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Strong quarter ; Weakness in license persists...

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.

Q4FY26 & FY26 Performance: Newgen reported revenue of ₹452.7 crore, up 13% QoQ/ 5.3% YoY. Product/ License revenue (19% of mix) de-grew by 13% YoY to ₹86 crore and Implementation revenues (23% of mix) de-grew by 6.9% YoY to ₹104 crore. Subscription revenues (ATS/AMC +SaaS) reported 29.6% YoY revenue growth wherein SaaS revenue grew 52.1% YoY while ATS/AMC grew 17.7% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) grew 19.8% YoY to ₹262.5 crore. Adjusted EBITDA (ex-one-off from new labour code and legal claim) stood at 33.6%, up ~1580 bps QoQ/ 170 bps YoY. Adj. PAT at ₹344 crore was up 9.1% YoY.

Investment Rationale

- **Near-term growth impacted by deal delays; pipeline remains healthy:** Revenue growth remained modest at ~5.3% YoY, impacted by weakness in BFSI (-2.2% YoY) and delays in large license deals, especially in India and EMEA due to geopolitical issues. However, strong traction in US (+20% YoY) and APAC (+22% YoY), 13% YoY growth in order book, and continued deal wins across geographies indicate resilient underlying demand. With deal deferrals (particularly Middle East) expected to spill into FY27 and a strong pipeline, growth recovery hinges on execution & conversion of large deals. **Accordingly, we expect rupee revenue to grow at CAGR of ~14.4% over FY26-28E.**
- **Margin upside driven by AI-led efficiency gains:** The company delivered strong margin performance, with EBITDA margin at ~33.6% in Q4 (+170 bps YoY), aided by sharp cost efficiencies. Employee costs declined ~690 bps QoQ, with headcount down ~6% YoY, reflecting early benefits from AI-led productivity (80% workforce enabled with AI tools). This structural improvement in delivery efficiency, along with lower hiring intensity, supports margin sustainability even in a muted growth environment, providing a cushion against near-term revenue softness. **Accordingly, bake in EBITDA margins of 23.6% and 24% for FY27E and FY28E.**
- **Strong shift to annuity model enhances visibility:** Newgen continues to transition towards a subscription-led model, with annuity revenues (+19.8% YoY) rising to 62% of FY26 revenues (vs 56% in FY25), with the potential to reach 75-80% in the medium term. This has led to a strong increase in deferred revenue and improved FY27 visibility. While product/license revenues declined (-13% YoY in Q4), the structural shift reduces revenue volatility & dependence on large deals, positioning the company for more stable, predictable medium-term growth.

Rating and Target Price

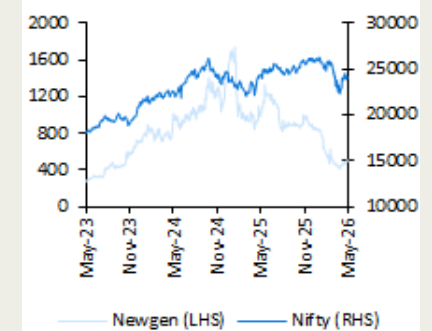
- **We maintain our BUY rating, albeit with a reduced target price of ₹580 (earlier ₹770) with reduction in valuation multiple to 20x FY28E EPS (vs. 25x FY28E EPS earlier), given lower than expected growth trajectory.**

**Particulars**

Particular	Amount
Market Cap (₹ Crore)	6,938
Total Debt	-
Cash and Invest (₹ Crore)	924
EV (₹ Crore)	6,014
52 week H/L	1377 / 401
Equity capital	140.2
Face value	10.0

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	53.8	53.8	53.5	53.5
FII	19.1	17.6	17.3	14.5
DII	9.5	9.6	9.7	8.8
Others	17.6	19.0	19.5	23.2

Price Chart**Key risks**

- Continued delay in deal closures in core markets – India & EMEA;
- Prolonged weakness in large license led deals

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Key Financial Summary

₹ Crore	FY24	FY25	FY26	5 Year CAGR (FY21-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	1,244	1,487	1,574	18.5	1,751	2,062	14.4
EBITDA	289	376	406	16.2	413	495	10.5
EBITDA Margins (%)	23.2	25.3	25.8		23.6	24.0	
Net Profit	252	315	344	22.2	350	412	9.4
EPS (₹)	17.4	22.1	21.0		24.5	28.8	
P/E	27.5	22.0	23.1		19.8	16.9	
RoNW (%)	20.6	20.8	19.4		17.4	17.8	
RoCE (%)	23.6	25.2	20.8		21.4	21.9	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** Newgen reported revenue of ₹452.7 crore, up 13% QoQ/ 5.3% YoY. For FY26, revenue stood at ₹1,574 crore, up 5.9% YoY.
- **Geography performance:** Geography wise on a YoY basis, the growth was driven by US (23% of the mix), and APAC (19% of the mix) growing 20% and 22.2% while India (28% of the mix) and EMEA (30% of the mix) de-grew 6.9% and 0.7%.
- **India/ EMEA:** India and EMEA faced headwinds from slower large deal closures, and Middle East was disrupted by geopolitical uncertainty in West Asia near the end of Q4 leading to slowdown in license revenue, slower conversions and collections that negatively impacted the DSO as well.
- **Vertical performance:** Product/ License revenue (19% of mix) de-grew by 13% YoY to ₹86 crore on a large base and Implementation revenues (23% of mix) de-grew by 6.9% YoY to ₹104 crore. Subscription revenues (ATS/AMC +SaaS) reported 29.6% YoY revenue growth wherein SaaS revenue grew 52.1% YoY while ATS/AMC grew 17.7% YoY. Annuity revenues (ATS/AMC+ SaaS+ Support) grew 19.8% YoY to ₹262.5 crore.
- **Margin performance:** Reported EBITDA margin stood at 31.8%, up ~1400 bps QoQ/ down ~15 bps YoY while Adjusted EBITDA (ex-one-off from new labour code and legal claim) stood at 33.6%, up ~1580 bps QoQ/ 170 bps YoY. Reported PAT came at ₹106.3 crore, up 69% QoQ/ down 1.9% YoY while Adjusted PAT (ex-one-off from new labour code) came at ₹114.6 crore, up 82.5% QoQ/ 5.8% YoY. For FY26, reported EBITDA margin stood at 23%, down ~230 bps YoY while adj. EBITDA margin came at 25.8%, up ~50 bps YoY. Reported PAT stood at ₹300 crore, down 4.7% YoY while adj. PAT stood at ₹344 crore, up 9.1% YoY. **Moreover, Newgen invested 8.5% of revenues in R&D initiatives and 22% of revenues on various S&M activities during Q2FY26.**
- **Segment performance:** Segment wise on a YoY basis, Insurance & Healthcare (19% of the mix) and Government/ PSU (8% of the mix) grew by 42.9% and 68.5% while Others (8% of the mix) and Banking (65% of the mix) de-grew by 23.4% and 2.2%.
- **Deal Wins:** The company added 13 new logos in the quarter. Newgen signed large deals in Malayasia, Kuwait and the UAE. For FY26, 47 new logos were onboarded.
- **Dividend:** The company declared a dividend of ₹6 per share.

Exhibit 1: Quarter performance

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments	FY26	FY25	YoY %
Revenue	452.7	429.9	5.3	400.3	13.1	Product/ License revenue (19% of mix) de-grew by 13% YoY to ₹86 crore on a large base and Implementation revenues (23% of mix) de-grew by 6.9% YoY to ₹104 crore. Subscription revenues (ATS/AMC +SaaS) reported 29.6% YoY revenue growth wherein SaaS revenue grew 52.1% YoY while ATS/AMC grew 17.7% YoY. Annuity revenues (ATS/AMC+SaaS+ Support) grew 19.8% YoY to ₹262.5 crore.	1574.4	1486.9	5.9
Employee expense	182.8	194.1	-5.8	189.4	-3.5		742.3	741.0	0.2
Gross Margin	269.9	235.8	14.4	210.9	27.9		832.1	745.8	11.6
Gross margin (%)	59.6	54.9	476 bps	52.7	692 bps		52.9	50.2	269 bps
Other expense	117.7	98.6	19.4	104.7	12.5		426.4	369.6	15.3
EBITDA	143.8	137.2	4.8	71.1	102.1		362.3	376.2	-3.7
EBITDA Margin (%)	31.8	31.9	-15 bps	17.8	1399 bps	Adjusted EBITDA (ex-one-off from new labour code and legal claim) stood at 33.6%, up ~1580 bps QoQ/ 170 bps YoY.	23.0	25.3	-229 bps
Depreciation & amortisation	9.4	8.6	8.4	9.1	3.4		36.6	33.0	10.8
EBIT	134.4	128.6	4.6	62.1	116.5		325.8	343.2	-1741 bps
EBIT Margin (%)	29.7	29.9	-21 bps	15.5	1419 bps		20.7	23.1	-239 bps
Other income (less interest)	3.4	12.7	-73.5	18.0	-81.3		61.5	58.8	4.7
PBT	137.8	141.3	-2.5	80.1	72.1		387.3	402.0	-3.7
Tax paid	31.5	32.9	-4.4	17.2	82.7		86.7	86.7	0.0
PAT	106.3	108.3	-1.9	62.8	69.2	Adjusted PAT (ex-one-off from new labour code) came at ₹114.6 crore, up 82.5% QoQ/ 5.8% YoY.	300.6	315.2	-4.7

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue	1,813	1,751	-3.4	2,085.8	2,062	-1.1
EBITDA	453	413	-8.8	520.7	495	-4.8
EBITDA Margin (%)	25.0	23.6	-140 bps	25.0	24.0	-94 bps
PAT	391	350	-10.6	442.9	412	-7.1
Diluted EPS (₹)	27.4	24.5	-10.6	31.0	28.8	-7.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Total op.Income	1,574	1,751	2,062
Growth (%)	5.9	11.2	17.8
COGS (emp. expenses)	742	872	1,022
Other expenses	426	466	545
Total Op. Expenditure	1,169	1,339	1,567
EBITDA	406	413	495
Growth (%)	7.9	1.7	20.1
Depreciation	37	40	44
Other income (net)	62	79	79
PBT	431	451	530
Total Tax	87	101	119
PAT	344	350	412
Growth (%)	9.1	1.8	17.6
Diluted EPS (₹)	21.0	24.5	28.8
Growth (%)	(4.7)	16.5	17.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
PBT	387	451	530
Add: Depreciation	37	40	44
Others	13	(79)	(79)
Inc/(dec) in working capital	(86)	(89)	(152)
Taxes paid	(119)	(101)	(119)
CF from operating activities	232	222	225
(Inc)/dec in Fixed Assets	(10)	(30)	(35)
Others	(152)	85	85
CF from investing activities	(162)	55	50
Dividend paid & dividend tax	(71)	(114)	(114)
Others	(17)	(6)	(6)
CF from financing activities	(87)	(120)	(120)
Net Cash flow	(18)	157	154
Exchange difference	17	-	-
Opening Cash	416	412	569
Closing cash & Bank	412	569	723

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Equity Capital	141	141	141
Reserve and Surplus	1,636	1,872	2,169
Total Shareholders funds	1,777	2,013	2,310
Total Debt	-	-	-
Lease liability	26	26	26
Provisions	89	99	116
Other non current liabilities	-	-	-
Total Liabilities	1,893	2,138	2,453
Assets			
Property, plant and equipment	163	164	169
Goodwill	3	3	3
Intangibles	5	5	5
Right-of-use assets	69	56	43
Other non current assets	189	214	251
Cash & bank balance	412	569	723
Current Investments	703	703	703
Trade receivables	708	788	928
Unbilled revenue	-	-	-
Other financial assets	18	20	23
Other current assets	174	193	227
Total Current Assets	2,014	2,272	2,604
Trade payables	55	61	72
Lease liability	13	13	13
OCL & provisions	482	502	537
Total Current Liabilities	550	576	622
Net Current Assets	1,464	1,696	1,983
Application of Funds	1,893	2,138	2,453

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
Diluted EPS	21.0	24.5	28.8
Cash EPS	24.1	27.9	32.5
BV	127	144	165
DPS	5.1	8.2	8.2
Cash Per Share	29	41	52
Operating Ratios (%)			
EBITDA margin	25.8	23.6	24.0
PBT Margin	24.6	25.8	12.8
PAT Margin	21.8	20.0	20.0
Debtor days	164	164	164
Unbilled days	-	-	-
Creditor days	13	13	13
Return Ratios (%)			
RoE	19.4	17.4	17.8
RoCE	20.8	21.4	21.9
RoIC	30.1	31.8	33.9
Valuation Ratios (x)			
P/E	23.1	19.8	16.9
EV / EBITDA	16.1	13.7	11.1
EV / Net Sales	3.7	3.2	2.7
Market Cap / Sales	4.4	4.0	3.4
Price to Book Value	3.9	3.4	3.0
Solvency Ratios			
Debt/EBITDA	-	-	-
Debt / Equity	-	-	-
Current Ratio	3.7	3.7	3.7
Quick Ratio	3.7	3.7	3.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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