

Newgen Software Technologies **HOLD**

Driving growth through AI innovation & digital

Summary

Newgen Software Technologies posted a strong Q2 FY26, with revenue growing 11% year-on-year to INR 401cr, and profit rising 16% to INR 82cr. The company's subscription revenue surged 20% to INR 126cr. The quarter saw 15 new clients and significant multimillion-dollar orders in the UK, Europe, Ghana, and India. Both the US and Asia-Pacific regions grew by 22%, while India and EMEA posted steady gains. Their focus on digital solutions and AI-based products is helping improve efficiency, which in turn supports stable profit margins (20.4%). Newgen is also benefiting from investments in sales, marketing, and R&D. The company's order book grew over 20% compared to last year, and cash flow remains healthy. Overall, Newgen's strategy of scaling up SaaS, increasing global presence, and leveraging AI investments is driving consistent growth and strong financial performance. We reiterate our rating to HOLD, with a TP of Rs 1,091, assigning a 36.5x FY27E EPS multiple.

Key Highlights and Investment Rationale

- Structural tailwind in growth:** Company is set to benefit from rising global demand for digital transformation, increased adoption of cloud/SaaS models, and strong investments in AI-powered solutions. Expansion into new geographies and verticals, along with an active partner ecosystem, further reinforce sustained long-term growth potential.
- Margins on steady pace:** Margins improved materially QoQ, driven by revenue mix shifts towards subscriptions, efficient cost control, and benefits from ongoing AI-led productivity enhancements.

TP **Rs1,091**

CMP **Rs998**

Potential upside/downside 9%

Previous Rating **HOLD**

Price Performance (%)

	-1m	-3m	-12m
Absolute	12.4	17.1	(19.0)
Rel to Sensex	7.2	12.4	(24.8)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	24.5	29.9
Consensus	24.3	29.7
% difference	0.7	0.8

Key Stock Data

Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	142
Market cap. (Rs mn)	142,076
3-m daily average value (Rs mn)	8.2
52-week high / low	Rs1,796 / 740
Sensex / Nifty	84,628 / 25,936

Shareholding Pattern (%)

Promoters	53.8
FII	17.6
DII	4.0
Public	24.6

Financial snapshot

(Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	9,740	12,438	14,869	16,744	20,012
Change (yoy, %)	25.0	27.7	19.5	12.6	19.5
EBITDA	2,122	2,883	3,762	4,104	5,017
Change (yoy, %)	9.0	35.9	30.5	9.1	22.3
EBITDA Margin(%)	21.8	23.2	25.3	24.5	25.1
Adj.PAT	1,764	2,516	3,152	3,417	4,171
EPS (Rs)	12.7	18.0	22.6	24.5	29.9
Change (yoy, %)	7.4	42.1	25.3	8	22
PE(x)	78.7	55.4	44.2	40.8	33.4
Dividend Yield (%)	0.2	0.3	0.4	0.7	0.9
EV/EBITDA (x)	64.8	47.3	36.2	32.5	26.3
RoE (%)	19.7	22.8	23.0	19.5	20.4
RoCE (%)	16.9	19.1	20.5	18.4	19.8

Source: IDBI Capital Research;

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Con-call Highlights

- Newgen delivered a strong Q2FY26 performance with revenue of INR 401 crore, up 11% YoY, supported by healthy demand across the US and APAC, both growing 22% during the quarter.
- Subscription revenue increased 20% YoY, reflecting the company's continued strategic shift toward annuity and cloud-led models.
- The company added 15 new clients including several large multi-year wins: a GBP 3m deal with a UK pensions consolidator, a EUR 4.2mn modernization contract with a European retail group, a USD 5.6mn platform win in Ghana, a USD 2.6mn US healthcare subscription contract, and a USD 1.6mn ECM deployment in the Americas.
- Profitability improved with PAT at INR 82 crore and net margin of 20.4%, aided by stable employee costs, improved delivery utilization, and higher revenue share from developed markets.
- Management reiterated that AI-led product enhancements are already improving internal productivity and are opening new enterprise use cases across BFSI and public sector workflows. While India and Middle East large-license deal closures remain slower, project execution has normalized and ATS/AMC revenues have recovered.
- Operating cash flow was INR 90 crore in H1 with DSO at 124 days, and headcount remains leaner YoY, reflecting ongoing efficiency focus. The company expects growth momentum to continue in H2 as deal pipeline conversion improves, especially in private banks, NBFCs, and Middle East markets now reopening.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Revenues	4,008	3,207	25.0	3,612	11.0
COGS	1,886	1,815	3.9	1,847	2.1
Gross profit	2,122	1,391	52.5	1,765	20.2
SG&A	1,098	942	16.6	935	17.5
EBITDA	1,024	450	127.6	830	23.4
Depreciation & amortization	91	91	0.4	80	13.8
EBIT	933	359	159.7	750	24.4
Other income	120	282	(57.3)	176	(31.6)
PBT	1,053	641	64.3	926	13.8
Tax	236	144	64.0	222	6.1
Minority interest			<i>n.m.</i>		<i>n.m.</i>
Adjusted net profit	817	497	64.4	703	16.2
Exceptional item	0	0	<i>n.m.</i>	0	<i>n.m.</i>
Reported net profit	817	497	64.4	703	16.2
Diluted EPS (Rs)	5.8	3.6	63.9	5.0	15.7
As % of net revenue					
Gross profit	52.9	43.4		48.9	
SG&A	27.4	29.4		25.9	
EBITDA	25.5	14.0		23.0	
EBIT	23.3	11.2		20.8	
Reported net profit	20.4	15.5		19.5	
Tax rate	22.4	22.4		24.0	

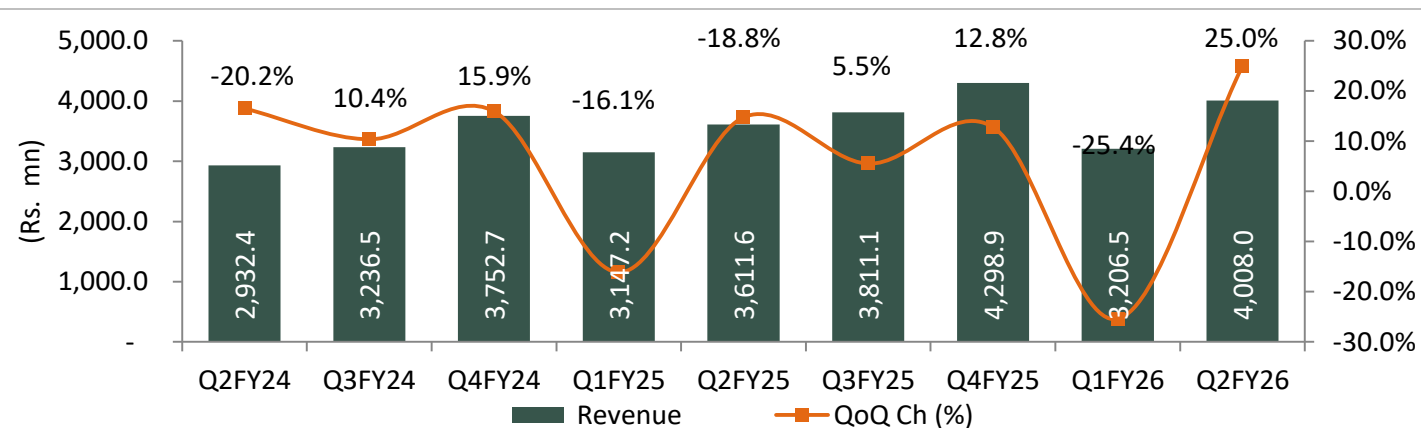
Source: Company; IDBI Capital Research

Exhibit 2: Estimates Revision

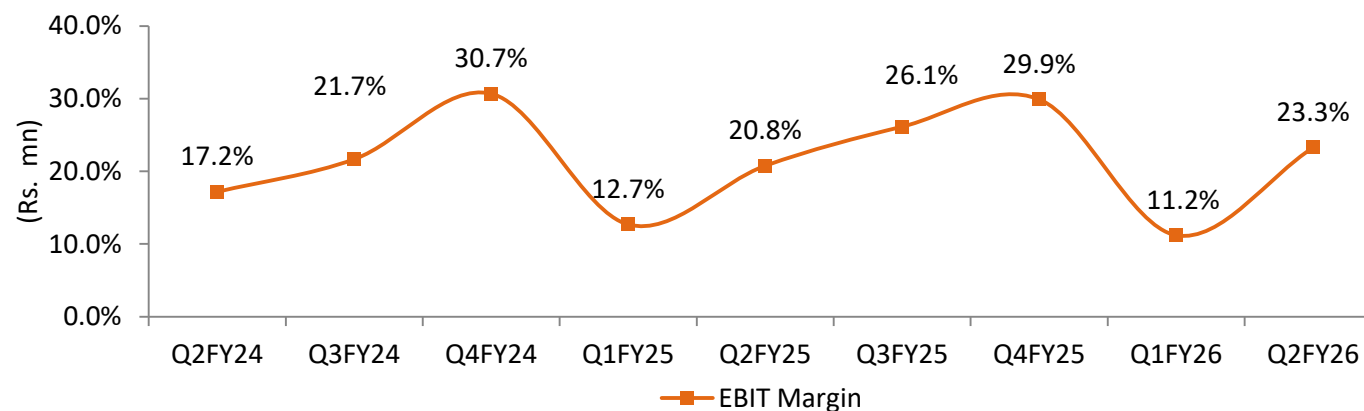
Year to March	FY26E			FY27E		
	New	Old	Ch (%)	New	Old	Ch (%)
Revenue (Rs mn)	16,744	18,002	-7.0%	20,012	21,984	-9.0%
EBIT (Rs mn)	3,817	4,074	-6.3%	4,688	5,105	-8.2%
EBIT margin (%)	22.8%	22.6%	17 bps	23.4%	23.2%	21 bps
EPS (Rs)	24.5	26.6	-8.0%	29.9	34.1	-12.4%

Source: Company; IDBI Capital Research

Exhibit 3: Q2FY26 Revenue up by 25% QoQ



Source: Company; IDBI Capital Research

Exhibit 4: Q2FY26 EBIT margin expanded to 23.3%

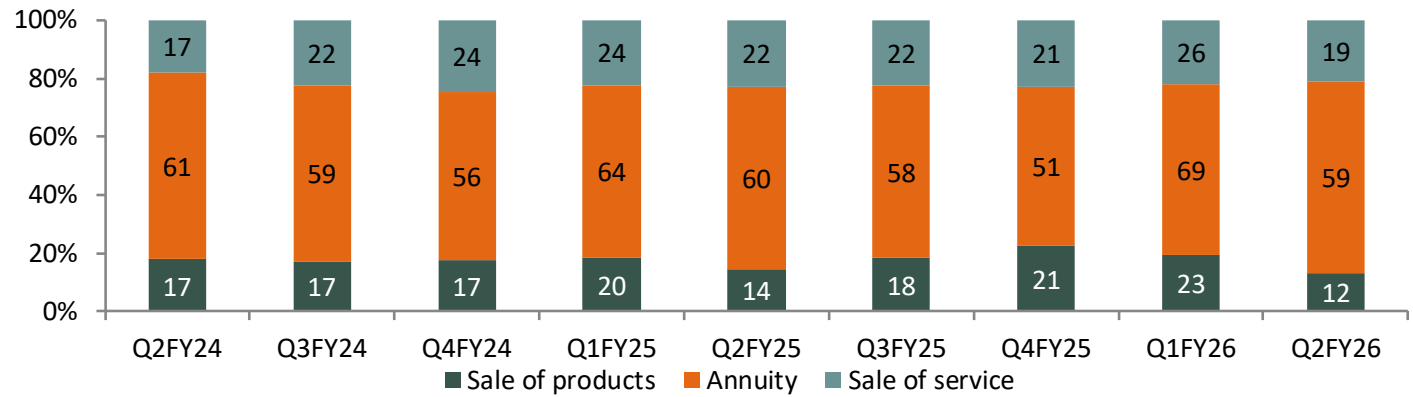
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (%)	YoY growth (%)
		25%	11%
Geography			
India	29.0	23.6	6.7
EMEA	31.0	20.5	3.2
APAC	16.0	27.1	22.2
USA	24.0	31.9	21.5
Verticals			
Banking & FS	68.0	26.9	4.8
Govt/PSU	7.0	45.8	29.5
Insurance & Healthcare	14.0	9.4	3.6
Others	11.0	14.6	74.4

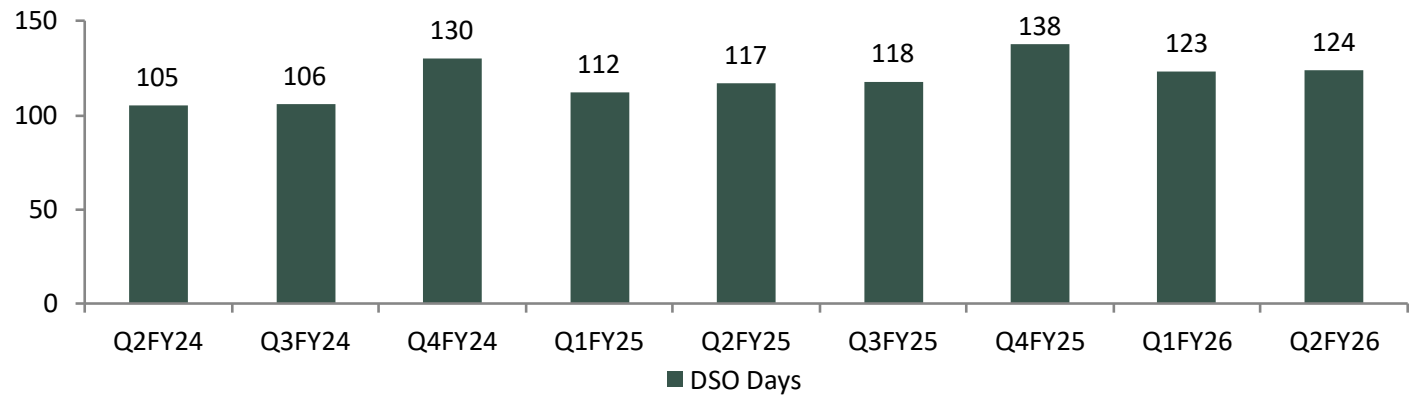
Source: Company; IDBI Capital Research

Exhibit 6: Share of annuity revenue stood at 59%



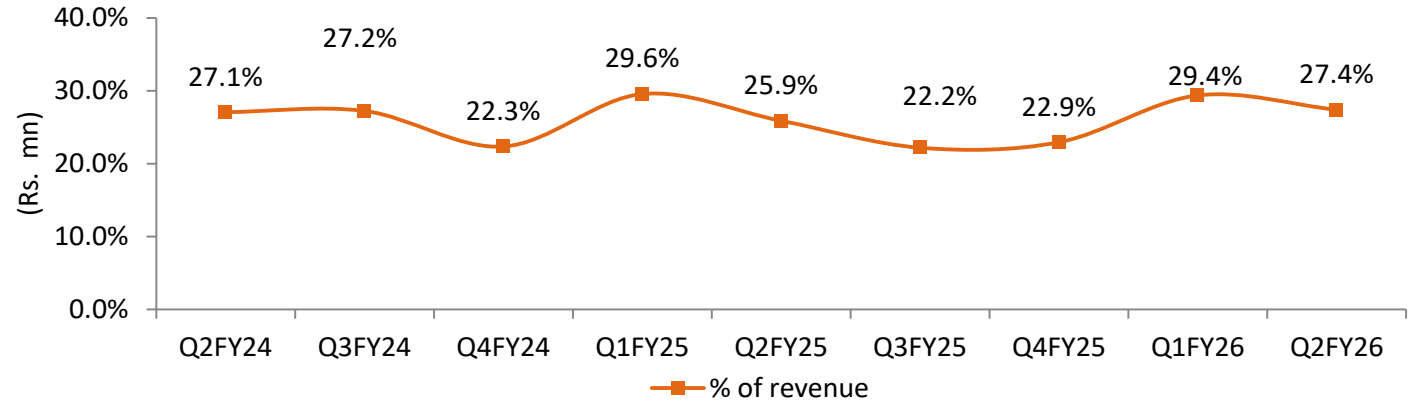
Source: Company; IDBI Capital Research

Exhibit 7: Trend of DSO (days)



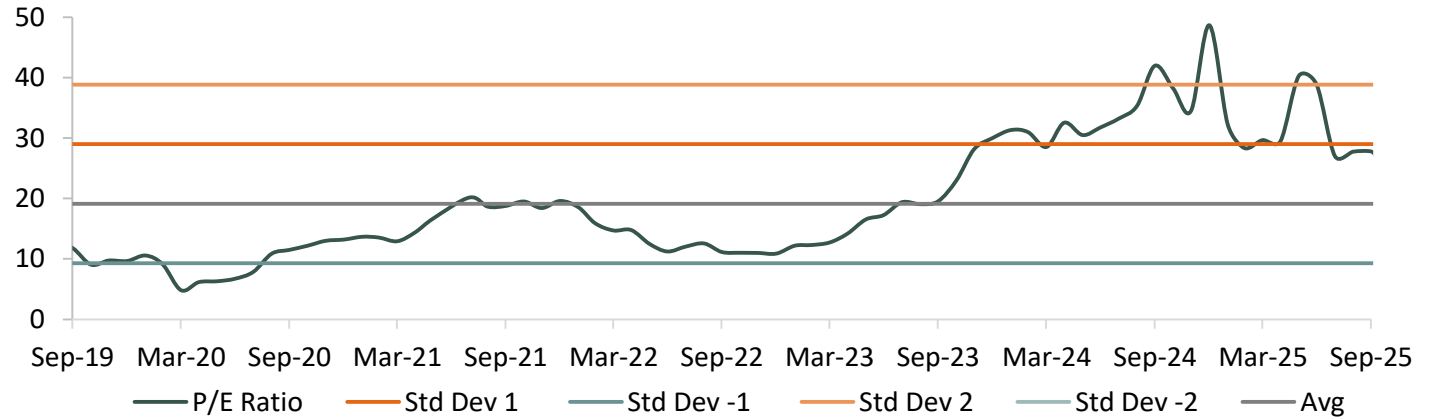
Source: Company; IDBI Capital Research

Exhibit 8: Admin expenses declined QoQ to 27.4%



Source: Company; IDBI Capital Research

Exhibit 9: PE trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	7,790	9,740	12,438	14,869	16,744	20,012
<i>Change (yoy, %)</i>	16	25	28	20	13	20
Operating expenses	(5,843)	(7,618)	(9,555)	(11,107)	(12,640)	(14,995)
EBITDA	1,947	2,122	2,883	3,762	4,104	5,017
<i>Change (yoy, %)</i>	1.4	9	36	30	9	22
<i>Margin (%)</i>	25.0	21.8	23.2	25.3	24.5	25.1
Depreciation	(176)	(247)	(280)	(330)	(287)	(329)
EBIT	1,770	1,875	2,603	3,432	3,817	4,688
Interest paid	(35)	(43)	(42)	(48)	(60)	(85)
Other income	299	340	481	636	924	1,355
Pre-tax profit	2,035	2,173	3,042	4,020	4,681	5,959
Tax	(392)	(409)	(526)	(867)	(1,264)	(1,788)
<i>Effective tax rate (%)</i>	19.3	18.8	17.3	21.6	27.0	30.0
Minority Interest	-	-	-	-	-	-
Net profit	1,642	1,764	2,516	3,152	3,417	4,171
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,642	1,764	2,516	3,152	3,417	4,171
<i>Change (yoy, %)</i>	29.8	7	43	25	8	22
EPS*	11.8	12.7	18.0	22.6	24.5	29.9
Dividend per sh	1.8	2.3	2.5	4.0	7.3	9.0
<i>Dividend Payout %</i>	14.9	17.8	13.9	18	30	30

Note: * Adjusted for Bonus

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	8,114	9,825	12,235	15,164	17,556	20,476
Share capital	695	697	1,398	1,402	1,402	1,402
Reserves & surplus	7,419	9,129	10,837	13,762	16,154	19,074
Total Debt	611	658	834	963	963	963
Other liabilities	1,260	1,680	2,051	2,201	2,201	2,201
Curr Liab & prov	1,128	1,284	1,745	2,122	4,423	4,968
Current liabilities	1,063	1,189	1,653	2,026	3,910	4,355
Provisions	65	95	92	96	512	612
Total liabilities	2,999	3,622	4,630	5,286	7,587	8,132
Total equity & liabilities	11,113	13,447	16,865	20,451	25,143	28,608
Net fixed assets	2,299	2,446	2,510	2,589	2,972	3,443
Investments	-	-	-	-	-	-
Other non-curr assets	1,306	2,725	1,293	1,378	1,378	1,378
Current assets	7,508	8,276	13,062	16,484	20,793	23,786
Inventories	-	-	-	-	-	-
Sundry Debtors	2,789	3,882	4,435	5,567	5,505	6,579
Cash and Bank	2,759	2,083	3,759	4,155	6,934	8,470
Loans and advances	926	1,315	3,651	5,089	5,089	5,089
Total assets	11,113	13,447	16,865	20,451	25,143	28,608

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	2,035	2,173	3,042	4,020	4,681	5,959
Depreciation	123	247	280	330	287	329
Tax paid	(493)	(424)	(569)	(714)	(1,264)	(1,788)
Chg in working capital	(351)	(1,407)	(2,450)	(2,319)	2,362	(529)
Other operating activities	-	(224)	1,204	(28)	(94)	-
Cash flow from operations (a)	1,314	365	1,507	1,288	5,972	3,971
Capital expenditure	(373)	(393)	(344)	(409)	(670)	(800)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	(350)	-	-	-	-
Cash flow from investing (b)	(373)	(743)	(344)	(409)	(670)	(800)
Equity raised/(repaid)	2	1	701	4	-	-
Debt raised/(repaid)	186	47	176	130	-	-
Dividend (incl. tax)	(245)	(315)	(350)	(561)	(1,025)	(1,251)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(543)	(30)	(15)	(39)	10	(268)
Cash flow from financing (c)	(599)	(297)	513	(466)	(1,015)	(1,519)
Net chg in cash (a+b+c)	342	(676)	1,676	413	4,287	1,651

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	58.3	71	88	109	126	147
Adj EPS (Rs)	11.8	12.7	18.0	22.6	24.5	29.9
Adj EPS growth (%)	29.8	7	42	25	8	22
EBITDA margin (%)	25.0	21.8	23.2	25.3	24.5	25.1
Pre-tax margin (%)	26.1	22.3	24.5	27.0	28.0	29.8
Net Debt/Equity (x)	-0.3	-0.1	-0.2	-0.2	-0.3	-0.4
ROCE (%)	19.6	17	19	21	18	20
ROE (%)	22.2	20	23	23	19	20

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.8	0.7	0.7
Leverage factor (x)	1.4	1.4	1.4	1.4	1.4	1.4
Net margin (%)	21.1	18.1	20.2	21.2	20.4	20.8

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	131	145	130	137	120	120
Payable days	23	17	18	17	69	69

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	84.6	78.7	55.4	44.2	40.8	33.4
Price/Book value (x)	17.1	14.1	11.4	9.2	7.9	6.8
EV/Net sales (x)	17.6	14.1	11.0	9.2	8.0	6.6
EV/EBITDA (x)	70.3	64.8	47.3	36.2	32.5	26.3
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.7	0.9

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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