

July 18, 2025

**Weak Q1; Near-term outlook clouded by deal delays...**

**About the stock:** Incorporated in 1992, Newgen is a low code application development platform company. Geographical break-up is largely equal between India, EMEA, APAC & US.

**Q1FY26 Performance:** Newgen reported revenue of ₹321 crore, down 25% QoQ/up 1.9% YoY. Product/ License revenue (12% of mix) reported a sharp decline of 12.7% YoY to ₹38.5 crore and Implementation revenues (19% of mix) also de-grew by 12% YoY to ₹61 crore. On the other hand, Subscription revenues (ATS/AMC +SaaS) reported healthy 17.8% YoY revenue growth. Annuity revenues (ATS/AMC+ SaaS+ Support) reported growth of 9.8% YoY to ₹221 crore. EBITDA margin stood at 14%, down ~1790 bps QoQ/ ~110 bps YoY.

**Investment Rationale**

- **Near-term weakness persists, recovery to be back-ended:** Q1 revenue growth of 1.9% YoY was a sharp miss versus expectations especially given the company's aspirations of growing 20%+ YoY, impacted by weaker license sales (-12.7% YoY) in the banking vertical (-5.2% YoY) and muted demand in key markets like India and the Middle East. **Contributing 67% to overall revenue, the banking segment is witnessing cautious client behaviour, with delayed decision-making on large, license-driven deals.** Clients are currently leaning towards modular, journey-specific deployments such as trade finance, lending, and onboarding, rather than full-scale platform rollouts. **Management commentary suggests a gradual pickup in H2FY26, aided by deal pipeline conversion and annuity revenue ramp-up. We expect rupee revenue to grow at CAGR of 13% (vs. ~18% earlier) over FY25-27E.**
- **Margins under pressure:** Operating margins declined ~110 bps YoY to 14% due to negative operating leverage, with elevated spends on sales, marketing & R&D. **While a strong funnel offers some comfort and long-term growth, margins remain vulnerable as conversion delays remain a key concern. Thus, if revenue recovery is slower than expected margins might slip even further. Accordingly, we bake in EBITDA margins of 24%/24.5% in FY26E/FY27E.**
- **Subscription growth and sector diversification offer structural support:** Note that healthy 20% YoY growth in SaaS and steady expansion in insurance & government and healthcare verticals, albeit smaller in size, has helped diversify dependence on large banking deals. The addition of 12 new logos and continued IP development (with 25 patents granted) support long-term competitiveness.

**Rating and Target Price**

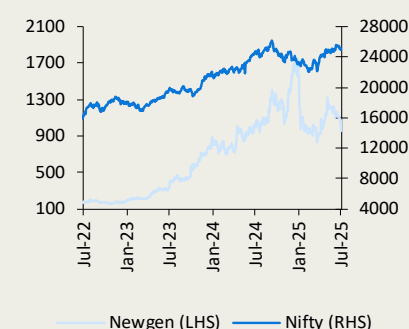
- While long-term prospects remain intact, near-term performance remains soft amid demand moderation in core verticals and geographies.
- **Thus, we downgrade to HOLD (vs BUY earlier) as we bake in lower revenue growth in FY26, with a revised target price of ₹1,090; at a multiple of 40x P/E on FY27E EPS.**

**Particulars**

Particular	Amount
Market Cap (₹ Crore)	13,383
Total Debt	-
Cash and Invest (₹ Crore)	924
EV (₹ Crore)	12,459
52 week H/L	1799/ 758
Equity capital	140.2
Face value	10.0

**Shareholding pattern**

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	54.3	54.3	54.3	53.8
FII	17.8	20.0	20.3	19.4
DII	10.0	8.9	9.1	9.1
Others	17.9	16.8	16.3	17.7

**Price Chart****Key risks**

- Continued slower deal conversion and closure coupled with lower average deal sizes
- Higher and earlier than expected pipeline conversion and revenue recovery;

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**Key Financial Summary**

₹ Crore	FY23	FY24	FY25	5 Year CAGR (FY20-25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
Net Sales	974	1,244	1,487	17.6	1,640	1,902	13.1
EBITDA	212	289	376	29.2	394	466	11.3
EBITDA Margins (%)	21.8	23.2	25.3		24.0	24.5	
Net Profit	176	252	315	34.1	334	388	10.9
EPS (₹)	12.5	17.4	22.1		23.4	27.1	
P/E	75.9	53.5	42.7		40.3	34.7	
RoNW (%)	18.0	20.6	20.8		18.8	18.5	
RoCE (%)	21.1	23.6	25.2		23.1	22.8	

Source: Company, ICICI Direct Research

## Performance highlights and outlook

- **Revenue Performance:** Newgen reported revenue of ₹321 crore, down 25% QoQ/up 1.9% YoY.
- **Geography performance:** Geography wise on a YoY basis, the growth was broad based with India (30% of the mix), APAC (16% of the mix), US (22% of the mix) and EMEA (32% of the mix) growing 3%, 2.8%, 2.2% and 0.3% respectively.
  - **India:** In the Indian market, client spending—especially in retail lending—has moderated, with demand saturation visible across large public and private sector banks.
  - **EMEA:** In the Middle East, particularly Saudi Arabia, business was impacted by travel and visa-related restrictions along with broader macro uncertainties, including oil price volatility.
- **Vertical performance:** Product/ License revenue (12% of mix) reported a sharp decline of 12.7% YoY to ₹38.5 crore and Implementation revenues (19% of mix) also de-grew by 12% YoY to ₹61 crore. On the other hand, Subscription revenues (ATS/AMC +SaaS) reported healthy 17.8% YoY revenue growth wherein SaaS revenue grew by 20% YoY while ATS/AMC grew by 16.4% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported growth of 9.8% YoY to ₹221 crore.
- **Margin performance:** EBITDA margin for the quarter stood at 14%, down ~1790 bps QoQ/ ~110 bps YoY. PAT came at ₹50 crore, down 54% QoQ/ up 5% YoY. **Moreover, Newgen invested 9% of revenues in R&D initiatives and 26% of revenues on various S&M activities during Q1FY26.** Going forward, wage costs are expected to increase to retain good quality employees, which shall be offset through productivity improvements from automation and AI.
- **Segment performance:** Segment wise on a YoY basis, Others (11% of the mix), Government/ PSU (6% of the mix) and Insurance & Healthcare (16% of the mix), grew by 40%, 22.3% and 8.7% while Banking (67% of the mix) de-grew 5.2%.
- **Banking:** The segment contributes ~67% to revenue and is seeing cautious client behaviour, with slower decision-making for large, license-based deals. The clients are favouring modular, single-journey implementations i.e., trade finance, lending and onboarding over full platform-wide projects.
- **Insurance:** The insurance segment continues to be a focused growth area, characterized by smaller deal sizes but improving deal conversion timelines.
- **Deal Wins:** The company secured 12 new logos during the quarter, down 54% QoQ and 8% YoY. Wins include a banking client in EMEA, a finance company in Saudi Arabia, and engagements in the Philippines and India for solutions related to claims automation and loan origination.
- **Guidance/Aspiration:** Management anticipates a gradual recovery in growth over the upcoming quarters, supported by a strong funnel and progressive conversion of delayed deals. Revenues from larger implementations are expected to scale from Q2 onwards, driven by deals secured over the past two years.

## Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue	320.7	314.7	1.9	429.9	-25.4	Product/ License revenue (12% of mix) reported a sharp decline of 12.7% YoY to ₹38.5 crore and Implementation revenues (19% of mix) also de-grew by 12% YoY to ₹61 crore. On the other hand, Subscription revenues (ATS/AMC +SaaS) reported healthy 17.8% YoY revenue growth wherein SaaS revenue grew by 20% YoY while ATS/AMC grew by 16.4% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported growth of 9.8% YoY to ₹221 crore.
Employee expense	181.5	174.0	4.3	194.1	-6.5	
Gross Margin	139.1	140.7	-1.1	235.8	-41.0	
Gross margin (%)	43.4	44.7	-131 bps	54.9	-1146 bps	
Other expense	94.1	93.0	1.2	98.6	-4.5	
EBITDA	45.0	47.7	-5.6	137.2	-67.2	
EBITDA Margin (%)	14.0	15.1	-111 bps	31.9	-1788 bps	EBITDA margin for the quarter stood at 14%, down ~1790 bps QoQ/ ~110 bps YoY, impacted by operational deleverage.
Depreciation & amortisation	9.1	7.7	17.0	8.6	4.8	
EBIT	35.9	39.9	-10.0	128.6	-72.0	
EBIT Margin (%)	11.2	12.7	-148 bps	29.9	-1870 bps	
Other income (less interest)	28.2	21.6	30.7	12.7	121.7	
PBT	64.1	61.5	4.3	141.3	-54.6	
Tax paid	14.4	13.9	3.3	32.9	-56.3	
PAT	49.7	47.6	4.5	108.3	-54.1	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Total op.Income</b>	<b>1,244</b>	<b>1,487</b>	<b>1,640</b>	<b>1,902</b>
Growth (%)	27.7	19.5	10.3	16.0
COGS (emp. expenses)	628	741	828	966
Other expenses	327	370	417	470
Total Op. Expenditure	955	1,111	1,245	1,436
<b>EBITDA</b>	<b>289</b>	<b>376</b>	<b>394</b>	<b>466</b>
Growth (%)	36.2	30.2	4.8	18.2
Depreciation	28	33	37	42
Other income (net)	43	59	73	76
PBT	304	402	431	500
Total Tax	53	87	96	112
<b>PAT</b>	<b>252</b>	<b>315</b>	<b>334</b>	<b>388</b>
Growth (%)	42.7	25.3	6.0	16.1
Diluted EPS (₹)	17.4	22.1	23.4	27.1
Growth (%)	39.4	26.6	6.0	16.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
PBT	304	402	431	500
Add: Depreciation	28	33	37	42
Others	13	6	(73)	(76)
Inc/(dec) in working capital	(8)	(155)	(63)	(107)
Taxes paid	(55)	(71)	(96)	(112)
<b>CF from operating activities</b>	<b>281</b>	<b>215</b>	<b>235</b>	<b>247</b>
(Inc)/dec in Fixed Assets	(14)	(23)	(28)	(32)
Others	(205)	(149)	78	80
<b>CF from investing activities</b>	<b>(219)</b>	<b>(172)</b>	<b>50</b>	<b>48</b>
Dividend paid & dividend tax	(35)	(56)	(71)	(71)
Others	(12)	(12)	(5)	(4)
<b>CF from financing activities</b>	<b>(47)</b>	<b>(68)</b>	<b>(76)</b>	<b>(75)</b>
Net Cash flow	15	(25)	209	219
Exchange difference	1	4	-	-
Opening Cash	208	376	416	624
<b>Closing cash &amp; Bank</b>	<b>376</b>	<b>416</b>	<b>624</b>	<b>843</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Equity Capital</b>	<b>140</b>	<b>140</b>	<b>140</b>	<b>140</b>
Reserve and Surplus	1,084	1,376	1,639	1,955
Total Shareholders funds	1,224	1,516	1,779	2,095
Total Debt	2	-	-	-
Lease liability	35	41	41	41
Provisions	49	56	61	71
Other non current liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>1,309</b>	<b>1,613</b>	<b>1,881</b>	<b>2,207</b>
<b>Assets</b>				
Property, plant and equipment	165	172	174	177
Goodwill	3	3	3	3
Intangibles	10	6	6	6
Right-of-use assets	71	77	66	54
Other non current assets	132	138	153	177
Cash & bank balance	376	416	624	843
Current Investments	365	508	508	508
Trade receivables	444	557	614	712
Unbilled revenue	-	-	-	-
Other financial assets	95	20	22	25
Other current assets	27	148	163	189
Total Current Assets	1,306	1,648	1,931	2,278
Trade payables	48	50	56	65
Lease liability	12	13	13	13
OCL & provisions	318	369	384	411
Total Current Liabilities	377	432	453	488
Net Current Assets	929	1,216	1,478	1,790
<b>Application of Funds</b>	<b>1,309</b>	<b>1,613</b>	<b>1,881</b>	<b>2,207</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Per share data (₹)</b>				
Diluted EPS	17.4	22.1	23.4	27.1
Cash EPS	20.0	24.9	26.5	30.7
BV	87	108	127	150
DPS	2.5	4.0	5.1	5.1
Cash Per Share	27	30	45	60
<b>Operating Ratios (%)</b>				
EBITDA margin	23.2	25.3	24.0	24.5
PBT Margin	24.5	27.0	26.3	26.3
PAT Margin	20.2	21.2	20.4	20.4
Debtor days	130	137	137	137
Unbilled days	-	-	-	-
Creditor days	14	12	12	12
<b>Return Ratios (%)</b>				
RoE	20.6	20.8	18.8	18.5
RoCE	23.6	25.2	23.1	22.8
RoIC	33.9	37.8	36.9	39.4
<b>Valuation Ratios (x)</b>				
P/E	53.5	42.7	40.3	34.7
EV / EBITDA	43.8	33.1	31.1	25.8
EV / Net Sales	10.2	8.4	7.5	6.3
Market Cap / Sales	10.8	9.0	8.2	7.0
Price to Book Value	11.0	8.9	7.6	6.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	-	-	-
Debt / Equity	0.0	-	-	-
Current Ratio	3.3	3.4	3.4	3.5
Quick Ratio	3.3	3.4	3.4	3.5

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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