

Newgen Software Technologies BUY

BFSI & annuity to defend, GSI to score goals

Summary

We initiate coverage on Newgen Software Technologies Ltd. with a BUY rating and a target price of Rs 440 (PE of 12 on FY25 EPS). Newgen has an integrated software business of content & process which distinguishes it from peers. In addition, higher annuity revenues (60%) & exposure to BFSI (70%) will help the company in fending of macro issues. The company aspires to grow at 20% CAGR over the next few years and with GSI has aspiration of US\$500 million in 5 years. We have conservatively built 16% CAGR revenue growth over FY22-25E. Further, longer term focus on developed markets and subscription revenue will result in lower DSO leading to better cash flow. Partnership with GSIs, expansion in mature markets and higher annuity revenues will boost profitability. Hence, we estimate profits to increase at 16% CAGR in FY22-25.

Key Highlights and Investment Rationale

- Annuity & BFSI revenue to defend macro challenges:** Company derives ~60% revenue from annuity contracts & exposure to BFSI (70%) which is relatively less marred by macros provides revenue visibility. This places Newgen in a position to defend macro challenges & growth headwinds.
- GSI partnership provides revenue growth opportunities:** Newgen has partnered with few of the leading GSIs in order to drive revenue growth. Company aims to derive 20% - 40% of its overall revenues from this channel in the next 5 years. This will enable the company to grow more than 20% annually and expand margins (by 10%) once it reaches sustainable levels (20-40% of revenues).
- Margins to improve in the long term:** Newgen's focus on increasing subscription revenue & leveraging GSI network to drive growth are key long-term margin drivers. Hence we expect 16% CAGR in profits over FY22-25E.

TP	440
CMP	339
Potential upside/downside	30%

Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.2)	(14.2)	(39.9)
Rel to Sensex	(9.0)	(18.4)	(44.7)

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	23	27	36
Consensus	21	27	34
% difference	11.4	1.3	4.7

Key Stock Data

Bloomberg / Reuters	NEWGEN IN /NEWG.BO
Sector	IT Services
Shares o/s (mn)	70
Market cap. (US\$ mn)	23,746
3-m daily average value (Rs mn)	--
52-week high / low	671 / 321
Sensex / Nifty	61,511 / 18,267

Shareholding Pattern (%)

Promoters	55.2
FII	15.6
DII	2.7
Public	26.5

Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6,726	7,790	9,323	10,023	12,276
Change (yoy, %)	2	16	20	8	22
EBITDA	1,919	1,947	1,908	2,151	2,801
Change (yoy, %)	83	1	(2)	13	30
EBITDA Margin(%)	28.5	25.0	20.5	21.5	22.8
Adj.PAT	1,265	1,642	1,630	1,900	2,528
EPS (Rs)	18	24	23	27	36
Change (yoy, %)	73	29	(1)	17	33
PE(x)	19	14	14	12	9
Dividend Yield (%)	0.6	1.0	1.0	1.2	3.2
EV/EBITDA (x)	11	11	11	9	6
RoE (%)	20.8	22.2	18.5	18.4	21.1
RoCE (%)	21.7	19.6	16.2	16.1	18.7

Source: IDBI Capital Research;

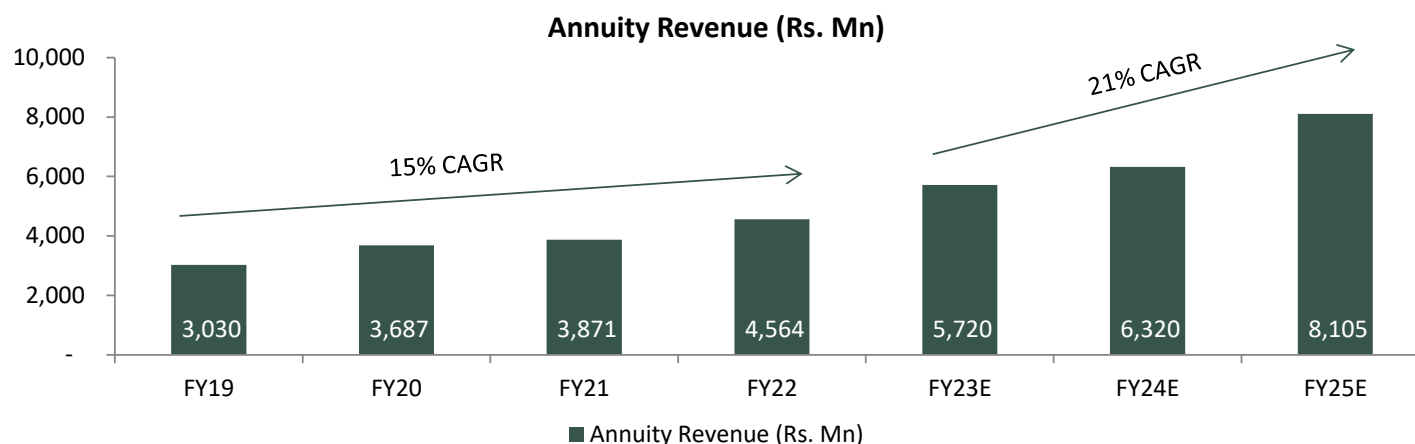
Investment thesis

■ Focus on annuity type of revenues to help softening the blow of macro challenges

Annuity revenue is expected to grow at a CAGR of 21% over FY22-FY25E

The Company has a resilient business model in place with large annuity revenue streams and diversification across customers and geographies. Moreover, the Company's solutions are of mission critical nature for the long term customers. They serve as the backbone of their operations. Currently annuity revenues comprise 60% of revenues. The subscription revenues were 2460 mn and witnessed a growth of 23% during the year. These revenue streams ensure higher predictability of business. The Company is witnessing increasing acceptance for SaaS deployments across geographies – US, APAC, India, as well as EMEA region. Going forward, we expect the company's annuity revenues to increase at a CAGR of 21% over FY22-FY25 (contributing 66% to the company's revenues). This focus on generating sustainable revenues will enable the company to reduce the seasonality of business, ensure higher predictability of business and also help in dealing with uncertain macro environment.

Exhibit 1: Growing annuity revenues*



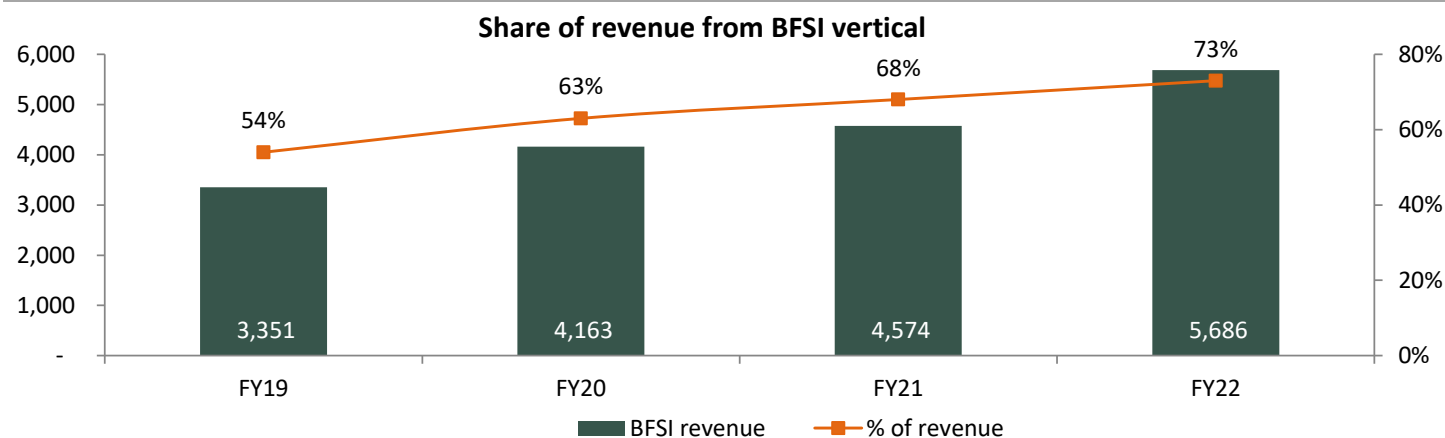
Source: Company, IDBI Capital; Note: * Annuity revenue includes Subscription, AMC/ATS and Support revenue

BFSI vertical contributes 70%+ of the overall revenue

■ **Higher presence in BFSI to help in defending macro environment**

The company generates ~73% of its revenues from BFSI segment. We believe that in the current macro situation the company’s higher presence in BFSI segment will be advantage compared to peers having presence in retail and manufacturing segment. We believe tech spends of BFSI are relatively less impacted by higher inflation & interest rate scenarios. Further, the company’s presence in automation and digitisation will be a key focus of BFSI’s across the world.

Exhibit 2: Higher presence in BFSI



Source: Company, IDBI Capital

■ **The company aspires to be a US\$500 mn company in next five years**

The company’s aspiration of US\$500 million implies a CAGR of 36.8% over FY22-FY27E. The company’s current addressable market US\$60 billion. Newgen’s share in the market is negligible (less than 1%). Hence there is tremendous scope for the company to grow. The company aims to achieve its aspiration by shifting focus on more on mature markets and via partnership with GSI. The company has substantial leadership position in India & Middle East, however majority of market is predominantly U.S. & Europe which the company can deeply penetrate & grow. Newgen is building the mature market sales ecosystem, investing in sales & marketing in mature markets and is strong in enterprise content management. It also provides an alternate for

Company aspires to grow at a CAGR of ~37% over FY22-FY27E

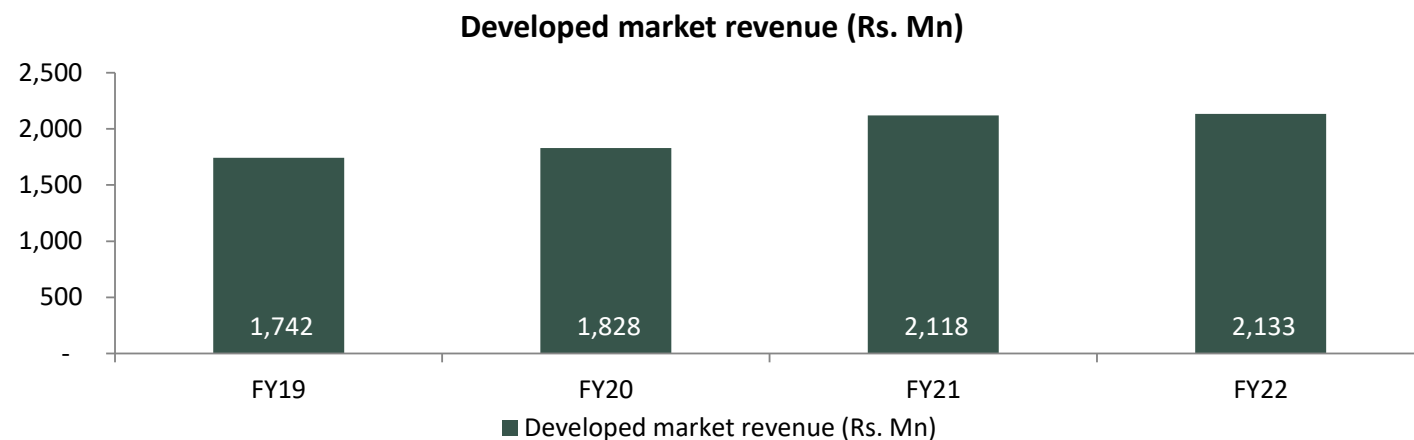
Company to expand its presence in mature markets through direct, indirect channels and GSI partnerships

GSI to go and replace the older content management. In addition, the company's focus on mining large clients will further boost revenue growth.

■ **Expansion of business & geographical footprint in mature markets like US & Europe**

The Company plans to expand its market share across key geographies and solutions. Newgen has been operating in 73 countries and believes that it has a significant opportunity to grow its international footprint. The company is building the mature market sales ecosystem, investing in sales & marketing in mature markets. It is investing in direct and indirect sales channels, professional services, customer support, channel partners and enablement ecosystem for the GSIs to expand the geographical footprint especially in mature markets. It has a team of 60 people across USA comprising of sales, pre sales, project managers, etc and 70-80 reference customers in US through which it can expand. In Europe it has 2-3 direct sales people along with GSI head who go for joint pitching with GSI. The Company has a regional go-to market strategy with specific strategies for mature markets such as USA, Europe, Canada and Australia. Through its direct & indirect sales channels and GSI's it plans to further grow the brand presence & partner networks in these new markets.

Exhibit 3: Revenue from developed nations seeing steady growth



Source: Company, IDBI Capital

Newgen is focused on expanding its presence in mature markets by expanding product portfolio and investing in marketing.

Company is developing GSI ecosystem for long term engagements which would enable targeting new customers.

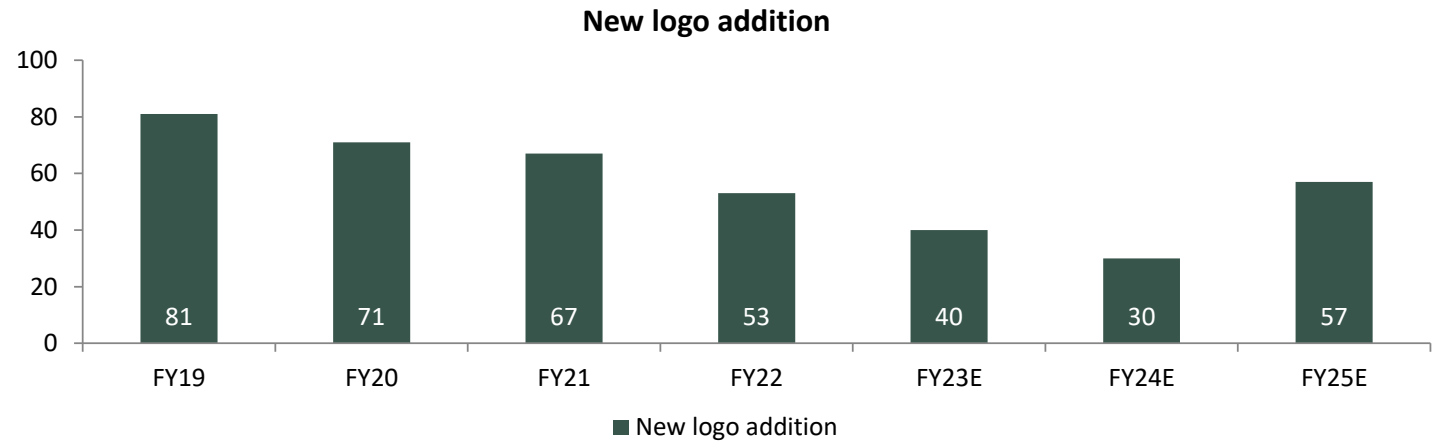
■ Focus on attractive verticals in select mature markets

Newgen has strong presence across regions in the banking & 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 these regions include banking and government/PSUs in partnership with consulting firms. Since fiscal 2016, as part of the strategy to increase the customer base in USA, the company has made infrastructure and operational investments in USA including hiring of senior-level professionals in sales and marketing for the USA market. Further, Newgen is now making in-roads in the Australian market. It plans to penetrate the mature markets by expanding the product portfolio through investments in advanced features and technologies. In addition, the company's domain expertise and frameworks for retail & corporate lending in the banking domain will help in increasing customer penetration in these segments based on its strong credentials.

■ Focus on new clients and mining of existing clients

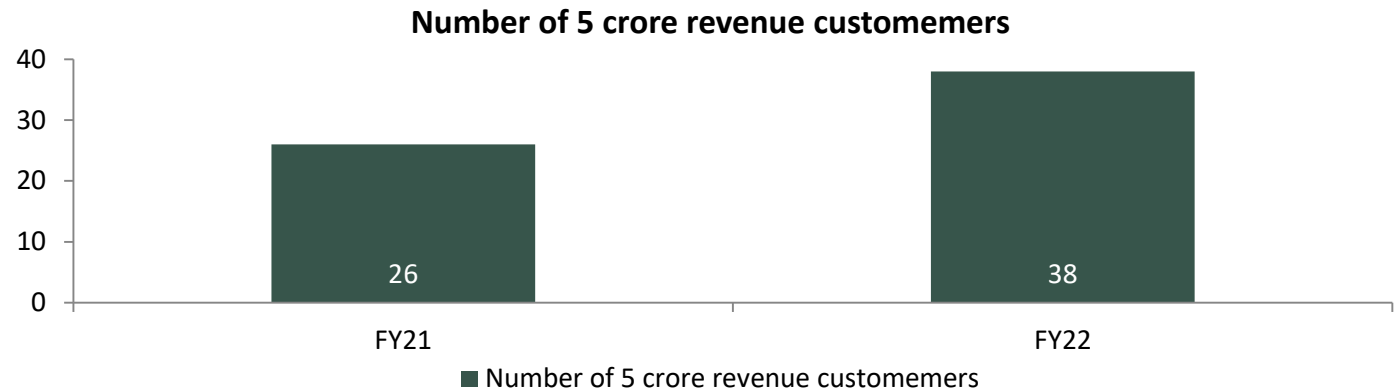
Newgen on consistent basis added new clients (around 50-70 clients each year). The company continues to aim to add more clients by identifying potential customers that operate within the same verticals and engage in cross-selling of solutions. The Company is also developing the global system integrator (GSI) ecosystem for long-term engagements and relationship building with leading GSIs to target new customers.

Newgen is adding most of the new logos in subscription based model and on an average the deal size for new logo's is US\$200K-300K per annum per solution. So assuming the company is able to add 50-60 new logos in a year it could add US\$12.5-15 mn in a year. The intent is to add larger clients which can be mined effectively. Newgen can over a period of time double the annual revenues from these new logos by selling more solutions.

Exhibit 4: Strong new logos addition


Source: Company, IDBI Capital

Apart from adding new clients the company aims to mine its large clients efficiently. The focus on large size customers with higher mining capabilities has led to growing average order size and billing from its customers. Of the 530 odd customers, 38 customers witnessed billing of over Rs 5 crore in FY '22 compared to 26 customers in FY '21. In addition, the company is curtailing tail accounts (less than Rs 1 crore) and is focusing on clients which have potential to expand & grow via cross sell. As these clients can grow 5x over period of time. Going forward, the company plans to grow via its 'land and expand' model and via cross sell. We believe this will enable the company to not only mine its old & new clients effectively but also help in growing its annuity revenues.

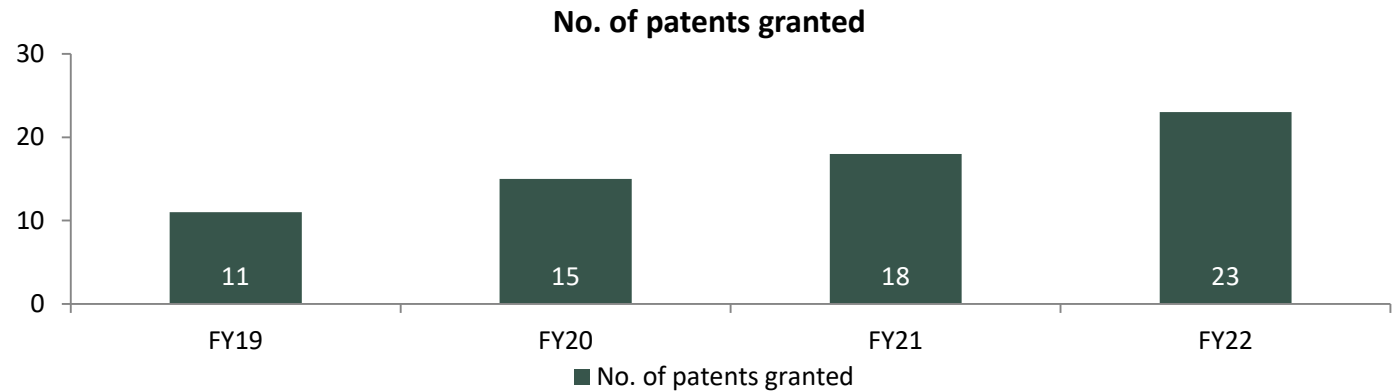
Exhibit 5: Healthy customer addition in Rs. 5 crore revenue bucket

Source: Company, IDBI Capital

Company's focus on R&D has resulted in creation of innovative products and obtaining of 23 patent grants

■ R&D to help expand product portfolio and investments in advanced features & technologies

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 artificial intelligence/ machine learning, business intelligence and analytics. 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. Over the years, its products have been consistently recognised by leading industry analysts across categories. Its R&D team has grown to about 580 employees as of FY22 and has been consistently working on strengthening capabilities on its platform. The company now has 23 patent grants across India and US out of 43 patents filed so far.

Exhibit 6: Constant increase in number of patents granted

Source: Company, IDBI Capital

Long term growth to be driven by organic and inorganic growth

Margin might expand by ~10% once GSI revenue reaches 20%-40% of total revenues

■ Growing through organic & inorganic route

The company did small acquisition of 'Number Theory' in FY22 for the total consideration of Rs 140 million (Rs 70.3 million upfront payment and rest would be paid over the next 3 years equally). The acquisition is expected to further strengthen Newgen's platform with AI/ML (artificial intelligence and machine learning) modeling and data analytics capabilities. Number Theory is expected to bring domain expertise, along with a powerful engine to extract actionable insights in real time. The platform improves productivity, enhances collaboration, and speeds up AI project execution to accelerate the data to insights journey. We believe such tuck in acquisition and organic growth will enable the company to drive long term growth of the company.

■ GSI could be a key trigger if executed well

Software product companies across the world work with global system integrators (GSI) once they reach a particular size and scale. Typically when a product company reaches US\$100 million milestone it tries to tap GSI network. Newgen achieved the above milestone in FY22. However, the company is already working with GSIs 18 to 24 months back. The company currently is working with four to five GSIs. This has led to improving opportunity funnel which has grown from 40 cases in FY21 to 70-80 cases in FY22. The aim is to capture accounts of Fortune 2000 companies where GSI will already have made inroads and Newgen will not have

direct access due to size and scale. The company plans to focus GSI deals largely in mature markets like US and Europe. As per the company, currently the revenue mix from GSI is miniscule i.e. <5% as it is recent initiatives. The company is looking to scale up this opportunity in next 4-5 years. We have worked on scenario analysis for GSI opportunity. GSI's is expected to play an important role if the company is to achieve US\$500 mn target in next 5 years.

Apart from revenue opportunity from GSI, these deals will also be margin accretive once it reaches a particular level. Since GSI addresses the service delivery part (which are generally lower margins), the higher margin subscription or license revenues comes to Newgen. Hence, this will lead to higher operating leverage and expansion of gross margins. However, for this GSI revenues has to be substantial (i.e 20-40% of overall revenues). The company believes that there is possibility of 10% margin expansion once the company reaches the GSI threshold. Based on this, the company aspires to achieve EBITDA margin of 25% in the medium term.

In the table below we have analyzed the impact of growth in GSI revenue on the overall profitability of the Company under various win scenarios. Revenue excluding GSI has been assumed to grow at a CAGR of 15% and 20% over the period FY22-25E and the win % of GSI has been assumed to be 10%, 15% and 20% under 3 scenarios.

Revenue growth at 15% CAGR during FY22-25E: PAT CAGR including GSI revenue during FY22-25E under the three win % scenarios was in the range of 18%-22%. However, exclusion of GSI revenue resulted in PAT CAGR to be in the range of 15%-17%.

Revenue growth at 20% CAGR during FY22-25E: PAT CAGR including GSI revenue during FY22-25E under the three win % scenarios was in the range of 21%-26%. However, exclusion of GSI revenue resulted in PAT CAGR to be in the range of 19%-21%.

1% contribution of GSI to the total revenues leads to ~30 bps improvement in EBITDA margin

Exhibit 7: Impact of GSI revenue on PAT growth under various scenarios

Scenario	A	B	C	Assumptions
GSI accounts being pursued - A	90	90	90	
Winning rate (%) -B	10	15	20	
No of accounts can be won - C = A*B%	9	14	18	
Max potential revenue opportunity (USD mn)- D	9	14	18	
USD/INR rate	80	80	80	
Max potential revenue opportunity (in INR crore)- E	72	108	144	
Revenue in FY22 -F	779	779	779	
Revenue excluding GSI in FY25E -G	1,185	1,185	1,185	15% CAGR over FY22-25E
Revenue excluding GSI in FY25E - H	1,346	1,346	1,346	20% CAGR over FY22-25E
Calculation for 15% revenue growth in FY22-25E				
Revenue potential Including GSI - E+G	1,257	1,293	1,329	
PAT including GSI	267	279	297	
PAT excluding GSI	252	259	265	
PAT CAGR excluding GSI (FY22-25E)	15%	16%	17%	
PAT CAGR including GSI (FY22-25E)	18%	19%	22%	
Calculation for 20% revenue growth in FY22-25E				
Revenue potential Including GSI - E+H	1,418	1,454	1,490	
PAT including GSI	294	307	326	
PAT excluding GSI	277	284	290	
PAT CAGR excluding GSI (FY22-25E)	19%	20%	21%	
PAT CAGR including GSI (FY22-25E)	21%	23%	26%	

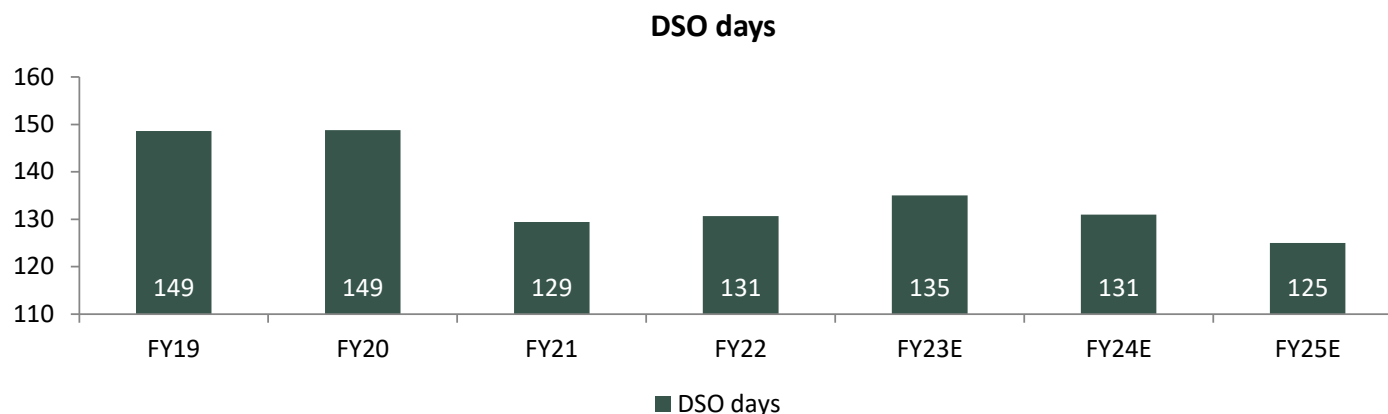
DSO has reduced from 149 to 131 days and is expected to reduce to ~125 days by FY25E

Comfortable balance sheet led by lower DSO and higher cash

The company has been able to reduce its DSO days from ~149 days in FY19 to 131 days in FY22. This is mainly due to tighter credit terms, follow up, linking sales incentive to collection, higher penetration in mature markets and focus on subscription revenues. Going forward, we expect the company to further lower its DSO days to 125 days by FY25E.

The company has a cash of Rs 2,759 mn which could be used for higher payout, buyback or inorganic expansion

Exhibit 8: DSO to reduce by FY25E



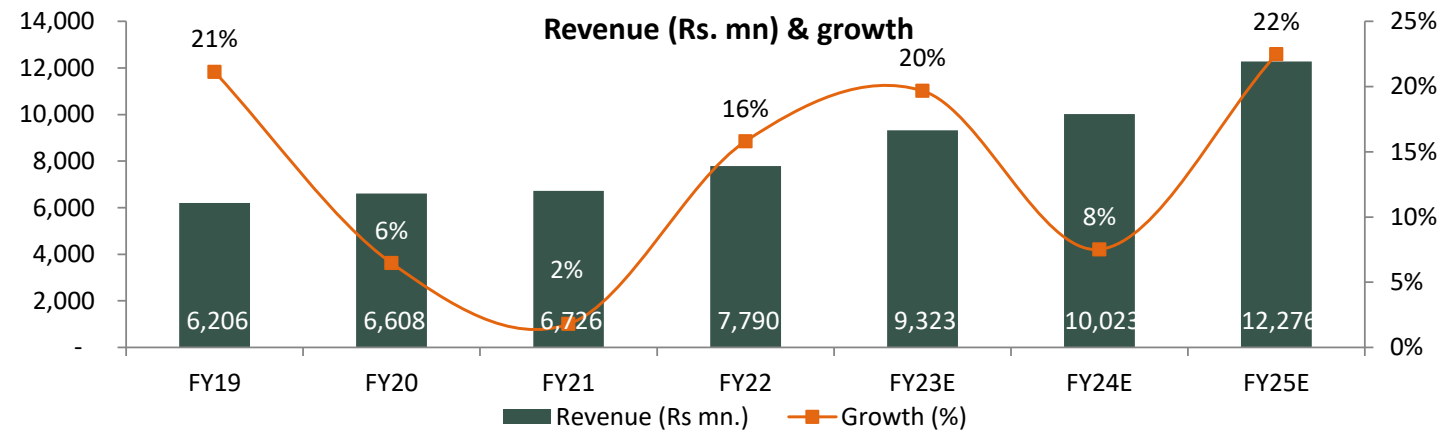
Source: Company, IDBI Capital

Near term revenue and margin trend

Newgen has added 53 logos in FY22. Historically, it was adding higher logos in a year but the logo addition has slowed down in the last couple of years due to i) Covid restriction on travel ii) India business impact due to consolidation of banks (66% vertical mix). The company is now looking to scale up the logo additions, going forward, as travel opens up and indicated that they would like to add 50-60 large logos in a year. The company is adding most of the new logos in subscription based model and on an average the deal size for new logo's is

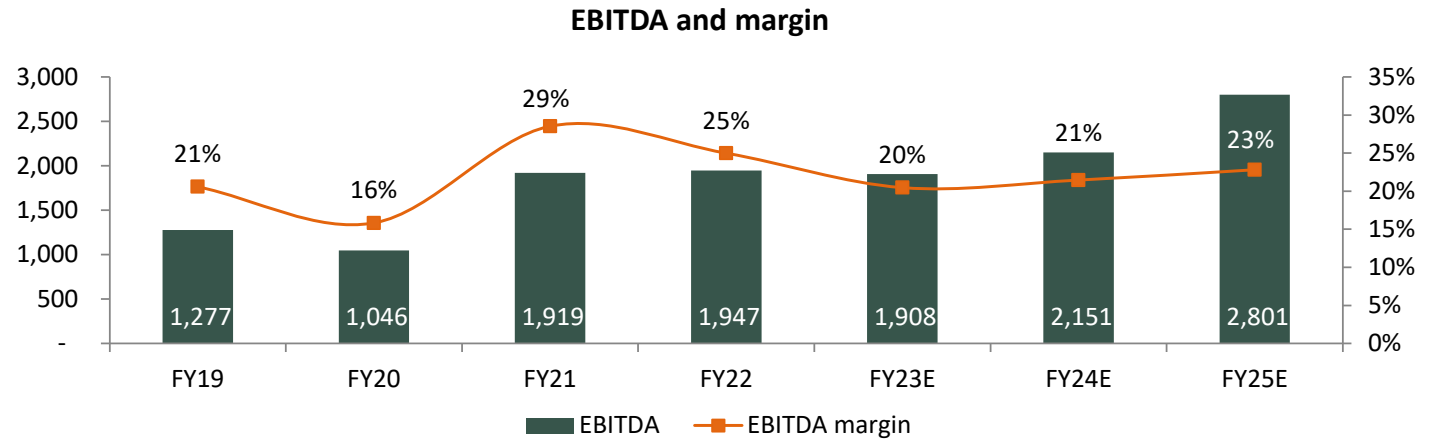
200K-300K per annum per solution. So assuming the company is able to add 50-60 new logos in a year it could add US\$12.5-15 mn in a year. Hence, we expect the company to revert to historical revenue growth trajectory in longer run. However, with resumption travel we expect the company’s margins to be at FY22 levels. In addition, the company expects increase in gross margins to be reinvested in S&M and R&D for developing new products, sales channel, consultant, analyst and customer events.

Exhibit 9: Revenue growth to bounce back



Source: Company, IDBI Capital

Exhibit 10: EBITDA margin to improve in the longer run



Source: Company, IDBI Capital

Valuation

At CMP of Rs 338, the stock is trading at P/E of 14.4x FY22 EPS. We believe the company is well poised to grow its revenues & PAT at a CAGR 16% & 15% over FY22-FY25E mainly led by strong annuity revenues, growth in SAAS based (subscription based) revenues and increasing penetration in mature markets. In addition the company's higher presence in BFSI (~70%) and annuity revenues (~60%) will enable the company to defend any macro uncertainty in the near term. This coupled with partnership with GSI will further boost revenues. Hence, we initiate coverage on the stock with a target price of Rs. 440 per share (implying a PE of 12 on FY25E EPS).

Newgen is anticipated to outperform its global & domestic peers by registering revenue and PAT CAGR of 16% and 15% respectively during FY22-25E. Growth is expected to be better than the average of its peers (exhibit 11). This should result in the stock commanding premium valuations in medium to longer term.

Exhibit 11: Revenue, PAT and margin comparison with peers

Company Name	Revenue					PAT					PAT margin			
	FY22	FY23E	FY24E	FY25E	CAGR	FY22	FY23E	FY24E	FY25E	CAGR	FY22	FY23E	FY24E	FY25E
Intellect (Rs. mn)	18,782	22,502	25,612	28,640	15%	3,491	3,265	4,219	4,169	6%	18.6%	14.5%	16.5%	14.6%
OFFS (Rs. mn)	52,215	58,194	63,465	68,470	9%	18,888	19,286	22,162	23,813	8%	36.2%	33.1%	34.9%	34.8%
Appian (\$ mn)	464	536	627	727	16%	(144)	(126)	(102)	(79)	NM	-31.1%	-23.5%	-16.3%	-10.8%
Pega (\$ mn)	1,268	1,409	1,578	1,844	13%	(392)	(63)	(168)	66	NM	-30.9%	-4.5%	-10.6%	3.6%
Average					13%					7%				11%
Newgen (Rs. mn)	7,790	9,323	10,023	12,276	16%	1,642	1,630	1,900	2,528	15%	21.1%	17.5%	19.0%	20.6%

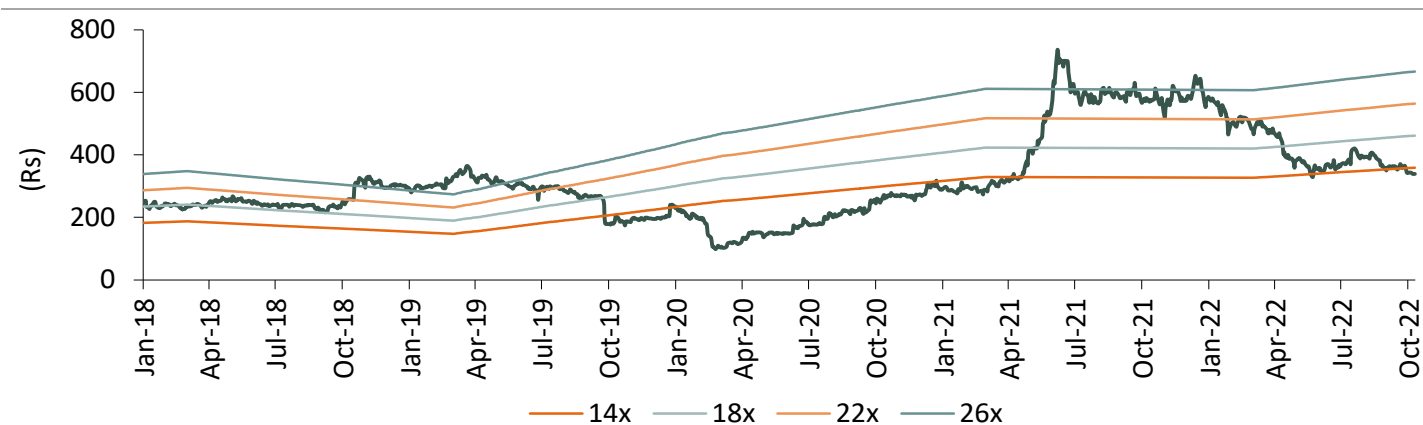
Source: Company, IDBI Capital

Exhibit 12: Valuation comparison based on PE & EV/Sales

Company Name	PE				EV/Sales			
	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Intellect	36.0	21.6	17.1	14.8	3.1	2.5	2.2	2.0
OFFS	16.4	13.7	11.9	11.3	4.8	3.8	3.5	3.2
Appian	-	-	-	-	12.6	5.6	4.9	4.1
Pega	-	-	-	-	7.6	2.7	2.4	2.2
Average	26.2	17.6	14.5	13.0	7.0	3.7	3.3	2.9
Newgen	14.3	14.4	12.4	9.3	2.7	2.2	1.9	1.5

Source: Company, IDBI Capital

Exhibit 13: One-year forward PER trend



Source: Company, IDBI Capital

Industry overview

Digital transformation to be led by cloud

We believe we are in the first phase of a multi-year technology transformation phase. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core. In subsequent phases, enterprises will see new age technologies like artificial intelligence, augmented reality, virtual reality, data analytics and Internet of Things (IOT) to be developed around cloud leading to a multi-year technology spends. In the next four to five years every major company is expected to migrate to cloud and use of Artificial Intelligence (AI) is at a very nascent stage. In the last phase, there will be emergence of new business models and leverage of technology to drive growth in ancillary business. This, coupled with vendor consolidation opportunities, acquisition of captives and offshoring & automation (for cost take out deals) could lead to double digit revenue growth for IT companies in the longer term.

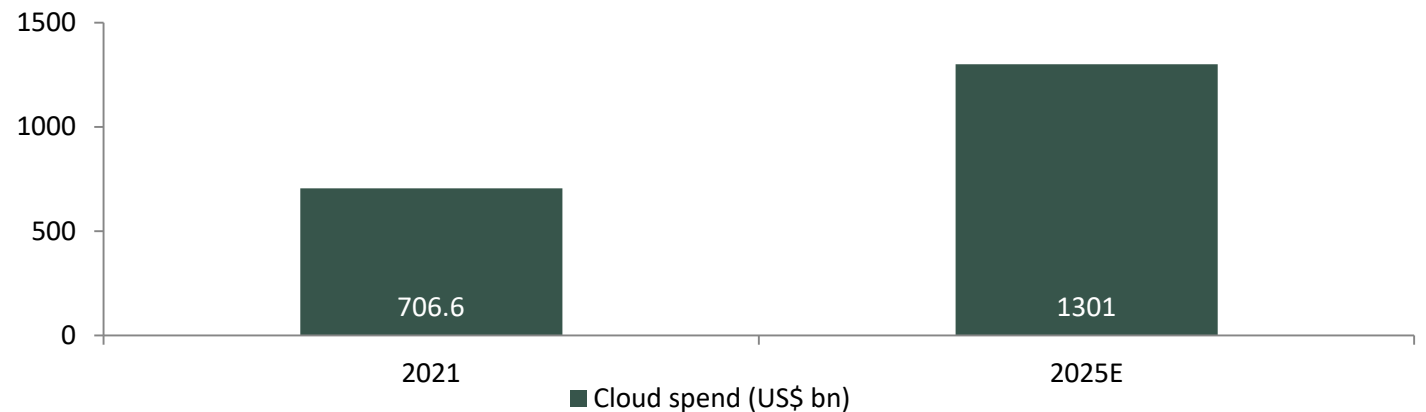
Some of the key emerging trends of digital are as follows

- **Infrastructure modernisation:** The adoption of cloud has accelerated due to Covid 19 crisis. E-commerce, virtual collaboration requirements, shift from capex to opex, flexibility and ability to scale IT operations has led to increasing spend by enterprise on cloud adoption.
- **Virtualisation of work:** The balancing of work from home and office has led to hybrid work environments. This has led to more spending on systems and tools for virtual communication and collaboration.
- **Contactless customer experience:** The demand for transaction via App or contactless experience is expected to continue even after the pandemic. Investment in technology as enablers for the new digital business model is therefore expected to improve in coming years.
- **Operational efficiency:** Data is becoming very important for forecasting demand, optimizing supply chains, maximizing ROI from promotional spending, predicting fraud and machine failures. Hence, analytics and automation are gaining prominence across industries.

Across all industries, companies are investing in IT Services providers to implement latest technologies for

- **Personalized Solutions** — bridge conceptualization with user experience design and graphics to develop bespoke, user-friendly applications accessible anywhere across a variety of devices;
- **Data and Analytics** — convert raw business data from internal teams, business partners and end customers into actionable insights;
- **Digital Automation** — reduce unnecessary human intervention in business processes which increases efficiency across the organization, lowers costs and enables employees to focus on more complex assignments;
- **Artificial Intelligence and Machine Learning** — enhance the speed, precision and effectiveness of human efforts such as improved product recommendations and virtual assistant interactions; and
- **Cloud Computing** — enable businesses to access servers, data and applications through the Internet (“the cloud”) rather than private, local storage devices, which reduces costs and increases speed, performance and security

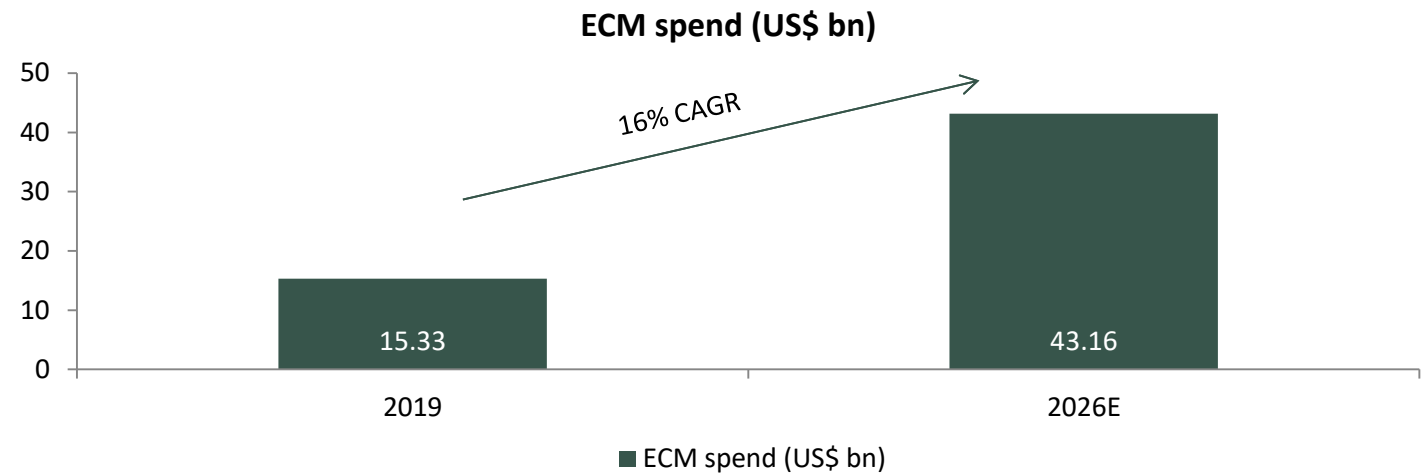
Exhibit 14: Cloud spend to grow at a CAGR of 17% over FY21-25



Source: IDBI Capital, IDC

ECM - Technological advancements such as the Internet of Things (IoT) and cloud-computing generate enormous amounts of data that would require proper handling. As per Statista, the amount of data created in 2020 is 64.2 zettabytes, which is projected to grow more than 180 zettabytes in 2025. To manage such a large volume of unstructured data, enterprises leverage artificial intelligence-based analytics and solutions. An enterprise content management (ECM) solution can help organizations to efficiently manage unstructured data related to different projects. Over the past decade, companies have been adopting ECM solutions to improve their operational efficiency. As per a report by Fortune Business Insights, the global enterprise content management market was worth \$ 15.33 Billion in 2019 and is anticipated to reach \$ 43.16 Billion by 2026, at a CAGR of 16%.

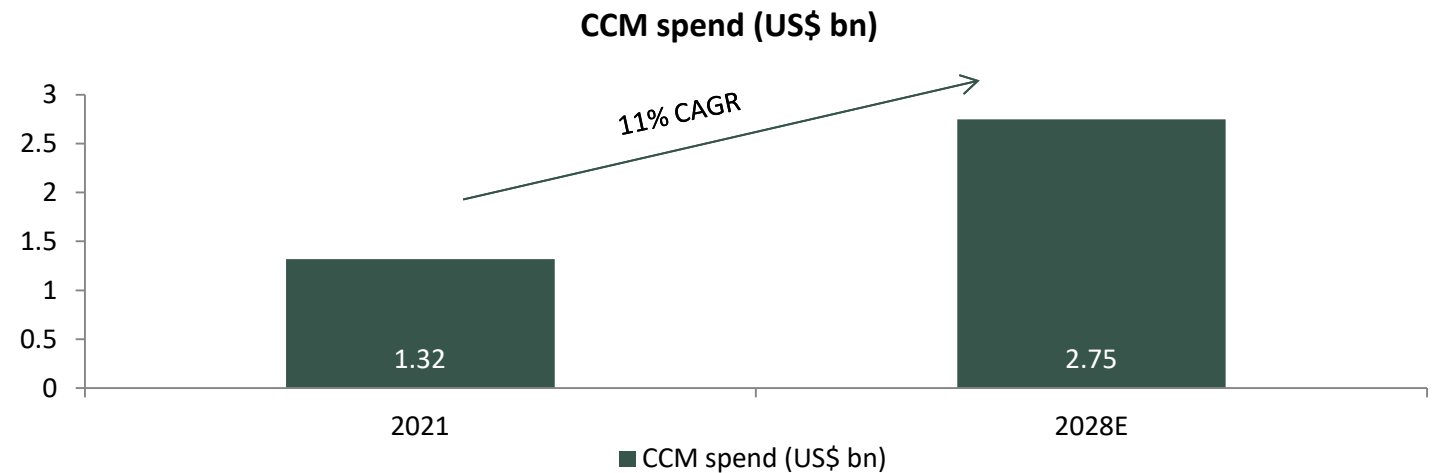
Exhibit 15: ECM market to grow at a CAGR of 16% over FY19-26E



Source: IDBI Capital, Fortune Business Insight

Customer Communication Management - There are two elements to customer communications: the first is content creation and the second is the management of the output process, whether this is via print or electronic format. CCM is a collection of computer programs that composes, personalizes, formats and delivers content acquired from various sources into targeted and relevant electronic and physical communications between an enterprise and its customers, prospective customers and business partners. Multi-channel customer communication management solutions are constantly evolving and adding new technology capabilities to meet the dynamic demands of the customers. Cloud migration and deployment has become a key technology trend for the CCM technology companies for providing agility of processes, scalability of technology solutions and bolstering business growth. The CCM market size is expected to reach \$ 2.75 billion by 2028 from \$ 1.32 billion in 2021, at a CAGR of 11.4%.

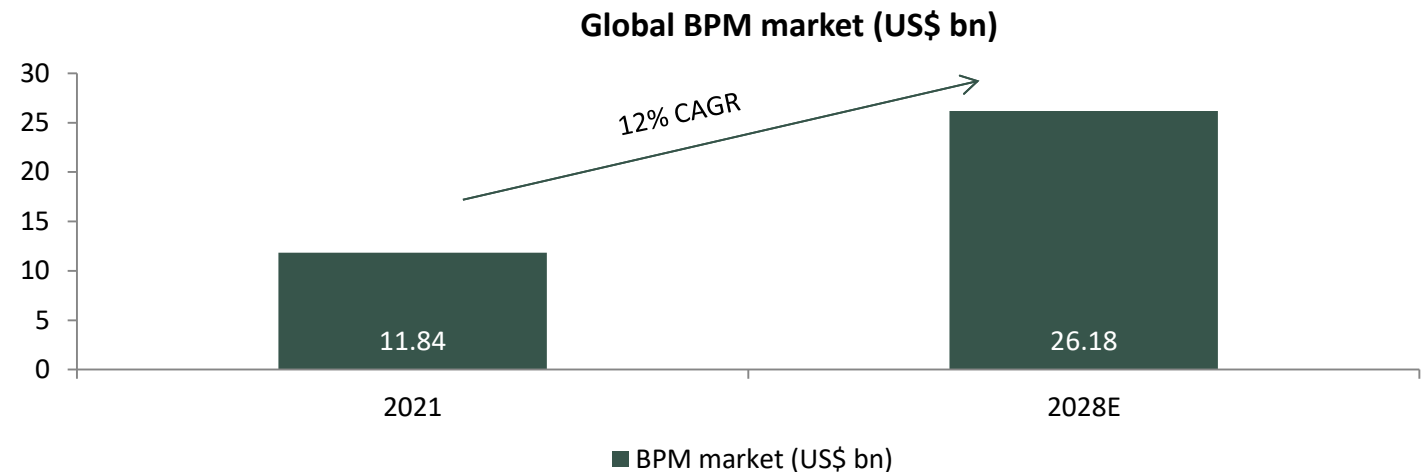
Exhibit 16: CCM market to grow at a CAGR of 11% over FY21-28E



Source: IDBI Capital, Global Newswire

Business Process Management – BPM is a structured approach to discover, model, analyze, measure, improve and optimize business processes. BPM is being extensively adopted to achieve desired business goals and optimizing operations. Industries are focusing on automating business processes to increase efficiency while keeping time constraints to a minimum. The global BPM market is projected to grow from \$ 11.84 billion in 2021 to \$ 26.18 billion in 2028 at a CAGR of 12.0% during the 2021-2028 period. The steady rise in CAGR is attributable to this market’s demand and growth, returning to pre-pandemic levels.

Exhibit 17: BPM market to grow at a CAGR of 11% over FY21-28E

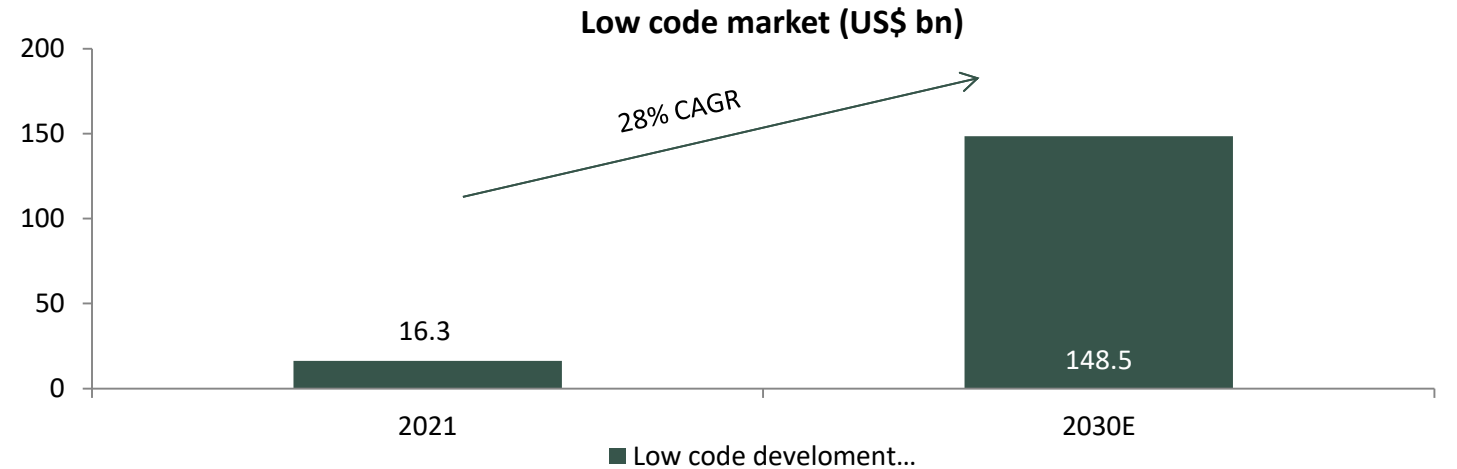


Source: IDBI Capital, Fortune Business Insights

Low-Code - Low-code is a software development approach that helps tech and business professionals collaborate and deliver digital transformative solutions faster by minimizing the amount of coding. Low-code largely replaces the need to create custom code with a collection of ready-to-go UI components, integrations, solution blueprints, visual workflow automation tools, and other user-friendly features. The economic consequences of the COVID-19 pandemic have validated the low-code value proposition. All of the major software-as-a-service (SaaS) vendors currently provide capabilities that incorporate low-code development technologies. Global SaaS spending is expected to grow from \$152 billion in 2021 to \$208 billion by 2023, at a CAGR of 17%. According to Gartner by 2025, 70% of new applications developed by enterprises will use low-

code or no-code technologies, up from less than 25% in 2020. As SaaS grows in popularity, and these vendors' platforms are increasingly adopted, the low-code market will see commensurate growth. The global low code development platform market size was worth US\$ 16.3 bn in 2021. It is estimated to reach an expected value of US\$ 148.5 billion by 2030, growing at a CAGR of 27.8% during the period 2022–2030.

Exhibit 18: Low code development market to grow at a CAGR of 28% over 21-30E



Source: IDBI Capital, Straits Research

Peer Comparison

We have compared Newgen with its global peers like Appian and Pegasystems on various fronts in order to understand what lies ahead for the Company.

- **Increased exposure to developed nations will lead to improvement in DSO** - During FY22, Newgen derived 27.4% of its total revenues from developed markets, which was significantly lower than that of its global peers (Pega – 83% & Appian – 66%). Lower exposure of Newgen to developed markets is one of the reasons for its high DSO of 131 days. We believe, Company’s focus on expanding its presence in these markets should result in lower DSO and consequently improving the overall profitability.

Exhibit 19: Revenue from developed nations (%)

Name of the Company	FY20	FY21	FY22
Pegasystem	82	85	83
Appian	68	66	66
Newgen	28	32	27

Source: Company, IDBI Capital, Bloomberg

Exhibit 20: Newgen’s DSO remain significantly higher than its peers

Name of the Company	DSO
Pegasystem	60
Appian	100
Newgen	131

Source: Company, IDBI Capital, Bloomberg

- Increasing share of annuity revenue to improve profitability** - Pegasystems and Appian derived 79% and 71% of their respective revenues from annuity. We believe, apart from providing future revenue stability, annuity revenues also provide robust gross margin. This has been the case with both Pegasystems and Appian. These Companies have clocked healthy annuity margins of 87% and 90% respectively. We expect Newgen's focus on increasing the share of annuity revenue will help the Company improve its margins. We believe every 1% change in annuity can add ~60 bps to margins.

Exhibit 21: Gross margin sensitivity

Annuity (% of revenue)	Gross margin
50%	58.50%
51%	59.13%
52%	59.76%
80%	77.40%
90%	83.70%

Company overview

Newgen Software Technologies Ltd was incorporated as 'Newgen Software Technologies Private Limited' on June 5, 1992. It is a software products company offering a platform that enables organization to rapidly develop powerful applications addressing their strategic business needs. The applications created on its platform enable organisations to drive digital transformation and competitive differentiation.

Company's platform comprises of three products (i) OmniDocs Enterprise Content Management Software, (ii) OmniFlow Intelligent Business Process Suite and (iii) OmniOMS Customer Communication Management suite.

ECM: Enterprise Content Management platform allows digitisation of enterprise content and information. This platform provides smart tools for enterprises to capture and extract information from various sources, classify, store, archive, retrieve as well as dispose of any content and documents required in day-to-day business operations. It provides the flexibility to access or deliver content over mobile and cloud, creating a highly connected and digital workplace.

BPM: Business Process Management is managing the workflow around the content. It is an integrated system, which allows enterprises to manage a complete range of business processes, including designing and modeling flow of work, executing the flow of work through the workflow engine and monitoring the flow of work for future improvement.

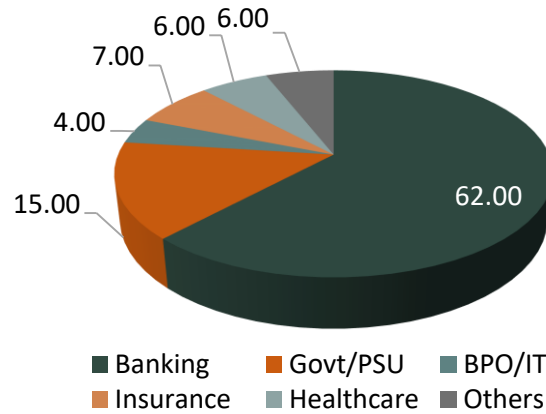
CCM: Customer communication management is a collection of computer programs that composes, personalizes, formats and delivers content acquired from various sources into targeted and relevant electronic and physical communications between an enterprise and its customers, prospective customers and business partners.

One of the examples, which can explain these three products is loan process wherein customer has to submit various documents like salary slips, identification documents along with loan application form. These contents are captured through ECM. Managing the workflow around the content like checking eligibility criteria of the applier before approval/rejection of the loan to disbursal is captured through BPM. Communication to the customer regarding statements regarding debit of principal/interest from the account to various channels of sms, email, etc, is captured through CCM.

In terms of verticals, Banking leads the revenue contribution with a share of 66%, followed by Government and Others with a share of 8% each. Insurance and Healthcare contribute 7% each of the overall revenue and the balance 4% is derived from BPO/IT vertical.

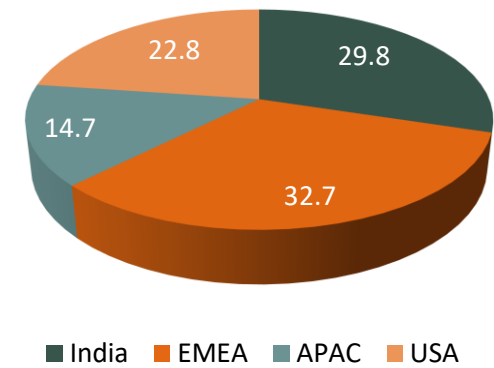
In terms of geography, EMEA remains the top revenue contributor with 32.7% share, followed by India at 29.8%, USA at 22.8% and APAC at 14.7%.

Exhibit 22: Vertical Mix break up (% revenue) – Q2FY23



Source: Company; IDBI Capital

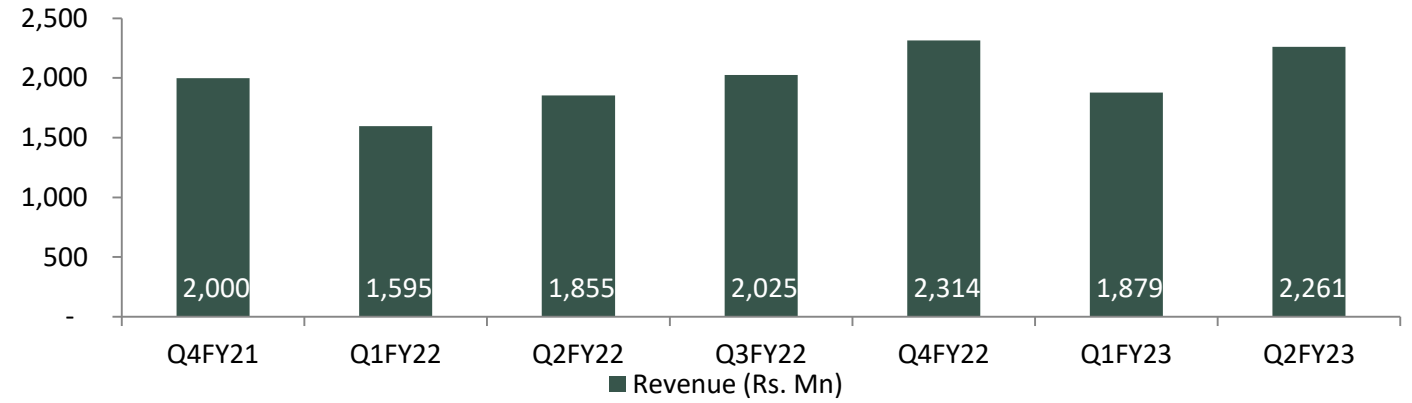
Exhibit 23: Geographical break up (% revenue) – Q2FY23



Source: Company; IDBI Capital

Company observes seasonality in its business as most of the license purchasing/renewal decision is taken by the clients in the fourth quarter. This leads to softer H1 and robust H2 revenues.

Exhibit 24: Second half observes strong revenue growth



Source: Company, IDBI Capital

Revenue Model

Newgen generate its revenue from: (i) sale of software products, (ii) annuity based revenue, and (iii) sale of services.

Sale of software includes revenue from sale of licenses for its software products. The company enters into licensing agreements with its customers for each product whereby their customers are required to pay licensing fees. The licensing fee constitutes a one-time upfront fee on a per-user basis. Additional license fees are payable for an increase in the number of users or for purchase of additional products.

Annuity based revenue includes (i) SaaS revenue (ii) revenue from annual maintenance contracts and technical support (ATS/AMC) and (iii) revenue from support services. In addition to the licensing agreements, company typically enter into ATS/AMC contracts with the customers, whereby its customers are required to pay for support and maintenance fees annually. The company also provides support and development services to its customers and charges fees on a periodic basis. SaaS revenue relates to its customers' use of software functionality in a cloud-based infrastructure provided by the company and the customers pay them subscription fees on per user per month (PUPM) model on a monthly, quarterly or an annual basis.

Sale of services includes its revenue from implementation, development and digitisation services. Implementation refers to the service of installing and integrating its products with the customers' existing platform or system. The company charges an implementation fee based on fixed cost or man-month basis for this service. Development refers to work done for customer based on its specific requirements. The company charges a development fee based on fixed cost or man-month basis. Digitisation services refer to scanning of documents and archival to document management.

NewgenONE Platform

Company had launched a unified platform, NewgenONE that offers native process automation, content services and communication management capabilities. This platform combines existing process automation, content services, and communication management capabilities into one platform thus simplifying complex business processes, manage unstructured data and drive customer engagement. This platform enables businesses to leverage low-code to develop and deploy complex, content-driven, and customer-engaging business applications in the cloud.

Key Managerial Personnel

Name	Designation	Remarks
Diwakar Nigam	Chariman	Co-founded Newgen in 1992. Prior to joining Newgen, he founded Softek and was associated with the Company for 12 years. Has more than 36 years of experience in the information technology industry. He holds a Bachelor's degree in Science from the University of Allahabad; Master's degree in Science (Mathematics) from IIT, Delhi and Master's degree in Technology (Computer Science) from IIT, Madras.
T S Varadarajan	Whole Time Director	Co-founded Newgen in 1992.. Prior to Newgen, he promoted Softek Private Limited and was associated with it for about 12 years. He has more than 36 years of experience in the field of software designing and development. He did his Bachelor's in science from Bangalore University and engineering (electrical technology) from the Indian Institute of Science, Bengaluru. He holds a Master's degree in technology (computer science) from IIT, Madras.
Priyadarshini Nigam	Whole Time Director	Has served on Newgen's Board of Directors since 1997. Previously, she was a journalist with over 10 years of experience in the IT field. She has freelanced and published with the South-North News Service and Depthnews Press Foundation Asia. She holds a Bachelor's and a Master's degree in economics.
Virender Jeet	CEO	Virender Jeet has been with Newgen for over 26 years. He oversees product development, global sales and marketing, besides business enablement He holds a Bachelor's degree in Engineering from Savitribai Phule, Pune University.
Tarun Nandwani	COO	Tarun Nandwani has been with Newgen for over 26 years and manages the company's existing customer and commercial business areas. He holds a Bachelor's degree in engineering from Delhi University.
Anand Raman	Executive Vice President and Chief Operating Officer, Newgen Software Inc.	He has been with Newgen for over 25 years. He oversees Newgen's operations in the Americas & is responsible for driving the company's scale, growth, and profitability in the region. He holds a Bachelor's in Computer Engineering from Pune University and a certificate in advanced management from the Wharton School at University of Pennsylvania

Name	Designation	Remarks
Arvind Jha	Senior Vice President, Software Development	Arvind Jha is responsible for product development. He has over three decades of experience in software development & engineering and driving business model transformation strategy for global & Indian start-up companies. Prior to Newgen, he was the CEO of Pariksha Labs. Arvind holds a Bachelor's degree in computer science from IIT Kharagpur
Rajvinder Singh Kohli	Senior Vice President, Sales	RS Kohli drives global sales with a focus on GSI relationships. Has been associated with Automation Anywhere, Microsoft, and IBM. He did his Master's in management from IRMA, Anand and global advance management program from ISB-Kellogg
Arun Kumar Gupta	Chief Financial Officer	Arun Kumar Gupta has been with Newgen since 2010. He oversees financial planning, treasury, global taxation, investor relations, business finance, compliances, and financial reporting. He has over 25 years of experience in finance, having previously worked with companies like Maersk, Thermax, and Satyam. He holds a Bachelor's degree in science from the University of Calcutta and is a qualified company secretary, cost and works accountant, and chartered accountant.

Source: Company

Key risks

- **Risk in transition to subscription based revenue model:** Newgen is currently focused on increasing the share of subscription based revenue. However, if the company fails to manage transition to a more subscription-based business model successfully, results of operations and/or cash flows could be negatively impacted.
- **Macro challenges in developed markets:** Newgen derives 27% of its revenue from the developed nations. In case the current macroeconomic conditions lead to any demand slowdown in these regions, Company's revenue growth and profitability is expected to be negatively impacted.
- **GSIs unable to deliver:** Company has partnered with various GSIs to focus on global Fortune 2000 companies in order to drive revenue growth. Company's dependence on these partnerships might not yield the expected the results in case GSIs are unable to deliver.
- **Lower investment in R&D:** Newgen operates in a highly competitive and dynamic environment which requires agility and continuous innovation in order to meet the ever changing needs of clients. This demands healthy amounts to be invested in R&D. Currently the Company invests ~10% of its revenues in R&D which is significantly lower than its peers who invest ~26%+. Lower investment in R&D could lead to inability of capitalizing on growth opportunities and in turn hampering the future growth.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	6,608	6,726	7,790	9,323	10,023	12,276
<i>Change (yoy, %)</i>	6	2	16	20	8	22
Operating expenses	(5,562)	(4,807)	(5,843)	(7,415)	(7,873)	(9,476)
EBITDA	1,046	1,919	1,947	1,908	2,151	2,801
<i>Change (yoy, %)</i>	(18)	83	1	(2)	13	30
<i>Margin (%)</i>	15.8	28.5	25.0	20.5	21.5	22.8
Depreciation	(199)	(201)	(176)	(174)	(191)	(207)
EBIT	847	1,718	1,770	1,734	1,960	2,594
Interest paid	(109)	(56)	(35)	(35)	(35)	(35)
Other income	210	150	299	339	451	601
Pre-tax profit	947	1,812	2,035	2,038	2,375	3,160
Tax	(220)	(547)	(392)	(408)	(475)	(632)
<i>Effective tax rate (%)</i>	23.2	30.2	19.3	20.0	20.0	20.0
Minority Interest	-	-	-	-	-	-
Net profit	727	1,265	1,642	1,630	1,900	2,528
Exceptional items	-	-	-	-	-	-
Adjusted net profit	727	1,265	1,642	1,630	1,900	2,528
<i>Change (yoy, %)</i>	(28.8)	73.9	29.8	(0.7)	16.5	33.1
EPS	10.5	18.3	23.6	23.4	27.3	36.3
Dividend per sh	3.6	2.0	3.5	3.5	4.1	10.9
<i>Dividend Payout %</i>	35	11	15	15	15	30

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' funds	5,491	6,657	8,114	9,500	11,115	12,885
Share capital	691	693	695	695	695	695
Reserves & surplus	4,800	5,964	7,419	8,804	10,419	12,189
Total Debt	1,210	425	611	611	611	611
Other liabilities	1,009	1,039	1,260	1,260	1,260	1,260
Curr Liab & prov	1,001	1,085	1,128	1,239	1,273	1,392
Current liabilities	960	1,039	1,063	1,161	1,190	1,290
Provisions	41	46	65	78	83	102
Total liabilities	3,220	2,549	2,999	3,110	3,145	3,263
Total equity & liabilities	8,711	9,206	11,113	12,610	14,259	16,148
Net fixed assets	2,211	2,049	2,299	2,284	2,263	2,265
Investments	-	-	-	-	-	-
Other non-curr assets	464	666	1,306	1,306	1,306	1,306
Current assets	6,036	6,490	7,508	9,020	10,690	12,576
Inventories	-	-	-	-	-	-
Sundry Debtors	2,694	2,385	2,789	3,448	3,597	4,204
Cash and Bank	1,653	2,417	2,759	3,582	5,089	6,325
Loans and advances	774	833	926	926	926	926
Total assets	8,711	9,206	11,113	12,610	14,259	16,148

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	947	1,812	2,035	2,038	2,375	3,160
Depreciation	36	55	123	174	191	207
Tax paid	(317)	(291)	(493)	(408)	(475)	(632)
Chg in working capital	(234)	166	(351)	(548)	(115)	(488)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	432	1,742	1,314	1,256	1,976	2,247
Capital expenditure	(725)	106	(373)	(158)	(170)	(209)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(725)	106	(373)	(158)	(170)	(209)
Equity raised/(repaid)	6	2	2	-	-	-
Debt raised/(repaid)	236	(785)	186	-	-	-
Dividend (incl. tax)	(252)	(140)	(245)	(245)	(285)	(758)
Chg in minorities	-	-	-	-	-	-
Other financing activities	164	(160)	(543)	(30)	(14)	(44)
Cash flow from financing (c)	154	(1,083)	(599)	(275)	(299)	(802)
Net chg in cash (a+b+c)	(138)	765	342	823	1,507	1,236

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	80	96	117	137	160	185
Adj EPS (Rs)	11	18	24	23	27	36
Change (YoY, %)	(28)	73	29	(1)	17	33
EBITDA margin (%)	15.8	28.5	25.0	20.5	21.5	22.8
Pre-tax margin (%)	14	27	26	22	24	26
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	12	22	20	16	16	19
ROE (%)	13.9	20.8	22.2	18.5	18.4	21.1

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.8	0.7	0.8
Leverage factor (x)	1.5	1.5	1.4	1.3	1.3	1.3
Net margin (%)	11.0	18.8	21.1	17.5	19.0	20.6

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	149	129	131	135	131	125
Payable days	18	17	23	23	23	23

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	32.1	18.5	14.3	14.4	12.4	9.3
Price/Book value (x)	4.2	3.5	2.9	2.5	2.1	1.8
EV/Net sales (x)	3.5	3.2	2.7	2.2	1.9	1.5
EV/EBITDA (x)	22	11	11	11	9	6
Dividend Yield (%)	1	1	1	1	1	3



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