

CMP: ₹ 1,270

Target: ₹ 1,465 (15%)

Target Period: 12 months

BUY

October 16, 2024

Strong Performance Driven by License Revenues...

About the stock: Incorporated in 1992, Newgen is a low code application development platform company. It is an established player in the market of enterprise content management (ECM), business process management (BPM) & customer communications management (CCM).

- Annuity based revenues (SaaS + ATS/AMC + Support) comprise 60% of the revenue mix while Software & Implementation form 40% of the revenue mix
- Vertical wise, Banking comprises 72% of revenue mix while geographical break-up has been largely equal between India, EMEA, APAC & US

Q2FY25 Performance: Newgen reported 23.2% YoY/ 15% QoQ revenue growth to ₹361.2 crore. Subscription revenues (ATS/AMC +SaaS) grew 19.2% YoY wherein SaaS revenue grew by 23.2% YoY while ATS/AMC grew by 17.3% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) grew by 21.1% YoY to ₹216.7 crore. License revenue reported a strong growth of 30.4% YoY to ₹65 crore. EBITDA increased 45% YoY to ₹83 crore while EBITDA margins were up ~350 bps YoY to 23%.

Investment Rationale

- **Restructured strategy working in favour of the company:** Focus on larger accounts and deal sizes and scaling down of smaller accounts, with an aim to increase the average deal size from the current range of US\$ 700K to 2 mn has played out well for the company and is expected to drive growth in the medium-long run. **The management highlighted that the company is investing aggressively to achieve the aspirational \$500mn dollar revenue in the next 3-4 years, implying a CAGR of 36% over the next 4 years i.e., FY24-FY28.**
- **Sustained revenue growth:** We expect strong revenue growth momentum to continue in H2FY25, owing to tailwinds from the digital cycle and strong traction in customer onboarding, SME lending, supply chain finance, payment hub and trade finance. **We believe the company's revenue will grow at CAGR of 23.8% between FY24-27E, vs. CAGR of 14.9% between FY19-24. We also bake EBITDA margin of 24.7%/24.2/24.2% in FY25/26/27, respectively.**
- **Order Book growth healthy; Traction in GenAI based deals to drive long term growth:** Management highlighted that the order book grew by 22% YoY in H1FY25. The company added 8 new logos during the quarter. With respect to AI/Gen AI, the traction in AI, Gen AI & ML are expected to drive growth in long run supported by launch of **Newgen LumYn** (a Gen AI powered hyper-personalization platform designed for the banking sector) and **Marvin** (an all-in-one GenAI-based enhancement for its existing platform, NewgenONE).

Rating and Target Price

- We expect **EPS growth of ~22.9% over FY24-27 on the back of a healthy deal pipeline and robust growth strategy** to be a key catalyst for its long-term growth.
- We assign **BUY** rating on the stock, valuing it at **target price of ₹ 1,465; at 50x P/E on average of FY26E and FY27E EPS.**

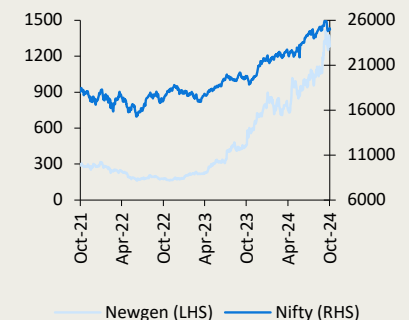
Particulars

Particular	Amount
Market Cap (₹ Crore)	17,686
Total Debt	2.2
Cash and Invest (₹ Crore)	741
EV (₹ Crore)	16,947
52 week H/L	1548 / 458
Equity capital	139.8
Face value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promote	55.1	55.0	54.3	54.3
FII	15.2	16.4	17.8	20.0
DII	9.8	9.7	10.0	8.9
Others	19.9	18.9	17.9	16.8

Price Chart



Key risks

- Lower than expected revenue growth from the BFSI segment;
- Delay in recovery of US markets

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Key Financial Summary

₹ Crore	FY22	FY23	FY24	5 Year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Net Sales	779	974	1,244	14.9	1,548	1,915	2,358	23.8
EBITDA	195	212	289	17.7	382	463	571	25.5
EBITDA Margins (%)	25.0	21.8	23.2		24.7	24.2	24.2	
Net Profit	164	176	252	19.7	318	378	467	22.9
EPS (₹)	11.8	12.5	17.4		22.0	26.2	32.3	
P/E	107.6	100.3	70.7		55.8	47.0	38.1	
RoNW (%)	20.2	18.0	20.6		21.1	20.5	20.5	
RoCE (%)	23.7	21.1	23.6		25.9	24.3	24.4	

Source: Company, ICICI Direct Research

Performance highlights and Outlook

- **Revenue Performance:** Newgen reported 23.2% YoY/ 15% QoQ revenue growth to ₹361.2 crore. Subscription revenues (ATS/AMC +SaaS) reported 19.2% YoY revenue growth wherein SaaS revenue grew by 23.2% YoY while ATS/AMC grew by 17.3% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported healthy growth of 21.1% YoY to ₹216.7 crore. License revenue reported a strong growth of 30.4% YoY to ₹65 crore.
- **Margin Performance:** The company's EBITDA increased 45% YoY to ₹83 crore while EBITDA margins were up ~350 bps YoY to 23%, driven by operating leverage. The company reported PAT of ₹70.3 crore, up 47.2% YoY.
- **Geography Performance:** Geography wise growth was driven by solid performance across all key geographies - EMEA (+21% YoY), India (+19% YoY), APAC (+53% YoY) and US (+17% YoY). The deal momentum is expected to be stronger in H2 for the US markets which are seeing some weakness currently. **The company indicated that the focus is on targeting larger accounts, particularly in the US market, with an emphasis on cross-selling within the existing customer base.** With a strong presence in the Middle East, key markets include the UAE, Saudi Arabia, Oman, Qatar, and Kuwait. Expansion efforts are also underway in African countries such as Nigeria, Ghana, and Kenya.
- **BFSI & Government Segment:** Banking remains the largest segment, accounting for 72% of revenue, with an increased focus on growing the insurance and government sectors. **Planned investment include 9% in R&D and 22% in sales and marketing, aiming to grow its insurance and government revenue share to 40% which is currently 20%.**
- **Deal Wins: The company added 8 new logos during the quarter.** Major deal wins include:
 - A project of ~₹25 crore from a large insurance company in India for building their system of engagement, which will be executed over 18 months.
 - An order worth US\$1.5 mn for a loan origination and collection system from a leading financial leasing company in Saudi Arabia.
 - An order valued at ₹16.9 crore from a large infrastructure financing services company in India.

Management highlighted that the order book grew by 22% YoY in H1FY25 (including both executable & executed orders).

- **AI/GenAI:** The company has **launched NewgenOne Marvin - APEX edition**, to streamline complex workflows, enhance customer engagement via secure AI integration. Also, investments are being made in critical areas such as AI, GenAI, and machine learning, which are becoming essential to modern enterprise software.
- **Guidance/Aspiration:** The company expects its business to be slightly back-ended towards Q3 and Q4, with larger license deals happening during this period. The management highlighted that the company is investing aggressively to achieve the **aspirational \$500mn dollar revenue in the next 3-4 years**, which implies a **CAGR of 36% over the next 4 years i.e., FY24-FY28.**
- **Strategy going head:** The **focus is shifting to larger accounts and deal sizes**, with an aim to increase the average deal size from the current range of US\$ 700K to 2 mn. Moreover, the aim is for broader market coverage and deeper penetration in existing accounts, with a **focus of 70% on acquiring new logos and 30% on mining existing accounts.**

Exhibit 1: Quarter Performance

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Revenue	361.2	293.2	23.2	314.7	14.8	Subscription revenues (ATS/AMC +SaaS) grew 19.2% YoY wherein SaaS revenue grew by 23.2% YoY while ATS/AMC grew by 17.3% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) grew by 21.1% YoY to ₹216.7 crore. License revenue reported a strong growth of 30.4% YoY to ₹65 crore.
Employee expense	184.7	156.6	17.9	174.0	6.1	
Gross Margin	176.5	136.6	29.2	140.7	25.4	
Gross margin (%)	48.9	46.6	228 bps	44.7	416 bps	
Other expense	93.5	79.4	17.8	93.0	0.5	
EBITDA	83.0	57.2	45.0	47.7	74.1	
EBITDA Margin (%)	23.0	19.5	346 bps	15.1	783 bps	Margins grew due to a strong revenue growth of 23.2% YoY and improved operating leverage
Depreciation & amortisation	8.0	6.9	16.6	7.7	3.3	
EBIT	75.0	50.4	48.9	39.9	87.8	
EBIT Margin (%)	20.8	17.2	359 bps	12.7	808 bps	
Other income (less interest)	17.6	8.2	113.8	21.6	-18.5	
PBT	92.6	58.6	58.0	61.5	50.6	
Tax paid	22.2	10.8	105.6	13.9	59.8	
PAT	70.3	47.8	47.2	47.6	47.8	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Total operating Income	1,244	1,548	1,915	2,358	
Growth (%)	27.7	24.4	23.7	23.1	
COGS (employee expenses)	628	779	978	1,204	
Other expenses	327	386	474	583	
Total Operating Expenditure	955	1,165	1,452	1,787	
EBITDA	289	382	463	571	
Growth (%)	36.2	32.3	21.1	23.3	
Depreciation	28	32	38	43	
Other income (net)	43	61	48	56	
PBT	304	411	473	583	
Total Tax	53	93	95	117	
PAT	252	318	378	467	
Growth (%)	42.7	26.5	18.8	23.4	
Diluted EPS (₹)	17.4	22.0	26.2	32.3	
Growth (%)	39.4	26.5	18.8	23.4	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
PBT	304	411	473	583	
Add: Depreciation	28	32	38	43	
Others	13	(61)	(48)	(56)	
Inc/(dec) in working capital	(8)	(142)	(131)	(176)	
Taxes paid	(55)	(93)	(95)	(117)	
CF from operating activities	281	148	237	278	
(Inc)/dec in Fixed Assets	(14)	(26)	(33)	(40)	
Others	(205)	65	52	60	
CF from investing activities	(219)	39	19	20	
Dividend paid & dividend tax	(35)	(36)	(36)	(36)	
Others	(12)	(4)	(4)	(4)	
CF from financing activities	(47)	(40)	(40)	(40)	
Net Cash flow	15	146	216	258	
Exchange difference	1	-	-	-	
Opening Cash	208	376	522	738	
Closing cash & Bank	376	522	738	997	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Equity Capital	140	140	140	140	
Reserve and Surplus	1,084	1,366	1,708	2,139	
Total Shareholders funds	1,224	1,506	1,848	2,278	
Total Debt	2	2	2	2	
Lease liability	35	35	35	35	
Provisions	49	61	75	92	
Other non current liabilities	-	-	-	-	
Total Liabilities	1,309	1,603	1,960	2,408	
Assets					
Property, plant and equipment	165	168	174	184	
Goodwill	3	3	3	3	
Intangibles	10	10	10	10	
Right-of-use assets	71	61	49	36	
Other non current assets	132	187	214	263	
Cash & bank balance	376	522	738	997	
Current Investments	365	365	365	365	
Trade receivables	444	552	683	841	
Unbilled revenue	-	-	-	-	
Other financial assets	95	118	146	179	
Other current assets	27	34	41	51	
Total Current Assets	1,306	1,590	1,973	2,433	
Trade payables	48	59	73	90	
Lease liability	12	12	12	12	
OCL & provisions	318	346	379	419	
Total Current Liabilities	377	417	464	521	
Net Current Assets	929	1,174	1,509	1,911	
Application of Funds	1,309	1,603	1,960	2,408	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
Diluted EPS	17.4	22.0	26.2	32.3
Cash EPS	20.0	25.1	29.7	36.4
BV	87	108	132	163
DPS	2.5	2.6	2.6	2.6
Cash Per Share	27	37	53	71
Operating Ratios (%)				
EBITDA margin	23.2	24.7	24.2	24.2
PBT Margin	24.5	26.6	24.7	24.7
PAT Margin	20.2	20.6	19.7	19.8
Debtor days	130	130	130	130
Unbilled days	-	-	-	-
Creditor days	14	14	14	14
Return Ratios (%)				
RoE	20.6	21.1	20.5	20.5
RoCE	23.6	25.9	24.3	24.4
RoIC	33.9	38.1	40.1	42.2
Valuation Ratios (x)				
P/E	70.7	55.8	47.0	38.1
EV / EBITDA	58.6	44.0	35.8	28.6
EV / Net Sales	13.6	10.9	8.7	6.9
Market Cap / Sales	14.2	11.4	9.2	7.5
Price to Book Value	14.5	11.8	9.6	7.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	3.3	3.4	3.4
Quick Ratio	3.3	3.3	3.4	3.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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