

Newgen Software Technologies **HOLD**

License (revenue) to give license to growth

Summary

Strong quarter led by higher license revenue (+70% YoY) followed by implementation revenue growth with sturdy deal velocity. Management expects the same momentum to continue in Q4 with longer execution cycle in India & EMEA. Company emphasized on these regions as the growth driver with focusing more on insurance & healthcare verticals (specifically in matured markets) and building more use cases centered AI/Gen AI. These transformational use cases are in areas such as BFSI (payments, co-lending, trade finance, lead generation, supply chain finance etc.) & Healthcare (payers, providers & pharmacy). In-line with strategy, company is investing in R&D (Q3FY25 – 9%) & sales team (Q3FY25 – 11%) with improving margins (26.1%; +540bps QoQ) led by operational efficiency. This gives us confidence to build in ~25% revenue growth for FY26 & FY27 coupled with improving positive demand environment. However, execution cycle is bit longer typically more than a year which makes revenue recognition uncertain in nature. Hence, maintaining the rating to HOLD & upgrading the TP to Rs. 1,700 (50x FY27E EPS) v/s Rs. 1,450.

Key Highlights and Investment Rationale

- Structural tailwind in growth:** Strong traction in new logo addition (15 in Q3FY25 & 36 in 9MFY25), improving client mining, digital lending, improving prospects in APAC, India & Middle East will drive company's revenue growth. In addition, the company is trying improve growth in insurance vertical and taping trade finance in India & Middle East for the same.
- Margins on steady pace:** We expect the company to maintain 21% net margins in near term leading to PAT of 20% growth over FY26E. PAT margins would improve due to increase in productivity and low churn (headcount).

TP	Rs1,700
CMP	Rs1,561
Potential upside/downside	9%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.8)	24.0	90.2
Rel to Sensex	0.4	29.1	82.3

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	23	28	34
Consensus	23	29	37
% difference	(1.2)	(2.7)	(8.0)

Key Stock Data

Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	142
Market cap. (Rs mn)	221,119
3-m daily average value (Rs mn)	8.2
52-week high / low	Rs1,796 / 626
Sensex / Nifty	77,073 / 23,345

Shareholding Pattern (%)

Promoters	54.3
FII	20.3
DII	3.2
Public	22.2

Financial snapshot

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,740	12,438	15,444	19,088	23,521
Change (yoy, %)	25	28	24	24	23
EBITDA	2,122	2,883	3,617	4,435	5,369
Change (yoy, %)	9	36	25	23	21
EBITDA Margin(%)	21.8	23.2	23.4	23.2	22.8
Adj.PAT	1,764	2,516	3,230	3,872	4,751
EPS (Rs)	13	18	23	28	34
Change (yoy, %)	7.4	42.1	28.4	20	23
PE(x)	123	87	67	56	46
Dividend Yield (%)	0.1	0.2	0.4	1	1
EV/EBITDA (x)	102	75	59	48	39
RoE (%)	20	23	24	23	23
RoCE (%)	17	19	20	20	20

Source: IDBI Capital Research;

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Con-call Highlights

- Revenue stood at Rs 3,811 mn, up 5.5% QoQ and 17.8% YoY led by higher growth in license revenue (+70% YoY) and significant large deal closure. Geo-wise growth was led by India ((10.5%/9.7% QoQ/YoY) & APAC (17%/43.5% QoQ/YoY); Other regions like USA grew by 1.5%/13.4% QoQ/YoY while, EMEA de-grew by 1.4% QoQ. With the stronger deal wins, revenue from existing clients is 80-85%.
- Margin for the quarter stood at 26.1% v/s 20.5%, an increment of 540bps QoQ led by operating efficiency. Management stated budgeted costs to be in the range of 18-20% and expects revenue growth above 20-23% which would lead to margin expansion. In terms of margins, India margins stood at 14.87% (up by 70 bps QoQ, down 800 bps YoY), EMEA 38% (up 898 bps/1075bps QoQ/YoY), APAC at 45% (up 1145 bps/1527bps QoQ/YoY) and USA at 22% (up 307bps/572bps QoQ/YoY).
- **Deals & Order book:** 12 Net new logos added in the quarter; 1 from RBI for implementation & maintenance system of regulatory application (ACV-320mn); another from India for Loan origination with Aye finance ltd (240mn); 1 in Saudi Arabia from large power generation (\$2.3mn); 1 in Singapore for providing knowledge and records management system (SGD \$1.7mn); 1 in US with banking client for digital a/c opening retail loans, ECM collection (\$1.8mn); 1 in EMEA region for digital lending (\$2mn); 1 in Africa for credit automation service with BFS client (\$1.6mn). Management stated that order book grew by 22% in H1FY25 which includes both executable & executed both. In this quarter, large deals are majorly from large BFS firms & small deals are getting traction. For FY25, management expects large deal size to be in the similar lengths as last year with higher license sale from which 90% will ramp up in FY26.
- **Demand environment:** With respect to India, management expects lending wave to continue in BFS, however, a slight slow-down in growth has been in digital lending projects which leads to lower revenue realization, which could offset by increasing new NBFCs. More traction in BFS is seen in US and deals are in pipeline, however, expects it to slowdown for couple of quarters and to recover in faster pace. During the quarter, good traction was seen in govt. vertical with evergreen BFSI. In insurance, life & non-insurance in US is getting more traction for ECM & CCM models.
- Company saw a strong growth in license revenue and sustain the momentum. Management emphasized on longer execution cycle in India & Middle east, however, it would not be much impactful in deal wins ahead. Newer bookings are short term & old deals are long termed. Company is persistent in their efforts by capturing the market share in matured markets to reach aspirational revenue target of \$500mn.

- Company is heavily investing in R&D, building capabilities around the existing products, new products lines to penetrate into different geos and translate the small deals into the large ones. Management also emphasized on high deal velocity which would translate in higher implementation revenue, however, the deal cycle has got longer (typically more than 1 Year).
- **Key Strategies:** Building product lines to cater large clients and converting small into large ones and investing in R&D (Q3FY25 – 9%) and sales & marketing teams (Q3FY25 – 11%). Management also, envisaged of Health Insurance vertical to level with banking vertical in next 3-4years and aims to have 40% of revenue from Govt & Insurance segment (currently 20%).
- Workforce stood at ~4500 employees and management is keen on hiring from campus and offshore. Company is augmenting workforce around AI/Gen AI capabilities to cater to the upcoming demand.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenues	3,811	3,612	5.5	3,237	17.8
COGS	1,882	1,847	1.9	1,585	18.8
Gross profit	1,929	1,765	9.3	1,652	16.8
SG&A	845	935	(9.6)	881	(4.1)
EBITDA	1,083	830	30.5	770	40.6
Depreciation & amortization	87	80	8.4	69	25.6
EBIT	997	750	32.9	701	42.1
Other income	70	176	(60.3)	98	(29.2)
PBT	1,066	926	15.2	800	33.3
Tax	176	222	(20.7)	116	51.5
Minority interest			<i>n.m.</i>		<i>n.m.</i>
Adjusted net profit	890	703	26.5	683	30.2
Exceptional item	0	0	<i>n.m.</i>	0	<i>n.m.</i>
Reported net profit	890	703	26.5	683	30.2
Diluted EPS (Rs)	6.4	5.0	26.4	4.9	29.8
As % of net revenue					
Gross profit	50.6	48.9		51.0	
SG&A	22.2	25.9		27.2	
EBITDA	28.4	23.0		23.8	
EBIT	26.1	20.8		21.7	
Reported net profit	23.4	19.5		21.1	
Tax rate	16.5	24.0		14.5	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q3FY25	Q3FY25E	Variance (%)
Revenue (Rs mn)	3,811	3,771	1.1%
EBIT (Rs mn)	997	806	23.6%
EBIT margin (%)	26.1%	21.4%	478 bps
Recurring PAT (Rs mn)	890	745	19.47%
Recurring PAT margin (%)	23.4%	19.8%	360 bps
EPS (Rs)	6.4	5.3	19.3%

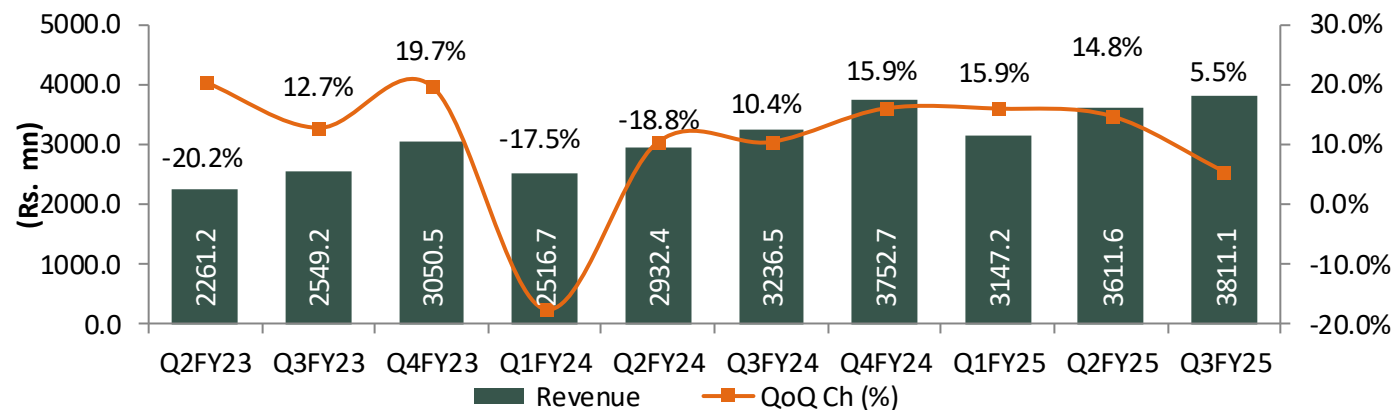
Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

Year-end: March	FY25E			FY26E			FY27E
	New	Old	Chg (%)	New	Old	Chg (%)	New
Revenue (US\$ mn)	15,444	15,543	-0.6%	19,088	19,446	-1.8%	23,521
Revenue (Rs bn)	3,308	3,343	-1.0%	3,968	4,340	-8.6%	4,765
EBIT (Rs mn)	21.4%	21.5%	-9 bps	20.8%	22.3%	-153 bps	20.3%
EBIT margin (%)	22.5	23.0	-2.3%	26.9	29.0	-7.1%	33.0
EPS (Rs/sh)	15,444	15,543	-0.6%	19,088	19,446	-1.8%	23,521

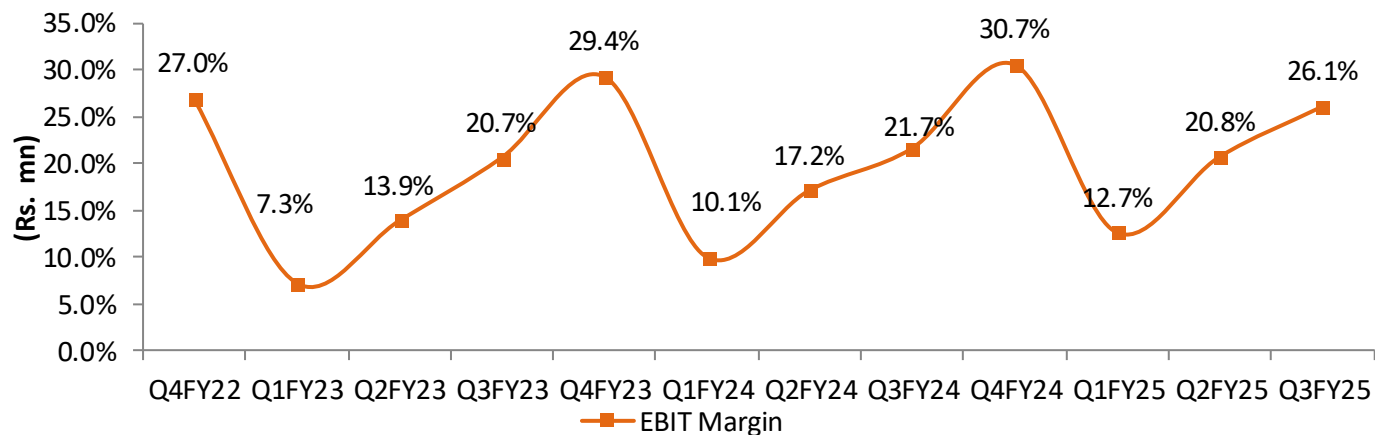
Source: Company; IDBI Capital Research

Exhibit 4: Q3FY25 Revenue was up 5.5% QoQ



Source: Company; IDBI Capital Research

Exhibit 5: Q3FY25 EBIT margin improved by 530 bps QoQ



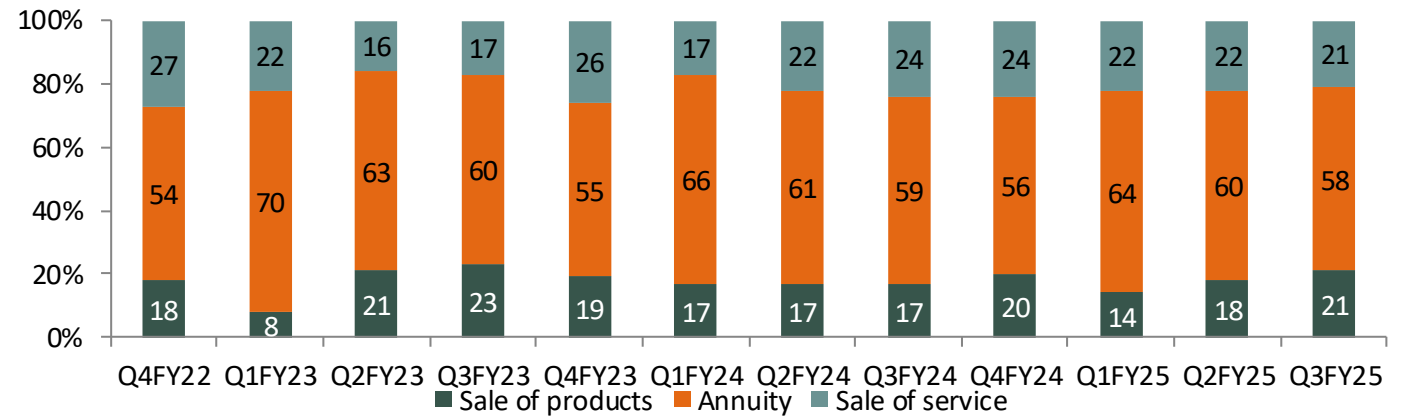
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (%)	YoY growth (%)
		6%	18%
Geography			
India	31.0	10.5	9.7
EMEA	32.0	-1.4	18.9
APAC	15.0	17.1	43.5
USA	22.0	1.5	13.4
Verticals			
Banking & FS	71.0	4.1	28.6
Govt/PSU	8.0	40.7	-14.4
Insurance & Healthcare	14.0	-1.5	64.9
Others	7.0	5.5	64.9

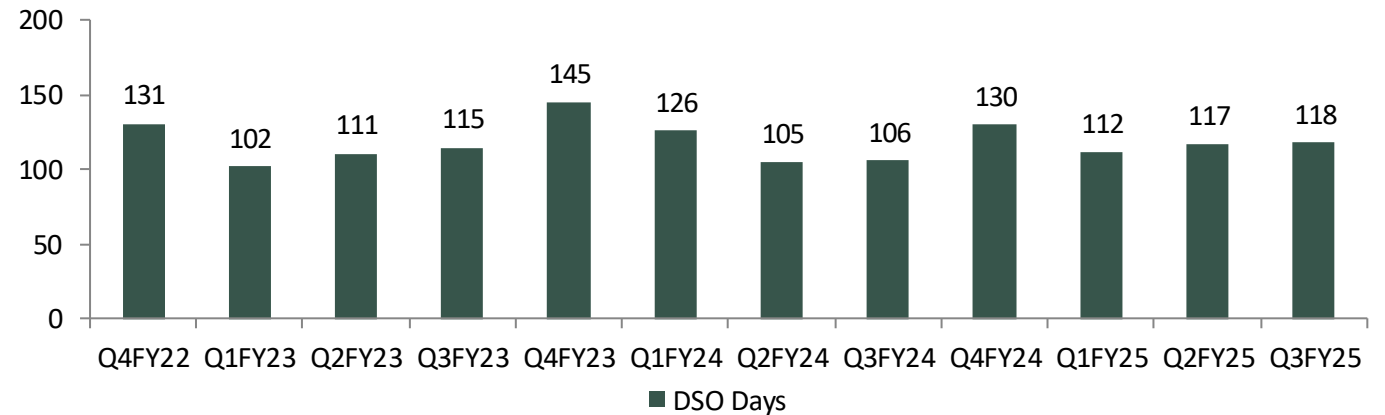
Source: Company; IDBI Capital Research

Exhibit 7: Share of annuity revenue stood at 58%



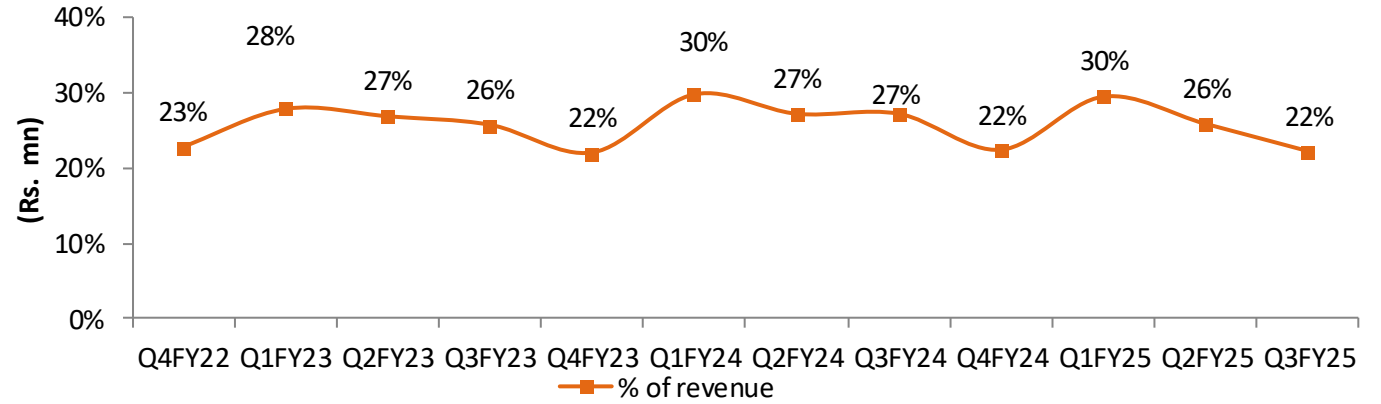
Source: Company; IDBI Capital Research

Exhibit 8: Trend of DSO (days)



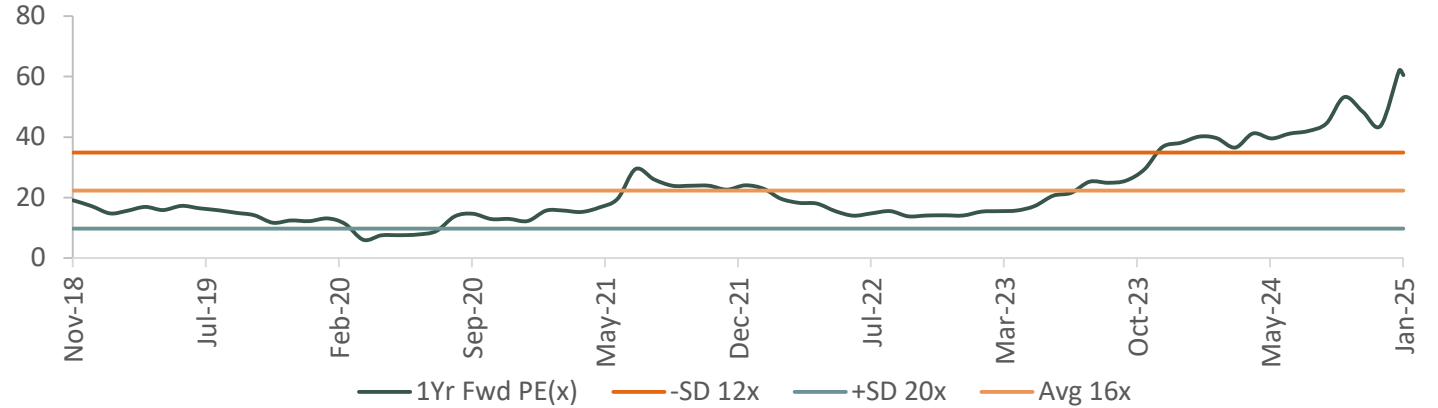
Source: Company; IDBI Capital Research

Exhibit 9: Admin expenses declined QoQ 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	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	7,790	9,740	12,438	15,444	19,088	23,521
<i>Change (yoy, %)</i>	15.8	25	28	24	24	23
Operating expenses	(5,843)	(7,618)	(9,555)	(11,827)	(14,653)	(18,152)
EBITDA	1,947	2,122	2,883	3,617	4,435	5,369
<i>Change (yoy, %)</i>	1.4	9	36	25	23	21
<i>Margin (%)</i>	25.0	21.8	23.2	23.4	23.2	22.8
Depreciation	(176)	(247)	(280)	(309)	(467)	(604)
EBIT	1,770	1,875	2,603	3,308	3,968	4,765
Interest paid	(35)	(43)	(42)	(36)	(36)	(36)
Other income	299	340	481	741	879	1,174
Pre-tax profit	2,035	2,173	3,042	4,013	4,810	5,902
Tax	(392)	(409)	(526)	(782)	(938)	(1,151)
<i>Effective tax rate (%)</i>	19.3	18.8	17.3	19.5	19.5	19.5
Minority Interest	-	-	-	-	-	-
Net profit	1,642	1,764	2,516	3,230	3,872	4,751
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,642	1,764	2,516	3,230	3,872	4,751
<i>Change (yoy, %)</i>	29.8	7	43	28	20	23
EPS*	11.8	12.7	18.0	23.1	27.7	34.0
Dividend per sh	1.8	2.3	2.5	6.9	8.3	10.2
<i>Dividend Payout %</i>	14.9	17.8	13.9	30	30	30

Note: * Adjusted for Bonus

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	8,114	9,825	12,235	14,496	17,207	20,533
Share capital	695	697	1,398	1,398	1,398	1,398
Reserves & surplus	7,419	9,129	10,837	13,099	15,809	19,135
Total Debt	611	658	834	834	834	834
Other liabilities	1,260	1,680	2,051	2,051	2,051	2,051
Curr Liab & prov	1,128	1,284	1,745	1,880	2,048	2,255
Current liabilities	1,063	1,189	1,653	1,766	1,907	2,081
Provisions	65	95	92	114	141	173
Total liabilities	2,999	3,622	4,630	4,765	4,933	5,140
Total equity & liabilities	11,113	13,447	16,865	19,261	22,140	25,673
Net fixed assets	2,299	2,446	2,510	2,819	3,115	3,452
Investments	-	-	-	-	-	-
Other non-curr assets	1,306	2,725	1,293	1,293	1,293	1,293
Current assets	7,508	8,276	13,062	15,150	17,731	20,928
Inventories	-	-	-	-	-	-
Sundry Debtors	2,789	3,882	4,435	5,078	6,275	7,733
Cash and Bank	2,759	2,083	3,759	5,140	6,445	8,089
Loans and advances	926	1,315	3,651	3,651	3,651	3,651
Total assets	11,113	13,447	16,865	19,261	22,140	25,673

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	2,035	2,173	3,042	4,013	4,810	5,902
Depreciation	123	247	280	309	467	604
Tax paid	(493)	(424)	(569)	(782)	(938)	(1,151)
Chg in working capital	(351)	(1,407)	(2,450)	(507)	(1,030)	(1,251)
Other operating activities	-	(224)	1,204	(28)	(94)	-
Cash flow from operations (a)	1,314	365	1,507	3,004	3,215	4,105
Capital expenditure	(373)	(393)	(344)	(618)	(764)	(941)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	(350)	-	-	-	-
Cash flow from investing (b)	(373)	(743)	(344)	(618)	(764)	(941)
Equity raised/(repaid)	2	1	701	-	-	-
Debt raised/(repaid)	186	47	176	-	-	-
Dividend (incl. tax)	(245)	(315)	(350)	(969)	(1,162)	(1,425)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(543)	(30)	(15)	(39)	10	(268)
Cash flow from financing (c)	(599)	(297)	513	(1,008)	(1,152)	(1,693)
Net chg in cash (a+b+c)	342	(676)	1,676	1,378	1,300	1,471

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	58.3	71	88	104	123	147
Adj EPS (Rs)	11.8	12.7	18.0	23.1	27.7	34.0
Adj EPS growth (%)	29.8	7	42	28	20	23
EBITDA margin (%)	25.0	21.8	23.2	23.4	23.2	22.8
Pre-tax margin (%)	26.1	22.3	24.5	26.0	25.2	25.1
Net Debt/Equity (x)	-0.3	-0.1	-0.2	-0.3	-0.3	-0.4
ROCE (%)	19.6	17	19	20	20	20
ROE (%)	22.2	20	23	24	23	23

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.9	0.9	0.9
Leverage factor (x)	1.4	1.4	1.4	1.4	1.3	1.3
Net margin (%)	21.1	18.1	20.2	20.9	20.3	20.2

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	131	145	130	120	120	120
Payable days	23	17	18	18	18	18

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	132	123	87	67	56	46
Price/Book value (x)	26.8	22.1	17.8	15.0	12.7	10.6
EV/Net sales (x)	28	22	17	14	11	9
EV/EBITDA (x)	110	102	75	59	48	39
Dividend Yield (%)	0.1	0.1	0.2	0.4	0.5	0.7

Source: Company; IDBI Capital Research

Dealing

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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**

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