

Strong Q4 to drive FY23 revenue; looking to accelerate growth thereafter

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) comprises 59% of the revenue mix while license & others form 20.7% of the revenue mix each
- Vertical wise, BFSI comprises 66% of revenue mix while geographical break-up has been largely equal between India, US, EMEA & APAC

Q3FY23 Results: Newgen reported robust numbers in Q3FY23.

- Reported revenue grew 25.9% YoY with SaaS increasing by 95.7% YoY
- The company added 16 new logos in Q3
- Annuity revenue grew 38.4% YoY

What should investors do? Newgen's share price has grown ~1.5x since January 2018 (when it got listed) to January 2023.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Newgen at ₹ 460 i.e., 13x P/E on FY25E EPS.

Key triggers for future price performance:

- Strong logo addition and increasing annuity mix (recurring business) from existing clients would aid revenue growth of 18.7% CAGR in FY22-25E
- The company is targeting 10 deals per year as far as GSI opportunity is concerned, which will drive incremental revenue opportunity
- Recent acquisition of number theory will strengthen its platform with AI/ML modelling and data analytics capability

Alternate Stock Idea: Apart from Newgen, in our IT coverage we also like Cyient.

- The company offers engineering & development services to aerospace, transportation, energy & utilities segments
- BUY with a target price of ₹ 1020



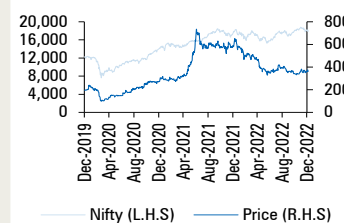
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,769
Total Debt	-
Cash and Invest (₹ Crore)	368
EV (₹ Crore)	2,401
52 week H/L	671/ 320
Equity capital	69.5
Face value	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	55.2	55.2	55.4	55.2
FII	15.7	14.8	15.7	12.5
DII	7.5	6.8	7.0	8.1
Public	21.7	23.3	21.9	24.3

Price Chart



Recent event & key risks

- Added 16 new logos including nine subscription deals in Q3
- **Key Risk:** (i) Lower than expected revenues (ii) Lower than expected margins

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Sujay Chavan
sujay.chavan@icicisecurities.com

Key Financial Summary

₹ Crore	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Net Sales	673	779	12.8	943	1,112	1,304	18.7
EBITDA	192	195	22.6	190	240	287	13.8
EBITDA Margins (%)	28.5	25.0		20.1	21.5	22.0	
Net Profit	126	164	26.2	162	212	248	14.7
EPS (₹)	18.1	23.5		23.2	30.4	35.5	
P/E	21.8	16.9		17.1	13.0	11.2	
RoNW (%)	19.0	20.2		17.0	18.6	18.1	
RoCE (%)	26.4	23.7		20.3	21.6	21.1	

Key takeaways of recent quarter & conference call highlights

- The company reported revenue of ₹ 254.9 crore, up 25.9% YoY. Annuity revenue (ATS/AMC, SaaS & Support) (which is 61% of the mix for Q3) was at ₹ 154.4 crore, up 38.4% YoY while license revenue was 23% of the mix for Q3, up 16% YoY to ₹ 57.7 crore. The subscription revenue (ATS/AMC & SaaS that is 33% of mix), grew 36.9% YoY to ₹ 84.4 crore
- EBITDA margins increased sequentially by ~650 bps to 23.1% while YoY it reported a decline of ~550 bps. The company indicated that margins in the last year were higher due to the lower travel & marketing cost due to the Covid restrictions
- Geography wise India (33.8% of revenue mix) led the growth with 39.9% YoY growth while EMEA (27.7% of mix), US (24.4% of mix) & APAC (14.1% of mix) grew 26.9%, 27.1% & 13.4% YoY, respectively
- On the India market, the company indicated that it has been traditionally strong in the market and growth in this quarter was a positive surprise. Newgen also indicated that some portion of the growth in the market for the quarter was also aided by higher-than-normal license deals, which generally have an upfront payment component in place. The company mentioned that 9MYTD number for the market would be a right indication where it has witnessed strong growth (ex-license deals) aided by winning of new logos as well renewals from the existing customers
- Vertical wise, banking (67% of mix) led the growth with 33.9% YoY growth while insurance & healthcare reported YoY growth of 97.8% & 4.9%, respectively, albeit on a lower base. Government & Others vertical revenue declined 8.5% & 5.6% YoY, respectively
- The company indicated that in the India market, fintech companies doesn't form any meaningful customer mix (since they are generally being managed by in-house IT talent) while banks and NBFC continue to form a major part of their revenue in the market. Any issues in fintech companies will likely not have an impact. The growth in the market was aided by continued spending by banks and NBFCs on automation of their complex processes as well as procuring products for additional processes from the company. The company also indicated that due to its strong customer relationships in the market, growth was likely to sustain, going forward
- The company added 16 new logos in Q3 taking total new logos added in YTD December 2022 to 36. Newgen indicated that out of the 16 new logos five were in the Americas region
- The company continued to aim to reach US\$500 mn revenues in the next five to six years, which includes GSI contribution as well inorganic contribution. Newgen also maintained 20%+ revenue growth guidance for FY23 as Q4 is seasonally a strong quarter for them. As per the company, growth would continue to be driven by India, EMEA and APAC market followed by the US market. Newgen also said it does not see any challenges to achieve this growth target on account of strong product portfolio it has built up over the years and continued acceptability of the same in the markets in which it operates
- As far as the US market is concerned, the company indicated that the opportunity pool continues to increase there but growth has not panned out in this quarter as per its expectations on account of strategic decision to move out of some deals due to lack of scale up opportunity in those accounts and low margin profile. The company won three deals in the quarter out of 16 deals in the GSI space (out of these three deals, two were from the US and one from Australia). Newgen also indicated that deals in US market through GSI are coming at slower pace than anticipated. Hence, it is aiming to win 10 annual deals there. The company also indicated that GSI revenue contribution is still not material for it (<5% of the sale) compared to >50% for the some peer companies globally having US\$300-400mn annual revenues

- The company indicated that it does not see any vendor consolidation theme playing out in its customer portfolio since cost of changing vendor could also be higher. Newgen also mentioned that since its products run through core systems and forms part of their strategy to cut down cost by automation of the complex processes, till the time the products are running fine and yielding desired results, the change may not happen. The change may happen due to i) continued technical glitches ii) technology stack itself becoming obsolete. The company indicated that it is confident of its products and the continued enhancements of the same through 10% of sales spend on R&D annually. Newgen also said that its confidence is also coming from retention rate among customers, which is around 100% for non-SAAS deals and >90% in SAAS deals. The company also indicated that out of 16 deals it won for the quarter, nine were of subscription
- The company also mentioned that its recently launched trade finance platform is doing well and has been well received by clients. Newgen said it has already closed a deal through this platform and two to three deals are in the pipeline. The company also indicated that deal sizes in this product generally vary from US\$400-500K to US\$1-2mn at the higher end. Hence, Newgen is targeting three to four such deals in the year as such revenues have a long tail. The company also indicated that it has got deals in India and Middle East so far and now it is pursuing deals in the other markets
- On attrition, the company indicated that it is witnessing some moderation on supply side pressure. Newgen also added that it would continue to see hiring, going forward, and it will be skewed towards fresher talent on easing of attrition. The company is training freshers and looking to deploy them early. Hence, pyramid optimisation likely to play out in the medium to long term as it is building incremental base at reasonable costs. The company also said travel costs have fully resumed and on account of customer meetings in Dubai, Mumbai & Delhi in this quarter, there was some impact on margins. The company indicated that in the short terms, operating costs are likely to see some upward trajectory on travel costs normalisation as customer meetings are critical for the growth as well as sales & marketing costs. The company also indicated that in the medium term, the operating leverage will play out since 25% revenue growth at that time may require cost escalation of around 15%. On the margin front, the company is confident on strong margins in Q4 and guided for 22-23% for FY23

Exhibit 1: P&L

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	254.9	202.5	25.9	226.1	12.7	SaaS revenue grew by 97% YoY while Subscription & Annuity revenues grew by 36.9% & 38.4% YoY respectively
Employee expense	130.4	102.6	27.1	127.8	2.1	
Gross Margin	124.5	99.9	24.6	98.4	26.6	
Gross margin (%)	48.8	49.3	-50 bps	43.5	534 bps	
Other expense	65.6	42.1	55.9	60.8	7.9	Other expenses increased due to normalisation of few costs like travel and S&M expenses
EBITDA	58.9	57.9	1.8	37.6	56.8	
EBITDA Margin (%)	23.1	28.6	-546 bps	16.6	649 bps	
Depreciation & amortisation	6.2	4.3	42.2	6.1	1.1	
EBIT	52.8	53.5	-1.4	31.5	67.6	
EBIT Margin (%)	20.7	26.4	-574 bps	13.9	677 bps	
Other income (less interest)	8.3	6.5	27.2	5.4	53.1	
PBT	61.1	60.1	1.7	36.9	65.5	
Tax paid	12.9	12.3	5.0	6.6	93.9	
PAT	48.2	47.8	0.8	30.3	59.2	

Source: Company, ICICI Direct Research

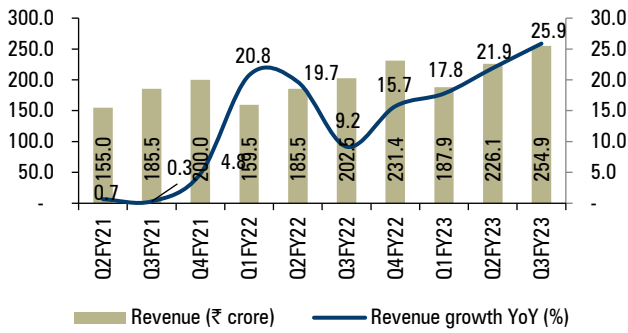
Exhibit 2: Change in estimates

(\$ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	920	943	2.5	1,081	1,112	2.9	1,221	1,304	6.9	Revenue increased on strong Q3 performance and guidance
EBITDA	211	190	-10.2	254	240	-5.7	290	287	-1.2	
EBITDA Margin (%)	23.0	20.1	-283 bps	23.5	21.5	-196 bps	23.8	22.0	-179 bps	We cut margins on normalisation of few operating costs and as per revised margin guidance
PAT	175	162	-7.6	212	212	0.0	239	248	3.4	
EPS (\$)	25.1	23.2	-7.6	30.4	30.4	0.0	34.3	35.5	3.4	

Source: Company, ICICI Direct Research

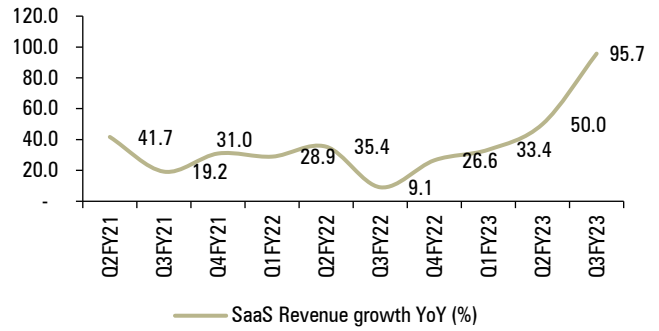
Key Metrics

Exhibit 3: Revenue grows 25.9% YoY in Q3FY23



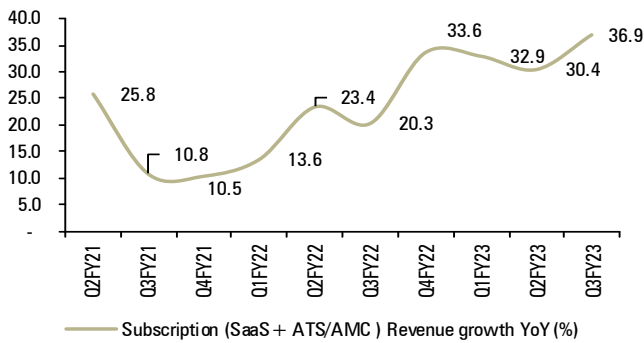
Source: Company, ICICI Direct Research

Exhibit 4: SaaS revenue grows strong, forms 11% of mix now



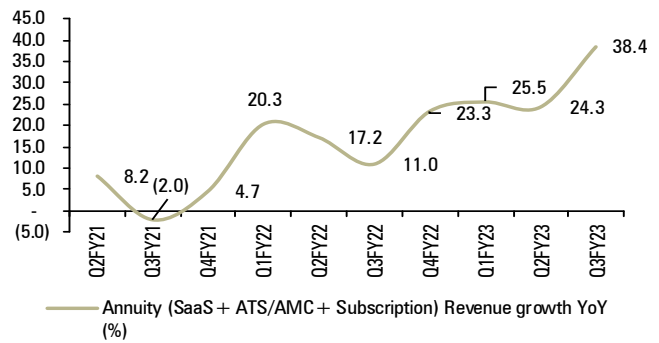
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue continues to grow strong



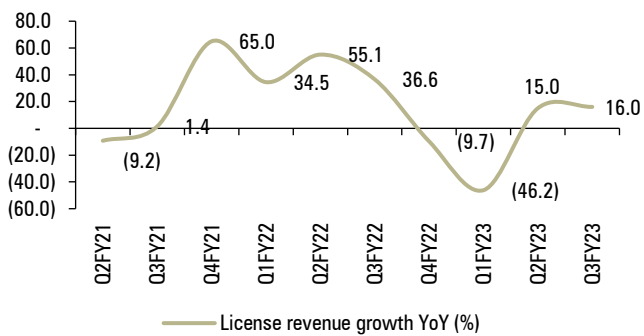
Source: Company, ICICI Direct Research

Exhibit 6: ...which along with SaaS driving annuity growth



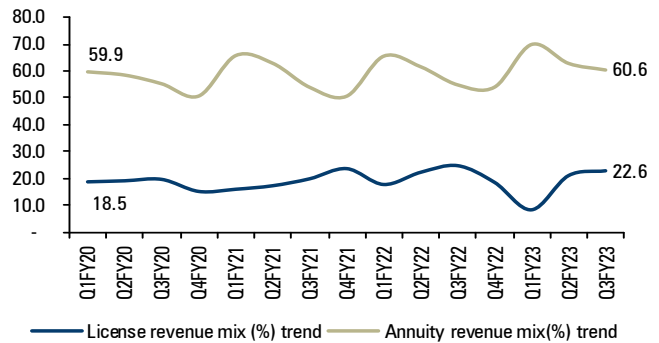
Source: Company, ICICI Direct Research

Exhibit 7: License revenue remains lumpy



Source: Company, ICICI Direct Research

Exhibit 8: License & annuity revenue mix trend



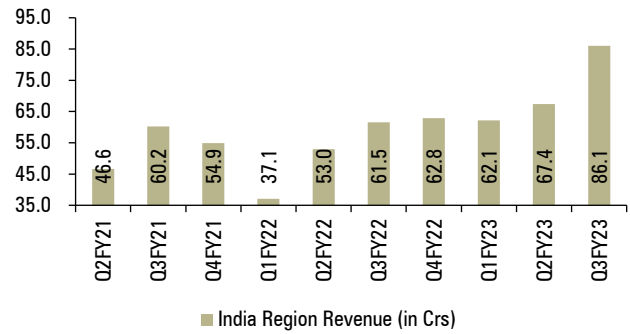
Source: Company, ICICI Direct Research

Exhibit 9: Adds 16 logos, 36 on YTD basis



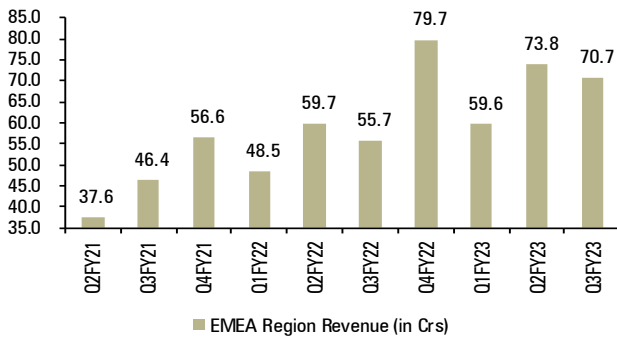
Source: Company, ICICI Direct Research

Exhibit 10: India revenue grows 39.9% YoY



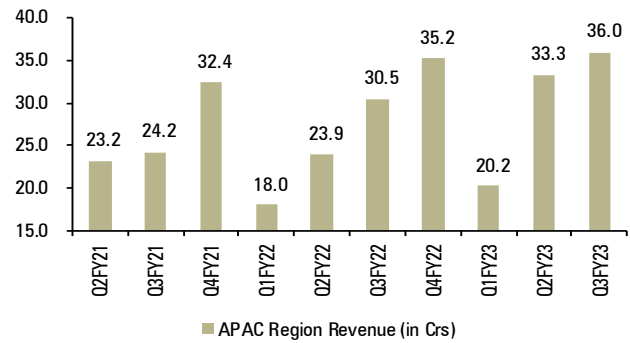
Source: Company, ICICI Direct Research

Exhibit 11: While EMEA grows 27% YoY



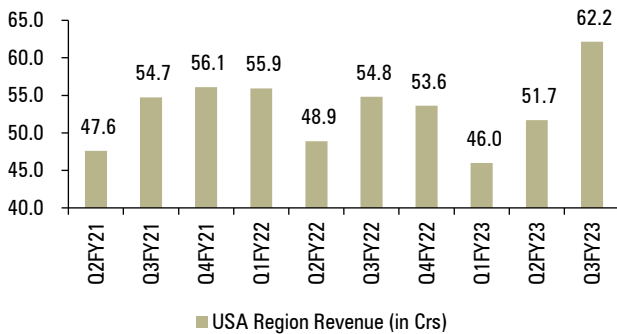
Source: Company, ICICI Direct Research

Exhibit 12: APAC revenue trend



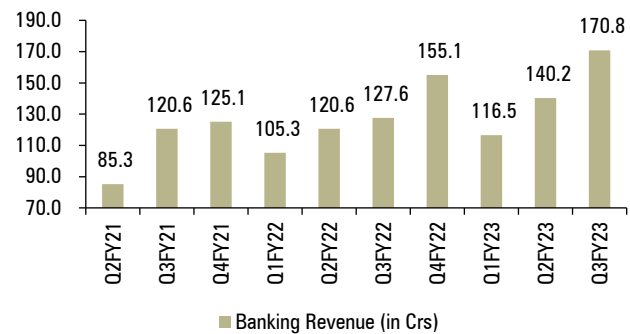
Source: Company, ICICI Direct Research

Exhibit 13: US region sees some rebound



Source: Company, ICICI Direct Research

Exhibit 14: BFSI drives revenue growth vertical wise



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & loss statement (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	779	943	1,112	1,304
Growth (%)	15.8	21.0	18.0	17.3
COGS (employee expenses)	409	503	595	694
Other expenses	175	250	278	324
Total Operating Expenditure	584	753	873	1,018
EBITDA	195	190	240	287
Growth (%)	1.4	(2.5)	26.3	19.6
Depreciation	18	19	22	26
Other income (net)	26	32	42	42
PBT	203	202	259	302
Total Tax	39	41	47	54
PAT	164	162	212	248
Growth (%)	29.8	(1.4)	31.0	16.6
Diluted EPS (₹)	23.5	23.2	30.4	35.5
Growth (%)	29.9	(1.3)	31.0	16.6

Source: Company, ICICI Direct Research,

Exhibit 16: Cash flow statement (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit	203	203	259	302
Add: Depreciation	18	19	22	26
Others	6	(32)	(42)	(42)
Inc/(dec) in working capital	(36)	64	(39)	(60)
Taxes paid	(48)	(41)	(47)	(54)
CF from operating activities	143	213	154	172
(Inc)/dec in Fixed Assets	(13)	(16)	(19)	(22)
Others	(68)	35	45	45
CF from investing activities	(81)	19	26	23
Dividend paid & dividend tax	(24)	(21)	(21)	(21)
Others	(8)	(3)	(3)	(3)
CF from financing activities	(32)	(24)	(24)	(24)
Net Cash flow	30	208	155	171
Exchange difference	2	-	-	-
Opening Cash	242	276	484	639
Closing cash & Bank	276	484	639	810

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	70	70	70	70
Reserve and Surplus	742	883	1,074	1,301
Total Shareholders funds	811	952	1,144	1,370
Total Debt	6	6	6	6
Lease liability	15	15	15	15
Provisions	33	40	47	55
Other non current liabilities	4	-	-	-
Total Liabilities	870	1,014	1,212	1,447
Assets				
Property, plant and equipment	163	161	164	168
Goodwill	3	3	3	3
Intangibles	16	16	16	16
Right-of-use assets	48	43	36	28
Other non current assets	131	74	87	101
Cash & bank balance	276	484	639	810
Current Investments	92	92	92	92
Trade receivables	279	297	335	393
Unbilled revenue	-	-	-	-
Other financial assets	88	109	129	151
Other current assets	11	11	12	15
Total Current Assets	746	993	1,208	1,461
Trade payables	36	32	37	44
Lease liability	7	7	7	7
OCL & provisions	194	238	258	280
Total Current Liabilities	237	276	302	331
Net Current Assets	509	717	906	1,130
Application of Funds	870	1,014	1,212	1,447

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Diluted EPS	23.5	23.2	30.4	35.5
Cash EPS	26.1	26.0	33.7	39.3
BV	117	137	164	197
DPS	3.5	3.0	3.0	3.0
Cash Per Share	40	70	92	116
Operating Ratios (%)				
EBITDA margin	25.0	20.1	21.5	22.0
PBT Margin	26.1	21.5	23.3	23.1
PAT Margin	21.1	17.2	19.1	19.0
Debtor days	120	115	110	110
Unbilled days	-	-	-	-
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.2	17.0	18.6	18.1
RoCE	23.7	20.3	21.6	21.1
RoIC	28.4	30.3	35.8	38.9
Valuation Ratios (x)				
P/E	16.9	17.1	13.0	11.2
EV / EBITDA	12.4	11.6	8.5	6.5
EV / Net Sales	3.1	2.3	1.8	1.4
Market Cap / Sales	3.6	2.9	2.5	2.1
Price to Book Value	3.4	2.9	2.4	2.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.4	2.8	2.7	2.7
Quick Ratio	3.4	2.8	2.7	2.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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