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Muted quarter dragged by weak license-led markets...

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.

Q3FY26 Performance: Newgen reported revenue of ₹400.3 crore, down 0.1% QoQ/ up 5% YoY. Product/ License (16% of mix) de-grew 36% YoY to ₹64 crore & Implementation (22% of mix) grew by 20% YoY to ₹88 crore. Subscription (ATS/AMC +SaaS) reported 27.3% YoY revenue growth wherein SaaS grew by 36.5% YoY while ATS/AMC grew by 22% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported 19.6% YoY growth to ₹248.2 crore. Adjusted EBITDA (ex-one-off from new labour code) stood at 26.5%, up 100 bps QoQ/ down 190 bps YoY.

Investment Rationale

- **Annuity-led mix enhances visibility and stability:** Newgen's transition towards subscription & annuity-led revenue model continues to strengthen business quality & revenue predictability with over half of revenues now coming from recurring annuity streams (+19.6% YoY). Strong growth in SaaS (+36.5% YoY) and ATS/AMC (+22% YoY), across US, UK & Australia also improves visibility & stickiness. **However, near-term growth remains moderated by slower traditional license-led deal closures in India & EMEA and elongated enterprise decision cycles with recovery hinging on execution & deal timing.** As deal ramp-ups normalize and core markets recover, revenue conversion is expected to improve, particularly from subscription-led wins. **Thus, while revenue mix shift is structurally positive, conversion of order momentum into reported growth is taking longer than expected. Accordingly, we expect rupee revenue to grow at CAGR of ~14.6% over FY26-28E.**
- **Vertical strength and AI capabilities offer differentiation:** Newgen is steadily deepening its presence in core verticals such as banking, insurance & healthcare, supported by platforms like Policy Administration System (PAS) in the insurance vertical & growing adoption of AI-led workflows. That said, **AI deployments are still at an early scaling stage and incremental monetization is likely to be gradual.** Continued investments in R&D and sales are necessary to sustain competitiveness, which may temper operating leverage in the near term. **Accordingly, bake in EBITDA margins of 24.8%/25%/25% in FY26E/FY27E/FY28E respectively.**

Rating and Target Price

- **Following the prolonged delay in closure of large licence deals, which led to Newgen missing its benchmark ~20% YoY growth, we now expect revenue growth to normalise to ~14-15% YoY over the medium term. Accordingly, we introduce FY28E estimates and cut our FY26E/FY27E revenue and earnings estimates by 4.1%/7.7% and 3.6%/6.9%, respectively.**
- However, the recent ~25% share price correction over the past month more than factors in near-term execution concerns, and **we therefore maintain our BUY rating, albeit with a reduced target price of ₹770 (earlier ₹1,180) with reduction in valuation multiple to 25x FY28E EPS (vs. 40x FY27E EPS earlier).**

Key Financial Summary

₹ Crore	FY23	FY24	FY25	5 Year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
Net Sales	974	1,244	1,487	17.6	1,587	1,813	2,086	10.4
EBITDA	212	289	376	29.2	393	453	521	9.7
EBITDA Margins (%)	21.8	23.2	25.3		24.8	25.0	25.0	
Net Profit	176	252	315	34.1	342	391	443	11.4
EPS (₹)	12.5	17.4	22.1		23.9	27.4	31.0	
P/E	51.4	36.2	28.9		26.6	23.3	20.6	
RoNW (%)	18.0	20.6	20.8		19.3	19.1	18.6	
RoCE (%)	21.1	23.6	25.2		23.3	23.1	22.5	

Source: Company, ICICI Direct Research



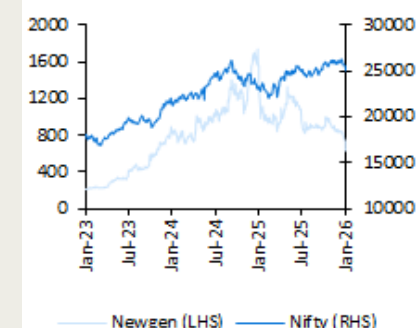
Particulars

Particular	Amount
Market Cap (₹ Crore)	8,858
Total Debt	-
Cash and Invest (₹ Crore)	924
EV (₹ Crore)	7,934
52 week H/L	1696 / 617
Equity capital	140.2
Face value	10.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	53.8	53.8	53.8	53.5
FII	19.4	19.1	17.6	17.3
DII	9.1	9.5	9.6	9.7
Others	17.7	17.6	19.0	19.5

Price Chart



Key risks

- Continued delay in deal closures in core markets – India & EMEA;
- Prolonged weakness in large license led deals (16% of mix)

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Performance highlights and outlook

- **Revenue Performance:** ₹400.3 crore, down 0.1% QoQ/ up 5% YoY.
- **Geography performance:** Geography wise on a YoY basis, the growth was driven by US (24% of the mix), APAC (16% of the mix) and EMEA (31% of the mix) growing 20.8%, 7.4%, 4% respectively while India (29% of the mix) de-grew 5.4%.
- **India/EMEA:** Both the core markets continue to see delay in large deal closures. However, both geos are expected to bounce back in the coming quarters, as per the management.
- **Vertical performance:** Product/ License revenue (16% of mix) de-grew by 36% YoY to ₹64 crore on a large base and Implementation revenues (22% of mix) grew by 20% YoY to ₹88 crore. On the other hand, Subscription revenues (ATS/AMC +SaaS) reported healthy 27.3% YoY revenue growth wherein SaaS revenue grew by 36.5% YoY while ATS/AMC grew by 22% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported growth of 19.6% YoY to ₹248.2 crore.
- **Margin performance:** Reported EBITDA margin stood at 17.8%, down ~780 bps QoQ/ ~1060 bps YoY while Adjusted EBITDA (ex-one-off from new labour code) stood at 26.5%, up 100 bps QoQ/ down 190 bps YoY. EBITDA margins grew 100 bps QoQ despite **wage hikes in Q3FY26 for 80-85% employees**. Reported PAT came at ₹62.8 crore, down 23% QoQ/ 29% YoY while Adjusted PAT (ex-one-off from new labour code) came at ₹90.1 crore, up 10% QoQ/ 1.2% YoY **Moreover, Newgen invested 9% of revenues in R&D initiatives and 23% of revenues on various S&M activities during Q2FY26.**
- **Segment performance:** Segment wise on a YoY basis, Insurance & Healthcare (13% of the mix), Banking (71% of the mix) and Others (6% of the mix) grew by 13.8%, 6.5% and 5% while Government/ PSU (10% of the mix) de-grew by 12.5%.
- **Deal Wins:** The company secured **7 new logos** during the quarter, down 53% QoQ and YoY both. As per the management, deals are taking longer to execute as customers are considering to add an AI layer to existing deals across geographies.

Exhibit 1: Quarter performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue	400.3	381.1	5.0	400.8	-0.1	Product/ License revenue (18% of mix) grew by 11% YoY to ₹72 crore and Implementation revenues (23% of mix) grew by 16% YoY to ₹92 crore. On the other hand, Subscription revenues (ATS/AMC +SaaS) reported healthy 18.4% YoY revenue growth wherein SaaS revenue grew by 33% YoY while ATS/AMC grew by 11% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) reported growth of 9.1% YoY to ₹236.5 crore.
Employee expense	189.4	188.2	0.6	188.6	0.4	
Gross Margin	210.9	192.9	9.4	212.2	-0.6	
Gross margin (%)	52.7	50.6	209 bps	52.9	-25 bps	
Other expense	104.7	84.5	23.8	109.8	-4.7	
EBITDA	71.1	108.3	-34.3	102.4	-30.5	
EBITDA Margin (%)	17.8	28.4	-1065 bps	25.5	-777 bps	Adjusted EBITDA (ex-one-off from new labour code) stood at 26.5%, up 100 bps QoQ/ down 190 bps YoY.
Depreciation & amortisation	9.1	8.7	4.6	9.1	-0.4	
EBIT	62.1	99.7	-37.7	93.3	-33.5	
EBIT Margin (%)	15.5	26.1	-1064 bps	23.3	-777 bps	
Other income (less interest)	18.0	7.0	157.7	12.0	49.2	
PBT	80.1	106.6	-24.9	105.3	-24.0	
Tax paid	17.2	17.6	-2.2	23.6	-26.9	
PAT	62.8	89.0	-29.4	81.7	-23.2	Adjusted PAT (ex-one-off from new labour code) came at ₹90.1 crore, up 10% QoQ/ 1.2% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	1,656	1,587	-4.1	1,964	1,813	-7.7	2,086
EBITDA	424	393	-7.2	501	453	-9.7	521
EBITDA Margin (%)	25.6	24.8	-81 bps	25.5	25.0	-55 bps	25.0
PAT	355	342	-3.6	420	391	-6.9	443
Diluted EPS (₹)	24.8	23.9	-3.6	29.4	27.4	-6.9	31.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total op.Income	1,487	1,587	1,813	2,086
Growth (%)	19.5	6.8	14.2	15.0
COGS (emp. expenses)	741	764	898	1,033
Other expenses	370	430	463	532
Total Op. Expenditure	1,111	1,194	1,361	1,565
EBITDA	376	393	453	521
Growth (%)	30.2	4.6	15.0	15.1
Depreciation	33	36	40	43
Other income (net)	59	73	79	79
PBT	402	430	492	556
Total Tax	87	88	100	114
PAT	315	342	391	443
Growth (%)	25.3	8.5	14.4	13.1
Diluted EPS (₹)	22.1	23.9	27.4	31.0
Growth (%)	26.6	8.5	14.4	13.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
PBT	402	430	492	556
Add: Depreciation	33	36	40	43
Others	6	(73)	(79)	(79)
Inc/(dec) in working capital	(155)	(39)	(92)	(110)
Taxes paid	(71)	(88)	(100)	(114)
CF from operating activities	215	267	260	297
(Inc)/dec in Fixed Assets	(23)	(27)	(31)	(35)
Others	(149)	79	85	85
CF from investing activities	(172)	52	54	50
Dividend paid & dividend tax	(56)	(86)	(114)	(114)
Others	(12)	(6)	(6)	(6)
CF from financing activities	(68)	(92)	(120)	(120)
Net Cash flow	(25)	227	194	226
Exchange difference	4	-	-	-
Opening Cash	376	416	643	837
Closing cash & Bank	416	643	837	1,063

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Equity Capital	140	140	140	140
Reserve and Surplus	1,376	1,633	1,910	2,238
Total Shareholders funds	1,516	1,773	2,050	2,378
Total Debt	-	-	-	-
Lease liability	41	41	41	41
Provisions	56	59	68	78
Other non current liabilities	-	-	-	-
Total Liabilities	1,613	1,873	2,158	2,497
Assets				
Property, plant and equipm	172	174	177	182
Goodwill	3	3	3	3
Intangibles	6	6	6	6
Right-of-use assets	77	67	55	42
Other non current assets	138	145	166	190
Cash & bank balance	416	643	837	1,063
Current Investments	508	508	508	508
Trade receivables	557	594	679	781
Unbilled revenue	-	-	-	-
Other financial assets	20	21	24	28
Other current assets	148	158	180	207
Total Current Assets	1,648	1,924	2,228	2,587
Trade payables	50	54	62	71
Lease liability	13	13	13	13
OCL & provisions	369	379	402	429
Total Current Liabilities	432	446	476	513
Net Current Assets	1,216	1,478	1,752	2,074
Application of Funds	1,613	1,873	2,158	2,497

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
Diluted EPS	22.1	23.9	27.4	31.0
Cash EPS	24.9	27.0	30.8	34.7
BV	108	126	146	170
DPS	4.0	6.1	8.2	8.2
Cash Per Share	30	46	60	76
Operating Ratios (%)				
EBITDA margin	25.3	24.8	25.0	25.0
PBT Margin	27.0	27.1	27.1	12.8
PAT Margin	21.2	21.6	21.6	21.2
Debtor days	137	137	137	137
Unbilled days	-	-	-	-
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.8	19.3	19.1	18.6
RoCE	25.2	23.3	23.1	22.5
RoIC	37.8	37.9	40.0	41.7
Valuation Ratios (x)				
P/E	28.9	26.6	23.3	20.6
EV / EBITDA	21.8	20.2	17.2	14.5
EV / Net Sales	5.5	5.0	4.3	3.6
Market Cap / Sales	6.1	5.7	5.0	4.4
Price to Book Value	6.0	5.1	4.4	3.8
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	3.4	3.4	3.4	3.5
Quick Ratio	3.4	3.4	3.4	3.5

Source: Company, ICICI Direct Research

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Sell: <-15%



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