Newgen Software Technologies BUY

Long term growth intact

Summary

Newgen reported robust revenue growth in Q4 (up 23% YoY) and FY24 (up 28% YoY). Further, the company has seen strong order booking (up 19% YoY to Rs 15.60 bn) and new & mining booking (up 29% YoY). This coupled with momentum in new logo addition and higher deal sizes has made the company aspire to continue the FY24 revenue growth momentum. Further, resting of sales strategy in US, probable M&A in mature markets and higher deal closure in APAC could further boost revenue growth. We expect revenues to grow at a CAGR of 27% over FY24-FY26E. Higher growth in revenues will further boost margins leading to PAT CAGR of 32% over FY24-FY26E. Hence, we maintain BUY rating on the stock with a revised target price of Rs 1,072 (34x FY26E EPS) (previous TP Rs 1,042 and multiple of 34x).

Key Highlights and Investment Rationale

- **Structural tailwind in growth:** Newgen has seen 27% YoY growth in 50 mn plus clients. Further, strong traction in new logo addition, 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 fiancé (up ~70% YoY in terms of deals to ~ Rs 1 bn) in India & Middle East to drive growth. Further, the company is resetting its sales strategy to tap larger banks in US (typically of US$20-50 bn) and aims to focus on 90 accounts (of which focus is to add 25-30 accounts in next three years) to drive growth in mature markets. GSI partnership and cross sell are expected to drive long term growth.

- **Margins on steady pace:** We expect the company to maintain 21% net margins in near term leading to PAT CAGR of 32% over FY24-FY26E.

TP	Rs1,072
CMP	**Rs930**
Potential upside/downside	15%
Previous Rating	BUY

Price Performance (%)	-1m	-3m	-12m
Absolute	17.0	11.3	270.4
Rel to Sensex	15.9	7.8	248.5

V/s Consensus		
EPS (Rs)	**FY25E**	**FY26E**
IDBI Capital	24	31
Consensus	22	28
% difference	*9.5*	*10.3*

Key Stock Data	
Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	140
Market cap. (Rs mn)	130,422
3-m daily average value (Rs mn)	15.9
52-week high / low	Rs900 / 248
Sensex / Nifty	74,483 / 22,605

Shareholding Pattern (%)	
Promoters	55.0
FII	16.4
DII	3.9
Public	24.7

Financial snapshot **(Rs mn)**

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,790	9,740	12,438	15,787	20,166
Change (yoy, %)	*16*	*25*	*28*	*27*	*28*
EBITDA	1,947	2,122	2,883	3,648	4,812
Change (yoy, %)	*1*	*9*	*36*	*27*	*32*
EBITDA Margin(%)	*25.0*	*21.8*	*23.2*	*23.1*	*23.9*
Adj.PAT	1,642	1,764	2,516	3,316	4,351
EPS (Rs)	12	13	18	24	31
Change (yoy, %)	*29.8*	*7.4*	*42.1*	*32*	*31*
PE(x)	79	73	52	39	30
Dividend Yield (%)	*0.2*	*0.2*	*0.3*	*1*	*1*
EV/EBITDA (x)	65	60	44	34	26
RoE (%)	*22*	*20*	*23*	*25*	*25*
RoCE (%)	*20*	*17*	*19*	*21*	*22*

Source: IDBI Capital Research;

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Con-call Highlights

- Revenue stood at Rs 3,753 mn, up 15.9% QoQ and 23% YoY led by growth in EMEA & India region. And in terms, services & products growth was led by implementation revenue (Rs 900 mn) which grew by 16% QoQ & ~14% YoY; while SAAS revenue (Rs. 356 mn) degrew by 5.3% QoQ and grew by 10% YoY.
- Growth was led by India (up 38.9% YoY) and EMEA (42.3% YoY); while APAC & US declined sequentially. In terms of verticals growth was led by BFSI which grew by 26.5% YoY, Insurance grew by 23% YoY and others grew by 96% YoY.
- In terms of margins; India margins stood at 21.9% (down 102 bps QoQ, down 620 bps YoY), EMEA 49% (up 2133 bps QoQ, up 939 bps YoY), APAC at 31.6% (up 183 bps QoQ, 135 bps YoY) and USA at 14.7% (down 187 bps QoQ, down 1010 bps YoY)
- Order booking stood at Rs.15.60bn showcasing the growth of 20% from previous year Rs.13bn. Management is optimistic on order bookings for FY25.
- Company won 51 new logos in FY24; 7 new logos in Q4FY24. Company has invested 9% of revenue in R&D initiatives and 22% of revenue in sales & marketing initiatives and would continue to invest in the coming year as well.
- **Deal pipeline:** In terms of market; management expects deal pipeline for US market to remain at same level as last year. At present company is targeting 90 large banks in US and is targeting 25-30 logos in next 2-3years. India, EMEA and APAC regions pipeline would remain robust. In terms of vertical, management expects healthy pipeline in banking and insurance.
- Management stated insurance vertical to drive growth and expects major revenue share in next 2 years.
- Management is actively looking for M&A opportunities to expand in mature markets for next 1-2years. With respect to acquiring clients, management is more focused on claiming larger banks ($20bn-$50bn-$100bn). Company is focusing majorly on India & EMEA regions to expand and would focus on other regions from next year onwards. Management is re-setting their strategies for Americas market to acquire more share. Also, emphasized on strengthening the sales teams on newly launched insurance vertical.
- **Demand environment:** Management expects recovery in APAC region from next year onwards. In terms of vertical services; trade finance, digital engineering, supply chain solutions have good traction.

Exhibit 1: Financial snapshot (Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenues	**3,753**	**3,237**	***15.9***	**3,051**	***23.0***
COGS	1,689	1,585	*6.6*	1,415	*19.3*
Gross profit	2,064	1,652	*25.0*	1,635	*26.2*
SG&A	839	881	*(4.8)*	671	*25.1*
EBITDA	**1,225**	**770**	***59.1***	**964**	***27.1***
Depreciation & amortization	74	69	*7.1*	68	*8.9*
EBIT	1,152	701	*64.2*	897	*28.4*
Other income	139	98	*40.9*	67	*107.2*
PBT	1,290	800	*61.3*	964	*33.9*
Tax	238	116	*104.2*	164	*44.7*
Minority interest			*n.m.*		*n.m.*
Adjusted net profit	**1,053**	**683**	***54.0***	**799**	***31.7***
Exceptional item	0	0	*n.m.*	0	*n.m.*
Reported net profit	**1,053**	**683**	***54.0***	**799**	***31.7***
Diluted EPS (Rs)	**7.3**	**4.7**	***54.1***	**5.7**	***27.6***
As % of net revenue					
Gross profit	55.0	51.0		53.6	
SG&A	22.3	27.2		22.0	
EBITDA	32.7	23.8		31.6	
EBIT	30.7	21.7		29.4	
Reported net profit	28.1	21.1		26.2	
Tax rate	18.4	14.5		17.0	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY25E New	FY25E Old	*Chg (%)*	FY26E New	FY26E Old	*Chg (%)*
Revenue (Rs mn)	15,787	16,316	*-3.2%*	20,166	20,729	*-2.7%*
EBIT	3,372	3,643	*-7.4%*	4,521	4,637	*-2.5%*
EBIT margin (%)	*21.4%*	*22.33%*	*-97 bps*	*22.4%*	*22.37%*	*5 bps*
EPS (Rs)	23.1	23.1	*-0.2%*	30.3	30.3	*-0.1%*

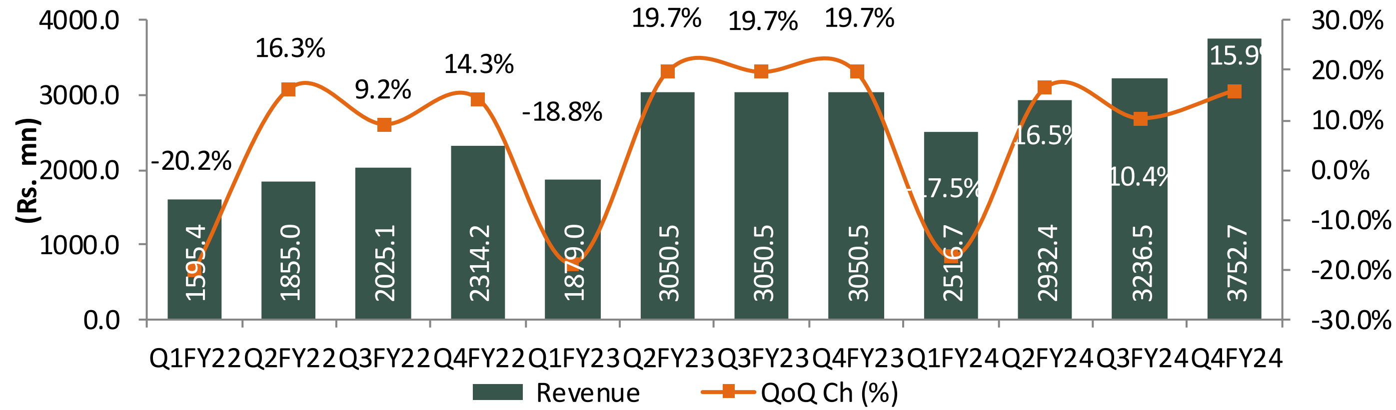
Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q4FY24	Q4FY24E	*Variance (%)*
Revenue (Rs mn)	3,753	3,802	*-1.3%*
EBIT (Rs mn)	1,152	1,149	*0.3%*
EBIT margin (%)	*30.7%*	*30.2%*	*48 bps*
Recurring PAT (Rs mn)	1,053	951	*10.74%*
Recurring PAT margin (%)	*28.1%*	*25.0%*	*305 bps*
EPS (Rs)	7.3	6.6	*10.8%*

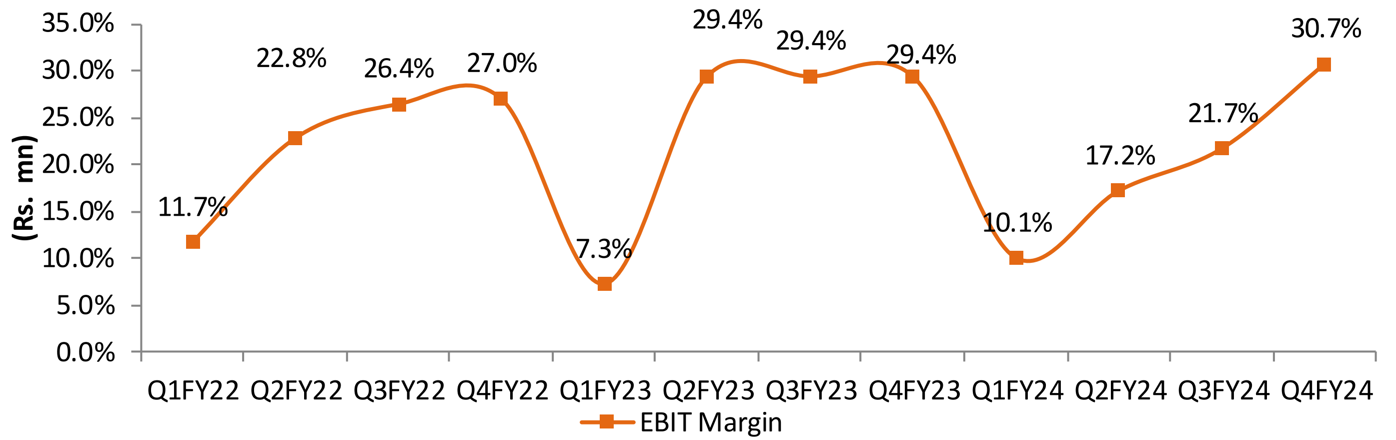
Source: Company; IDBI Capital Research

Exhibit 4: Q4FY24 Revenue was up 15.9% QoQ



Source: Company; IDBI Capital Research

Exhibit 5: Q4FY24 EBIT margin improved by 901 bps QoQ



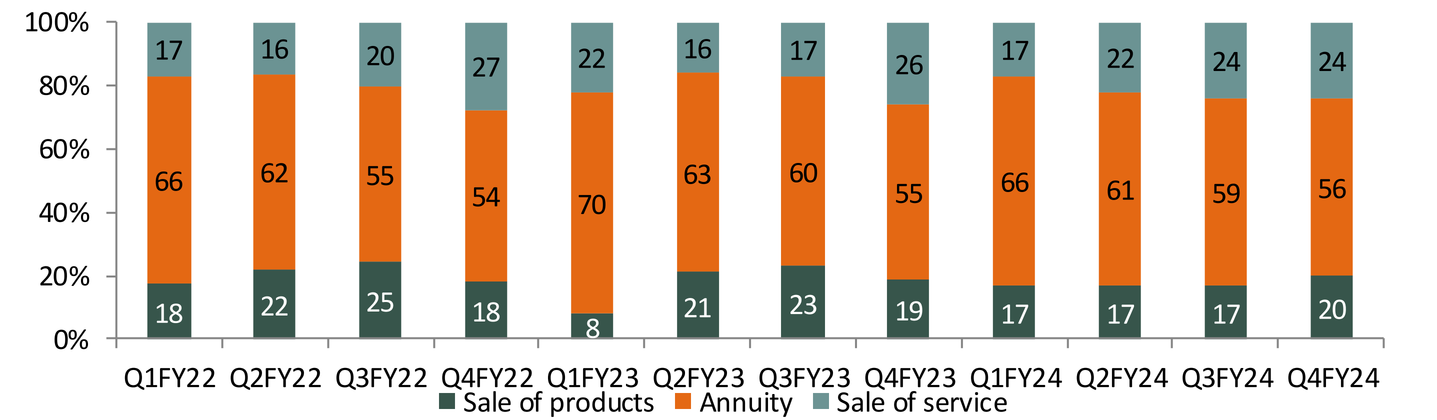
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (%)	YoY growth (%)
		15.9%	*23%*
Geography			
India	32	*8.2*	*38.9*
EMEA	40	*51.8*	*42.3*
APAC	10	*(7.2)*	*7.1*
USA	17	*(8.9)*	*(14.8)*
Verticals			
Banking	73	*30.2*	*26.5*
Govt/PSU	5	*(47.3)*	*2.5*
BPO/IT	1	*(42.0)*	*(59.0)*
Insurance	8	*(7.2)*	*23.0*
Healthcare	5	*(17.2)*	*(12.1)*
Others	8	*85.5*	*96.8*

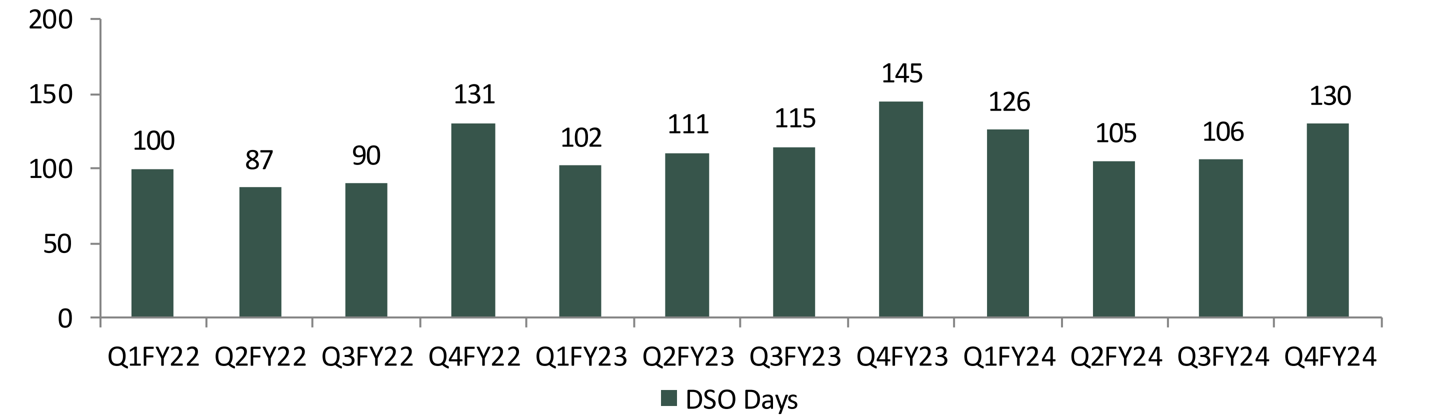
Source: Company; IDBI Capital Research

Exhibit 7: Share of annuity revenue stood at 56%



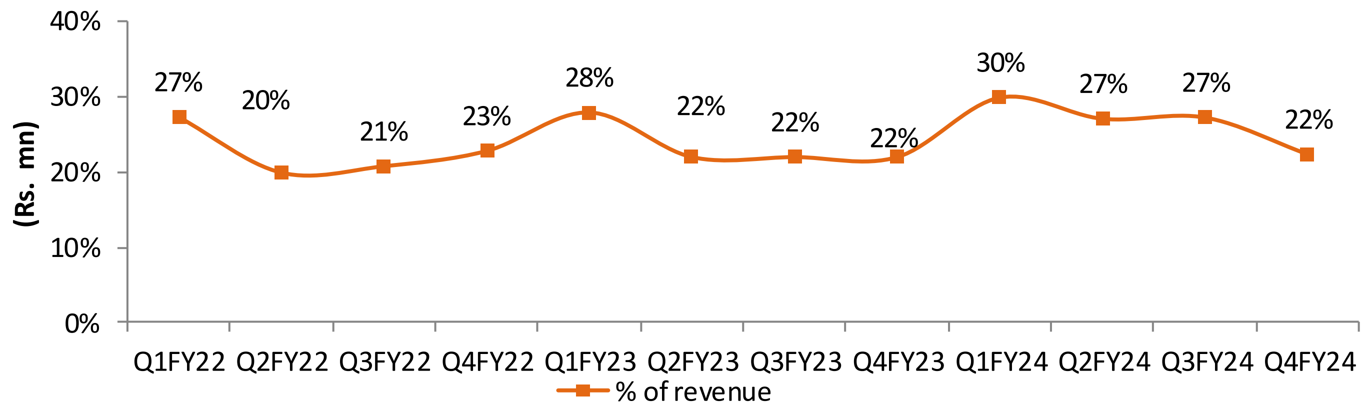
Source: Company; IDBI Capital Research

Exhibit 8: Trend of DSO (days)



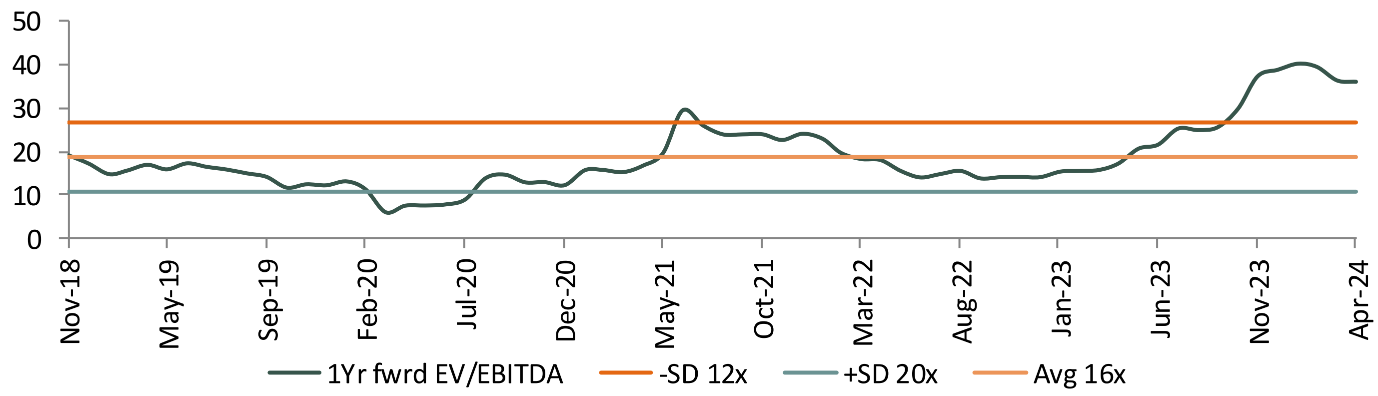
Source: Company; IDBI Capital Research

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	FY24	FY25E	FY26E
Net sales	**6,726**	**7,790**	**9,740**	**12,438**	**15,787**	**20,166**
Change (yoy, %)	*1.8*	*16*	*25*	*28*	*27*	*28*
Operating expenses	(4,807)	(5,843)	(7,618)	(9,555)	(12,139)	(15,354)
EBITDA	1,919	1,947	2,122	2,883	3,648	4,812
Change (yoy, %)	*83.5*	*1*	*9*	*36*	*27*	*32*
Margin (%)	*28.5*	*25.0*	*21.8*	*23.2*	*23.1*	*23.9*
Depreciation	(201)	(176)	(247)	(280)	(276)	(291)
EBIT	**1,718**	**1,770**	**1,875**	**2,603**	**3,372**	**4,521**
Interest paid	(56)	(35)	(43)	(42)	(42)	(42)
Other income	150	299	340	481	815	960
Pre-tax profit	**1,812**	**2,035**	**2,173**	**3,042**	**4,145**	**5,438**
Tax	(547)	(392)	(409)	(526)	(829)	(1,088)
Effective tax rate (%)	*30.2*	*19.3*	*18.8*	*17.3*	*20.0*	*20.0*
Minority Interest	-	-	-	-	-	-
Net profit	**1,265**	**1,642**	**1,764**	**2,516**	**3,316**	**4,351**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**1,265**	**1,642**	**1,764**	**2,516**	**3,316**	**4,351**
Change (yoy, %)	*73.9*	*30*	*7*	*43*	*32*	*31*
EPS*	9.1	11.8	12.7	18.0	23.7	31.2
Dividend per sh	1.0	1.8	2.3	2.5	7.1	9.3
Dividend Payout %	*11.1*	*14.9*	*17.8*	*14*	*30*	*30*

** Adjusted for Bonus*

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	**6,657**	**8,114**	**9,825**	**12,235**	**14,556**	**17,602**
Share capital	693	695	697	1,398	1,398	1,398
Reserves & surplus	5,964	7,419	9,129	10,837	13,158	16,204
Total Debt	**425**	**611**	**658**	**834**	**834**	**834**
Other liabilities	1,039	1,260	1,680	2,051	2,051	2,051
Curr Liab & prov	**1,085**	**1,128**	**1,284**	**1,745**	**1,898**	**2,090**
Current liabilities	1,039	1,063	1,189	1,653	1,782	1,942
Provisions	46	65	95	92	116	148
Total liabilities	**2,549**	**2,999**	**3,622**	**4,630**	**4,783**	**4,975**
Total equity & liabilities	**9,206**	**11,113**	**13,447**	**16,865**	**19,339**	**22,577**
Net fixed assets	**2,049**	**2,299**	**2,446**	**2,510**	**2,409**	**2,342**
Investments	-	-	-	-	-	-
Other non-curr assets	666	1,306	2,725	1,293	1,293	1,293
Current assets	**6,490**	**7,508**	**8,276**	**13,062**	**15,637**	**18,942**
Inventories	-	-	-	-	-	-
Sundry Debtors	2,385	2,789	3,882	4,435	5,623	7,182
Cash and Bank	2,417	2,759	2,083	3,759	5,075	6,726
Loans and advances	833	926	1,315	3,651	3,651	3,651
Total assets	**9,206**	**11,113**	**13,447**	**16,865**	**19,339**	**22,577**

Cash Flow Statement (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	1,812	2,035	2,173	3,042	4,145	5,438
Depreciation	55	123	247	280	276	291
Tax paid	(291)	(493)	(424)	(569)	(829)	(1,088)
Chg in working capital	166	(351)	(1,407)	(2,450)	(1,034)	(1,367)
Other operating activities	-	-	(224)	1,204	(28)	(94)
Cash flow from operations (a)	**1,742**	**1,314**	**365**	**1,507**	**2,530**	**3,180**
Capital expenditure	106	(373)	(393)	(344)	(175)	(224)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	(350)	-	-	-
Cash flow from investing (b)	**106**	**(373)**	**(743)**	**(344)**	**(175)**	**(224)**
Equity raised/(repaid)	2	2	1	701	-	-
Debt raised/(repaid)	(785)	186	47	176	-	-
Dividend (incl. tax)	(140)	(245)	(315)	(350)	(995)	(1,305)
Chg in monorities	-	-	-	-	-	-
Other financing activities	(160)	(543)	(30)	(15)	(44)	-
Cash flow from financing (c)	**(1,083)**	**(599)**	**(297)**	**513**	**(1,039)**	**(1,305)**
Net chg in cash (a+b+c)	**765**	**342**	**(676)**	**1,676**	**1,316**	**1,651**

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	47.8	58	71	88	104	126
Adj EPS (Rs)	*9.1*	*11.8*	*12.7*	*18.0*	*23.7*	*31.2*
Adj EPS growth (%)	*-13.8*	*30*	*7*	*42*	*32*	*31*
EBITDA margin (%)	*28.5*	*25.0*	*21.8*	*23.2*	*23.1*	*23.9*
Pre-tax margin (%)	*26.9*	*26.1*	*22.3*	*24.5*	*26.3*	*27.0*
Net Debt/Equity (x)	*-0.3*	*-0.3*	*-0.1*	*-0.2*	*-0.3*	*-0.3*
ROCE (%)	*21.7*	*20*	*17*	*19*	*21*	*22*
ROE (%)	*20.8*	*22*	*20*	*23*	*25*	*25*
DuPont Analysis						
Asset turnover (x)	0.8	0.8	0.8	0.8	0.9	0.9
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.3
Net margin (%)	*18.8*	*21.1*	*18.1*	*20.2*	*21.0*	*21.6*
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	129	131	145	130	130	130
Payable days	17	23	17	18	18	18

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	102	79	73	52	39	30
Price/Book value (x)	19.4	15.9	13.2	10.6	8.9	7.4
EV/Net sales (x)	19	16	13	10	8	6
EV/EBITDA (x)	66	65	60	44	34	26
Dividend Yield (%)	*0.1*	*0.2*	*0.2*	*0.3*	*0.8*	*1.0*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

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

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