revenues pertaining to consideration receivable in respect of initial sale of software and services to the extent of ₹5,091.99 Lakhs

Current Liabilities

Current liabilities represent borrowings, trade payables, other financial liabilities, deferred income short-term provisions and other current liabilities. As on March 31, 2018, the Current liabilities are ₹17,398.59 Lakhs (₹14,674.61 Lakhs as on March 31, 2017). Out of these, the deferred income comprises of ₹4,943.04 Lakhs.

Opportunities

As per Ovum, the core addressable market of the Company in ECM, BPM and CCM is likely to grow from USD 22 billion in 2017 to USD 30 billion in 2021— at a compounded annualised rate of 7.7%. However, the market for light weight solutions such as aPaaS is likely to expand by nearly 28.0% compounded annualised rate over a similar timeframe.

The Company is likely to benefit from the emerging trends in digitalisation. Content management is at the core of digital transformation. The Company is well positioned to take advantage of the market opportunity with its strong product portfolio which endeavours to enable organisations to leverage the innovations in mobile, analytics, social and cloud technologies.

Risk Review

Technology/ obsolescence risk: Rapid technological advances, changing delivery models and evolving standards in computer software development and communications infrastructure, changing and increasingly sophisticated customer needs and frequent new product introductions and enhancements characterise the industry in which we compete. Our success depends upon our ability to anticipate, design, develop, test, market, license and support new software products, services, and enhancements of current products and services on a timely basis in response to both competitive threats and evolving industry requirements. However our continuous investments in R&D and intellectual properties help the Company mitigate this risk.

Currency Risk: The Company derives about 65% of its revenues from international markets and thus is always exposed to unforeseen exchange rate fluctuations that can potentially dent the revenues and profits of the Company. To tackle with this potential risk, the Company follows a well-documented hedging policy.

Market-specific risk: The IT spends in any market are affected by the domestic as well as global economic conditions. Considerable or a prolonged slowdown in a particular country or a region or industry within a

region severely affects the IT spends. Similarly, policy changes in global markets may also influence IT spending pattern. To deal with such market-specific risks, the Company endeavours to expand its clientele across industries and geographies continuously.

From about 48 countries in FY 2013, the Company increased its presence across 60+ countries in FY 2018. Similarly, the Company now has 520+ active clients in FY 2018, adding 120 new clients during the year. To deal with policy challenges the Company has been giving an emphasis on growing its regional presence and hiring local talent, without compromising on economies of scales and cost.

Our Strategies

Newgen's strategies are based on addressing the market opportunities in enterprise platforms for ECM, BPM and CCM products, creating domain rich solution frameworks on platform and using low code platform capabilities to create solution frameworks. These include:

Expansion of business and geographical footprint

The Company plans to expand its market share across key geographies and solutions. Its platform is designed to be natively multi-lingual to address challenges in multi-national organisations. Newgen currently operates in over 60 countries and believes that it has a significant opportunity to grow the international footprint. It is investing in direct and indirect sales channels, professional services, customer support and channel partners to expand the geographical footprint. The Company has a regional go-to-market strategy with specific strategies for mature markets such as USA and developing markets such as India and South-East Asia.

The Company plans to grow through its differentiated 'land and expand' model. The customers receive the complete set of modules and functionality of the platform with their initial purchase/ subscription and can eventually build a number of applications on the platform due to an effective reduction in the per-user cost of each application and also save substantial costs of switching over to a new platform.

Newgen plans to develop new customer relationships by identifying potential customers that operate within the same verticals and engage in cross-selling of the solutions. It aims to also begin developing new verticals such as telecommunications, retail, manufacturing and education in developing markets. The Company continues to leverage its in-depth industry expertise and is continuously focusing on enhancing its global delivery model with onshore centres in proximity to large customers and offshore centres at strategic locations.

Focus on attractive verticals in select mature markets

Newgen has a strong presence across regions in the banking and healthcare verticals and intends

to continue to expand the customer base in these verticals in select mature markets, including USA and UK. The focus areas in the Caribbean include banking and government/PSUs in partnership with consulting firms. As part of the strategy to increase our customer base in USA, the Company has made infrastructure and operational investments in USA including hiring of senior-level professional in sales and marketing for the USA market in fiscal 2016.

Newgen plans to expand the product portfolio through investments in advanced features and technologies. It is constantly engaged in enhancement of R&D capabilities, particularly with a view to create solutions in emerging technologies that enhance the ability to develop tools for enabling entry into new areas and developing products that address customers in specific industries. Key focus areas include business intelligence and analytics, RPA, digitalisation, blockchain, dev-ops and user experience. Newgen continues to work with customers in mature markets to build capabilities, both in domain and technology, for enhancing the product offering, strengthening the platform and expanding the number of features available to customers.

The Company has built high level domain expertise and created robust frameworks for Retail and Corporate lending in the Banking domain which are successfully operating across banks and geographies

To further strengthen and expand our portfolio we may look at inorganic ways of growth as well.

Expansion of strategic business applications to new verticals

The Company has used the platform to create vertical domain rich products in several verticals, including banking, government/PSU, BPO/IT, insurance and healthcare. While the platforms are industry-agnostic, investments have been made to enhance the expertise of sales and marketing for key industry verticals. Newgen believes that focusing on the digital transformation needs of organisations within these industry verticals can help drive adoption of the platform. It also plans to target new verticals including education, telecommunications, oil & gas, retail, manufacturing, infrastructure and logistics.

Attract, develop and retain highly-skilled employees

The Company's employees are one of its most important assets. It focuses on the quality and level of service that the employees deliver by investing in recruitment, development, retention, maintenance of a culture of innovation and by creating both a challenging and rewarding work environment. Newgen's talent development strategy focuses on engaging, motivating and developing a high performing workforce and aims to create and sustain a positive workplace culture for employees.

Internal Controls Systems & their Adequacy

The Company has aligned its current systems of internal financial control with the requirement of Companies Act 2013. The explanation of the term 'Internal Financial Control' has been provided only in the context of section 134(5)(e). It includes policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, thereby covering not only the controls pertaining to financial statements but also include strategic and operational controls pervasive across the entire business.

Newgen internal controls are commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorised use, executing transactions with proper authorisation and ensuring compliance of corporate policies. In view of the above, and for safeguarding the assets of the company, preventing and detecting fraud or other irregularities and maintaining proper books of account and to ensure adequate internal financial control, the Company is already pursuing various Standard Operating Procedures (SOPs), Vigil Mechanism, audit mechanism (through Internal Audit for Financial Year 2017-18, Secretarial Audit and Statutory Audit). Newgen also undergoes periodic audit by specialised third party consultants and professional for business specific compliances such as quality management, Information Security Management, etc. It has continued its efforts to align all its processes and controls with global best practices. Our management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2018. B S R & Associates, LLP, Chartered Accountant, the statutory auditors of Newgen has audited the financial statements included in this annual report and also reported on our internal control over financial reporting (as defined in section 143 of Companies Act 2013).

The Audit Committee reviews reports submitted by the management and audit reports submitted by M/s Grant Thornton, internal auditors, and B S R & Associates, LLP, statutory auditors. The audit Committee also meets Newgen's statutory auditors to ascertain, inter alia, their views on the adequacy of internal control systems and keeps the Board of directors informed of its major observations periodically. Based on its evaluation (as defined in section 177 of Companies Act 2013), our audit Committee has concluded that, as of March 31, 2018, our internal financial controls were adequate and operating effectively.

Human Resources

The Company follows the philosophy of achieving mutually beneficial and all-inclusive growth and

thus values its human resources as its biggest asset. The employees are provided a fair environment supported by transparent policies to foster their personal growth along with attainment of corporate objectives. It encourages all employees to strike a perfect worklife balance. The Company's policies are employee centric and aim at keeping its personnel motivated and satisfied. Nonetheless, the Company has formed disciplinary policies and a code of due diligence to ensure smooth functioning of the business.

During the year, critical functions of the organisation were strengthened with assessment of Leadership bandwidth to build a strong team aligned to our fundamentals and culture. Particular emphasis was placed on attracting, developing and retaining talent and fostering a unique performance culture. As a strategic partner, the HR function launched numerous initiatives to ensure a high-performing and engaged workforce.

As on March 31, 2018, we had 2,656 personnel (consolidated) comprising 2,402 employees and 254 contract workers. As a result of its visionary human resource policies, the Company has managed to attract and retain talent.

Outlook

Digital Transformation has become a central component for businesses across all industries. It entails leveraging digital tools and technologies to make life easier, bringing increased convenience, enhanced efficiency, improved affordability, and better access to information, goods and services.

Going forward, the Company aims to pursue growth strategies to expand its market share across key geographies and solutions. Newgen's platform is designed to be natively multi-lingual to address challenges in multi-national organisations. The Company believes that focusing on the digital transformation needs of organisations within key industry verticals can help drive adoption of its platform. As of March 31, 2018, the Company operated in 60+ countries and believes it has a significant opportunity to grow its international footprint. It continues to invest in direct and indirect sales channels, professional services, customer support and channel partners to expand its geographical footprint.

To address the market opportunities arising from digitisation, Newgen seeks to continue to expand its product portfolio and is currently working on several projects including ECM NXT, Virtual Repository Services, Digital Sensing, RPA with BPM, BPM NXT and Corrus.