

# Newgen Software Technologies BUY

Emerging markets near term growth driver

## Summary

Newgen reported robust Q3FY24 numbers registering 27% YoY growth in revenues and 44.5% YoY growth in PAT. The company is seeing healthy traction in order book (up 20% YoY) and higher deal size in insurance & BFSI. In addition, there is substantial execution of order book which was won in last few quarters. The digital cycle is on cusp of a robust growth and improving mature market growth will lead to strong logo addition & revenues. Hence, we expect revenues to grow at a CAGR of 29% over FY23-FY26E. Higher growth in revenues will further boost margins leading to PAT CAGR of 34% over FY23-FY26E. We have revised our EPS estimates upwards by 5% & 0.3% for FY25E & FY26E. Hence, we maintain BUY rating on the stock with a revised target price of Rs 1,042 (34x FY26E EPS) (previous TP 816 and multiple of 27x).

## Key Highlights and Investment Rationale

- Robust growth trajectory to continue:** Newgen is seeing strong traction in Indian lending space especially in retail & corporate lending. The company is gaining market share in Indian private and public banks. Middle East too is seeing strong traction in digital banking. Green shoots in demand is also visible in the US region. The company is partnering with Duck Creek and other insurance platform to grow the insurance segment across geography. In addition, higher deal sizes (like Rs 180 mn deal won in the quarter) are driving implementation and annuity revenues. Further, GSI partnership and cross sell are expected to drive long term growth.
- Margins on steady pace:** The company aspires to maintain 19% PAT margins. Considering this coupled with strong revenue growth we expect PAT CAGR of 34% over FY23-FY26E.

<b>TP</b>	<b>Rs1,042</b>
<b>CMP</b>	<b>Rs899</b>
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	24.0	93.0	343.9
Rel to Sensex	21.7	82.4	322.2

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	18	23	30
Consensus	17	21	27
% difference	4.3	9.0	12.1

Key Stock Data	
Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	140
Market cap. (Rs mn)	125,929
3-m daily average value (Rs mn)	18.7
52-week high / low	Rs899 / 195
Sensex / Nifty	73,129 / 22,032

Shareholding Pattern (%)	
Promoters	55.1
FII	15.2
DII	3.9
Public	25.8

## Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,790	9,740	12,785	16,316	21,034
Change (yoy, %)	16	25	31	28	29
EBITDA	1,947	2,122	3,065	3,944	5,117
Change (yoy, %)	1	9	44	29	30
EBITDA Margin(%)	25.0	21.8	24.0	24.2	24.3
Adj.PAT	1,642	1,751	2,561	3,238	4,250
EPS (Rs)	12	13	18	23	30
Change (yoy, %)	29.8	6.6	45.1	26	31
PE(x)	76	71	49	39	30
Dividend Yield (%)	0.2	0.3	0.6	1	1
EV/EBITDA (x)	63	58	40	31	24
RoE (%)	22	20	24	26	25
RoCE (%)	20	17	21	24	25

Source: IDBI Capital Research;

## Devang Bhatt

devang.bhatt@idbicapital.com  
+91-22-2217 1846

### Con-call Highlights

- Revenue stood at Rs 3,237 mn, up 27% YoY led by broad-based growth across geographies(except US) . Newgen is observing strong traction from existing and new clients (added 11 new clients across geographies). Implementation revenue (Rs 776 mn) recorded growth of 66% YoY (led by large deals) and SAAS revenue (Rs. 356 mn) grew ~30% YoY.
- Management stated that they are making deeper penetration through digital lending platform in the banking sector and have received high value orders(1 PSU order – 180 mn value) during the quarter as market activity picks up in this segment across different geographies. Trade finance is also gaining traction.
- Growth was led by EMEA (41% YoY), India (up 29% YoY) and APAC(18% YoY). In terms of verticals growth was led by Govt/PSU (74.6% YoY) followed by healthcare (77.8% YoY).
- Demand trend – Company informed that there are expanded opportunities available in banking industry. There is a renewed demand thrust in banking which is leading to larger deals from existing clients. Banking in emerging markets continued to remain resilient and drove growth as lending and client onboarding sub segments saw strong traction. Insurance is also seeing strong demand on the back of focus on digital transformation by clients. Management indicated on substantial growth in license revenue in coming quarters. Order book grew by 9M - 20%YoY(led by larger deal size), order book recorded in the past few quarters is still to be executed in the coming quarters. Green shoots in US would led to increase 60-65 logos a year.
- India, Middle East and APAC is also seeing healthy demand in digital lending. Pvt and Public sector banks are driving growth in India. US market Govt. & PSU vertical got strong traction led by substantial deals from existing clients. Management indicated on seeing strong traction in India & EMEA for Digitization in lending (MSME, corporate) and end-to-end automation. Company is focusing more on trade finance automation, digitization in supply chain financing and agri lending.
- Outlook – Green shoots in mature market, traction in Gen AI, healthy annuity growth, partnership with insurance platform companies and traction in digital technologies makes company confident of sustaining strong growth in Q4 & FY25.

**Exhibit 1: Financial snapshot**

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
<b>Revenues</b>	<b>3,237</b>	<b>2,932</b>	<b>10.4</b>	<b>2,549</b>	<b>27.0</b>
COGS	1,585	1,566	1.2	1,304	21.5
Gross profit	1,652	1,366	20.9	1,245	32.7
SG&A	881	794	11.0	656	34.4
<b>EBITDA</b>	<b>770</b>	<b>572</b>	<b>34.6</b>	<b>589</b>	<b>30.8</b>
Depreciation & amortization	69	69	0.7	62	12.0
EBIT	701	504	39.2	528	33.0
Other income	98	82	19.8	83	18.4
PBT	800	586	36.5	611	31.0
Tax	116	108	7.6	138	(15.4)
Minority interest			<i>n.m.</i>		<i>n.m.</i>
<b>Adjusted net profit</b>	<b>683</b>	<b>478</b>	<b>43.0</b>	<b>473</b>	<b>44.5</b>
Exceptional item	0	0	<i>n.m.</i>	0	<i>n.m.</i>
<b>Reported net profit</b>	<b>683</b>	<b>478</b>	<b>43.0</b>	<b>473</b>	<b>44.5</b>
<b>Diluted EPS (Rs)</b>	<b>4.7</b>	<b>3.4</b>	<b>40.8</b>	<b>3.4</b>	<b>39.9</b>
<b>As % of net revenue</b>					
Gross profit	51.0	46.6		48.8	
SG&A	27.2	27.1		25.7	
EBITDA	23.8	19.5		23.1	
EBIT	21.7	17.2		20.7	
Reported net profit	21.1	16.3		18.6	
Tax rate	14.5	18.5		22.5	

Source: Company; IDBI Capital Research

**Exhibit 2: Earnings Revision**

Year-end: March	FY24F			FY25F			FY26F		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg%
Revenue (Rs mn)	12,785	13,097	-2.4%	16,316	16,327	-0.1%	21,034	20,729	1.5%
EBIT	2,790	2,986	-6.6%	3,643	3,495	4.2%	4,746	4,637	2.4%
<i>EBIT margin (%)</i>	<i>21.8</i>	<i>22.80</i>	<i>(98 bps)</i>	<i>22.3</i>	<i>21.41</i>	<i>92 bps</i>	<i>22.6</i>	<i>22.37</i>	<i>20 bps</i>
EPS (Rs)	18.3	19.6	-6.9%	23.1	22	4.9%	30.3	30.2	0.3%

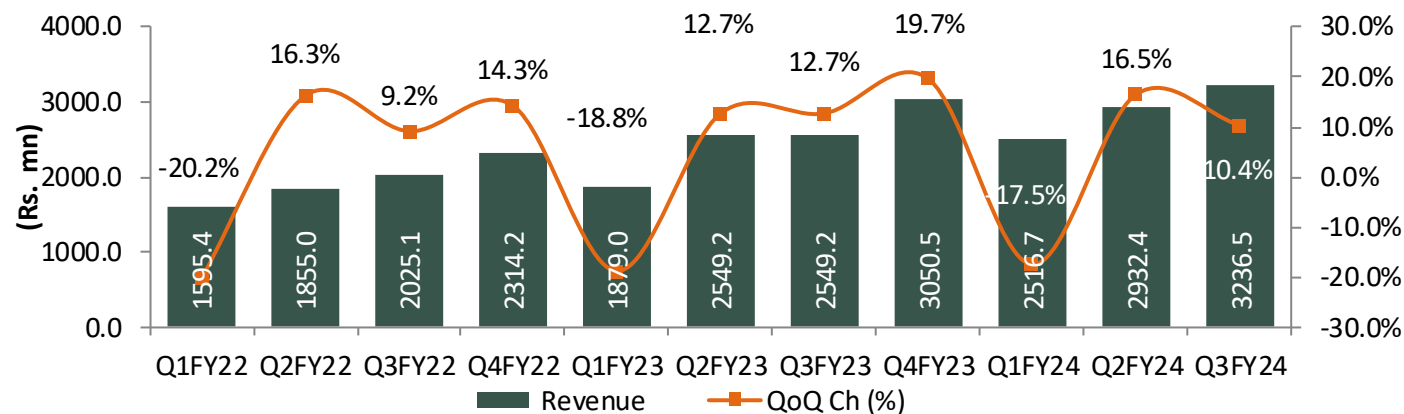
Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. estimates**

Year to March	Q3FY24	Q3FY24E	Variance (%)
Revenue (Rs mn)	3,237	3,314	-2.3%
EBIT (Rs mn)	701	742	-5.4%
<i>EBIT margin (%)</i>	<i>21.7%</i>	<i>22.4%</i>	<i>(70 bps)</i>
Recurring PAT (Rs mn)	683	659	3.7%
<i>Recurring PAT margin (%)</i>	<i>21.1%</i>	<i>19.9%</i>	<i>120 bps</i>
EPS (Rs)	4.7	4.6	3.7%

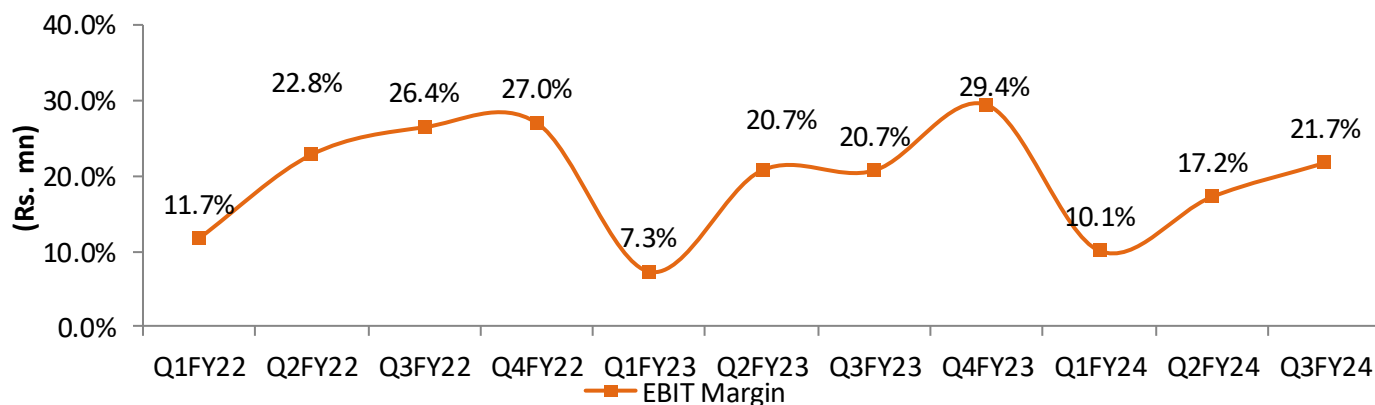
Source: Company; IDBI Capital Research

**Exhibit 4: Q3FY24 Revenue growth was below with our estimates.**



Source: Company; IDBI Capital Research

**Exhibit 5: Q3FY24 EBIT margin improved by 449 bps QoQ**



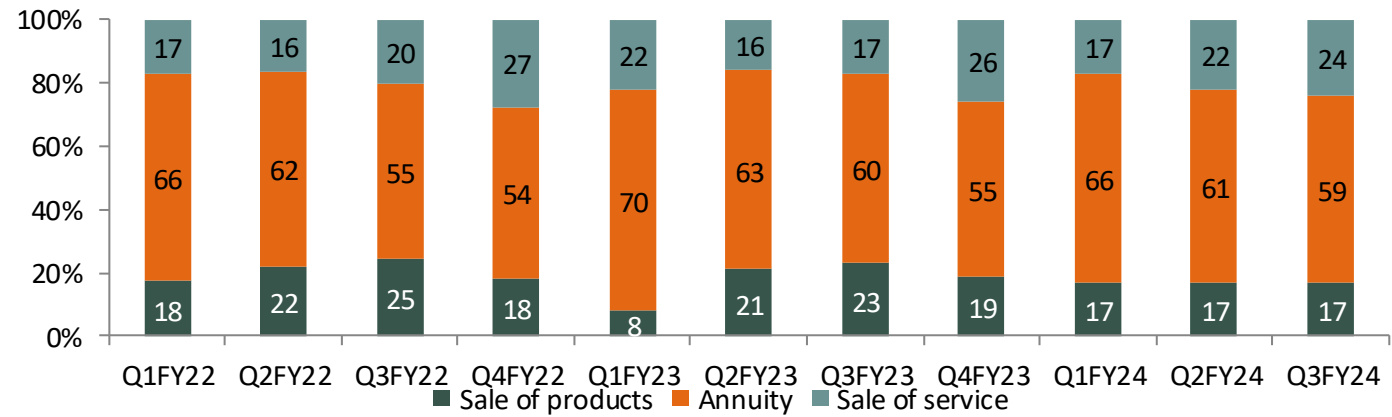
Source: Company; IDBI Capital Research

**Exhibit 6: Revenue growth across various segments (%)**

Parameters	% of revenue	QoQ growth (%)	YoY growth (%)
	Total revenue	10.4%	27%
<b>Geography</b>			
India	34.4	19.8	29.3
EMEA	30.9	0.6	41.4
APAC	13.1	24.7	17.8
USA	21.6	4.5	12.6
<b>Verticals</b>			
Banking	65.0	(3.1)	23.2
Govt/PSU	11.0	51.8	74.6
BPO/IT	2.0	120.7	-15.4
Insurance	10.0	120.7	15.4
Healthcare	7.0	28.8	77.8
Others	5.0	(8.0)	5.8

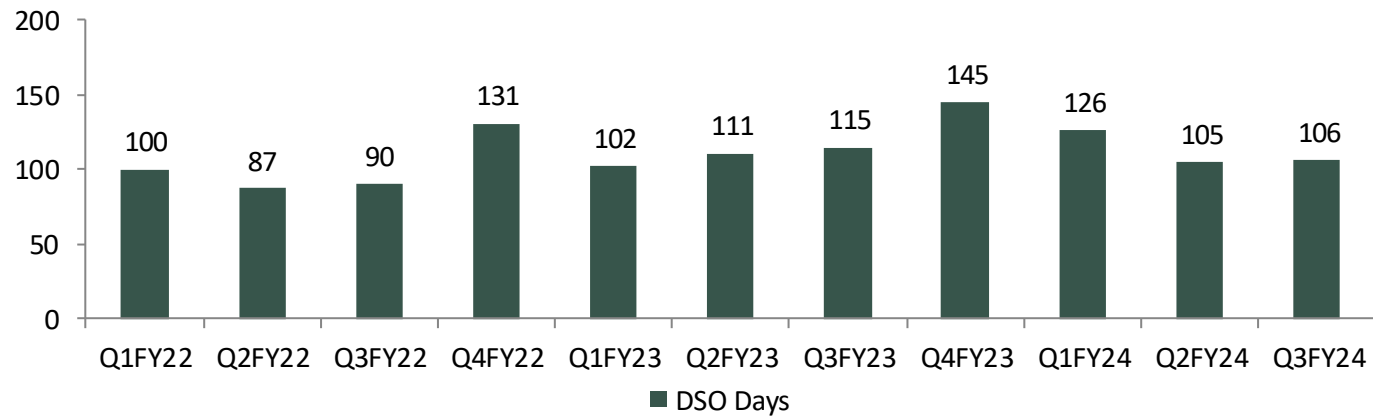
Source: Company; IDBI Capital Research

**Exhibit 7: Share of annuity revenue stood at 59%**



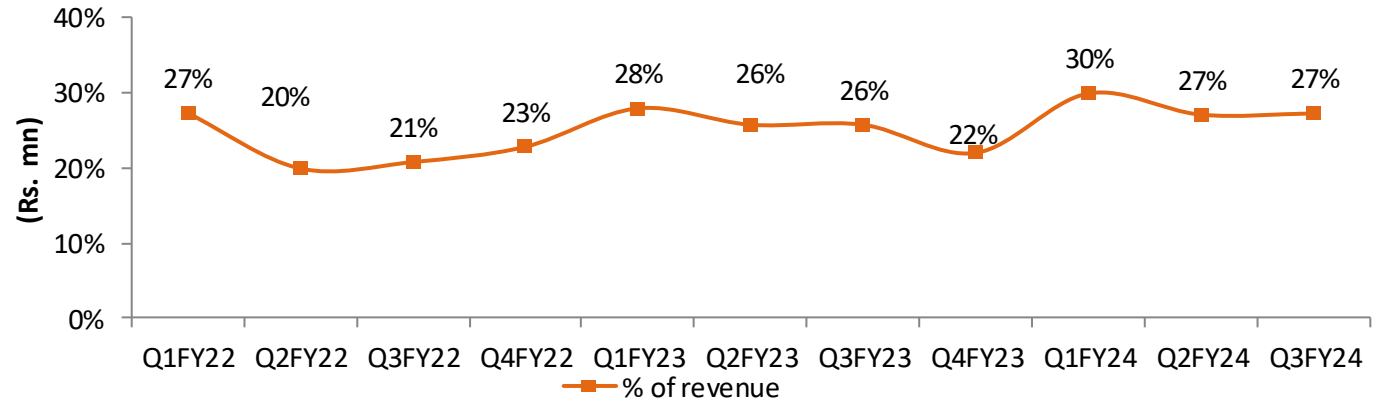
Source: Company; IDBI Capital Research

**Exhibit 8: Trend of DSO (days)**



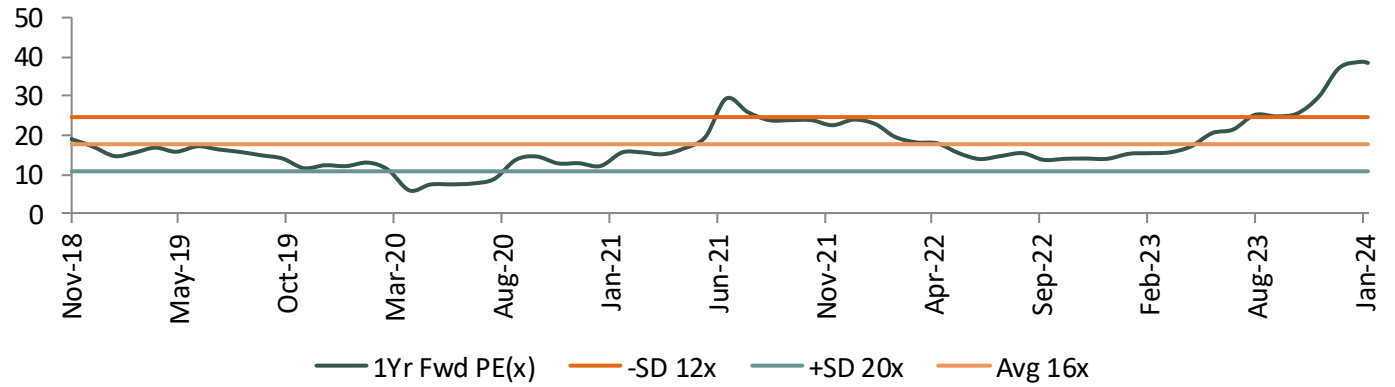
Source: Company; IDBI Capital Research

**Exhibit 9: Admin expenses as a % of revenue**



Source: Company; IDBI Capital Research

**Exhibit 10: PER trend**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>6,726</b>	<b>7,790</b>	<b>9,740</b>	<b>12,785</b>	<b>16,316</b>	<b>21,034</b>
<i>Change (yoy, %)</i>	1.8	16	25	31	28	29
Operating expenses	(4,807)	(5,843)	(7,618)	(9,721)	(12,372)	(15,917)
<b>EBITDA</b>	<b>1,919</b>	<b>1,947</b>	<b>2,122</b>	<b>3,065</b>	<b>3,944</b>	<b>5,117</b>
<i>Change (yoy, %)</i>	83.5	1	9	44	29	30
<i>Margin (%)</i>	28.5	25.0	21.8	24.0	24.2	24.3
Depreciation	(201)	(176)	(247)	(275)	(301)	(370)
<b>EBIT</b>	<b>1,718</b>	<b>1,770</b>	<b>1,875</b>	<b>2,790</b>	<b>3,643</b>	<b>4,746</b>
Interest paid	(56)	(35)	(43)	(50)	(50)	(50)
Other income	150	299	340	442	454	616
<b>Pre-tax profit</b>	<b>1,812</b>	<b>2,035</b>	<b>2,173</b>	<b>3,182</b>	<b>4,047</b>	<b>5,312</b>
Tax	(547)	(392)	(422)	(620)	(809)	(1,062)
<i>Effective tax rate (%)</i>	30.2	19.3	19.4	19.5	20.0	20.0
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>1,265</b>	<b>1,642</b>	<b>1,751</b>	<b>2,561</b>	<b>3,238</b>	<b>4,250</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>1,265</b>	<b>1,642</b>	<b>1,751</b>	<b>2,561</b>	<b>3,238</b>	<b>4,250</b>
<i>Change (yoy, %)</i>	73.9	30	7	46	26	31
EPS*	9.1	11.8	12.6	18.3	23.1	30.3
Dividend per sh	1.0	1.8	2.3	5.5	6.9	9.1
<i>Dividend Payout %</i>	11.1	14.9	18.0	30	30	30

\* Adjusted for Bonus

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Shareholders' funds</b>	<b>6,657</b>	<b>8,114</b>	<b>9,768</b>	<b>11,560</b>	<b>13,827</b>	<b>16,802</b>
Share capital	693	695	697	1,403	1,403	1,403
Reserves & surplus	5,964	7,419	9,071	10,157	12,424	15,399
<b>Total Debt</b>	<b>425</b>	<b>611</b>	<b>690</b>	<b>690</b>	<b>690</b>	<b>690</b>
Other liabilities	1,039	1,260	1,680	1,680	1,680	1,680
<b>Curr Liab &amp; prov</b>	<b>1,085</b>	<b>1,128</b>	<b>1,284</b>	<b>1,410</b>	<b>1,566</b>	<b>1,774</b>
Current liabilities	1,039	1,063	1,189	1,285	1,407	1,569
Provisions	46	65	95	124	159	204
<b>Total liabilities</b>	<b>2,549</b>	<b>2,999</b>	<b>3,654</b>	<b>3,780</b>	<b>3,936</b>	<b>4,144</b>
<b>Total equity &amp; liabilities</b>	<b>9,206</b>	<b>11,113</b>	<b>13,422</b>	<b>15,340</b>	<b>17,763</b>	<b>20,946</b>
<b>Net fixed assets</b>	<b>2,049</b>	<b>2,299</b>	<b>2,445</b>	<b>2,388</b>	<b>2,331</b>	<b>2,276</b>
Investments	-	-	-	-	-	-
Other non-curr assets	666	1,306	2,700	2,700	2,700	2,700
<b>Current assets</b>	<b>6,490</b>	<b>7,508</b>	<b>8,277</b>	<b>10,253</b>	<b>12,732</b>	<b>15,970</b>
Inventories	-	-	-	-	-	-
Sundry Debtors	2,385	2,789	3,882	5,079	6,035	7,780
Cash and Bank	2,417	2,759	2,083	2,815	4,283	5,702
Loans and advances	833	926	1,315	1,315	1,315	1,315
<b>Total assets</b>	<b>9,206</b>	<b>11,113</b>	<b>13,422</b>	<b>15,340</b>	<b>17,763</b>	<b>20,946</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,812	2,035	2,173	3,182	4,047	5,312
Depreciation	55	123	247	275	301	370
Tax paid	(291)	(493)	(411)	(620)	(809)	(1,062)
Chg in working capital	166	(351)	(1,407)	(1,072)	(800)	(1,536)
Other operating activities	-	-	(281)	(739)	(11)	(74)
<b>Cash flow from operations (a)</b>	<b>1,742</b>	<b>1,314</b>	<b>320</b>	<b>1,025</b>	<b>2,728</b>	<b>3,010</b>
Capital expenditure	106	(373)	(393)	(217)	(245)	(316)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	(350)	-	-	-
<b>Cash flow from investing (b)</b>	<b>106</b>	<b>(373)</b>	<b>(743)</b>	<b>(217)</b>	<b>(245)</b>	<b>(316)</b>
Equity raised/(repaid)	2	2	1	706	-	-
Debt raised/(repaid)	(785)	186	78	-	-	-
Dividend (incl. tax)	(140)	(245)	(315)	(768)	(971)	(1,275)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(160)	(543)	(30)	(15)	(44)	-
<b>Cash flow from financing (c)</b>	<b>(1,083)</b>	<b>(599)</b>	<b>(265)</b>	<b>(77)</b>	<b>(1,015)</b>	<b>(1,275)</b>
<b>Net chg in cash (a+b+c)</b>	<b>765</b>	<b>342</b>	<b>(688)</b>	<b>731</b>	<b>1,468</b>	<b>1,419</b>

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	47.8	58	70	82	99	120
Adj EPS (Rs)	9.1	11.8	12.6	18.3	23.1	30.3
Adj EPS growth (%)	-13.8	30	7	45	26	31
EBITDA margin (%)	28.5	25.0	21.8	24.0	24.2	24.3
Pre-tax margin (%)	26.9	26.1	22.3	24.9	24.8	25.3
Net Debt/Equity (x)	-0.3	-0.3	-0.1	-0.2	-0.3	-0.3
ROCE (%)	21.7	20	17	21	24	25
ROE (%)	20.8	22	20	24	26	25

### DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.9	1.0	1.0
Leverage factor (x)	1.5	1.4	1.4	1.3	1.3	1.2
Net margin (%)	18.8	21.1	18.0	20.0	19.8	20.2

### Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	129	131	145	145	135	135
Payable days	17	23	17	17	17	17

### Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	99	76	71	49	39	30
Price/Book value (x)	18.8	15.4	12.8	10.9	9.1	7.5
EV/Net sales (x)	18.3	15.8	12.7	9.7	7.5	5.8
EV/EBITDA (x)	64	63	58	40	31	24
Dividend Yield (%)	0.1	0.2	0.3	0.6	0.8	1.0

Source: Company; IDBI Capital Research



# Notes

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Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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**Compliance Officer:** Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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