

Seasonal Weak Numbers for Q1

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

Q1FY23 Results: Newgen reported seasonally weak quarter results

- Reported Revenue of ₹ 187.9 crore, up by 17.8% YoY
- EBITDA margin grew by ~400 bps YoY to 10.3%
- Company added 6 new logos in the quarter

What should investors do? Newgen's share price has grown ~1.4x since listing in January 2018 – July 2022.

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

Target Price and Valuation: We value Newgen at ₹ 440 i.e. 14x P/E on FY24E EPS.

Key triggers for future price performance:

- Strong logo addition and increasing annuity mix (recurring business) from existing clients would aid revenue growth of 17.2% CAGR revenue growth over FY22-24.
- The company is working on 70-80 cases as far as GSI opportunity is concerned which could provide an incremental revenue opportunity of ₹ 79-131 crore
- 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 Intellect.

- SaaS driven BFSI focused product company
- BUY with a target price of ₹ 810



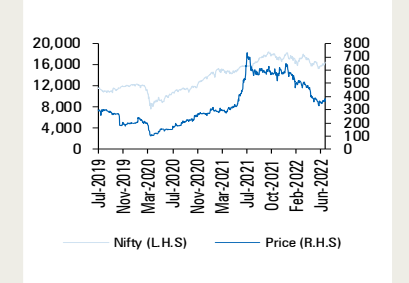
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,459
Total Debt	-
Cash and Invest (₹ Crore)	368
EV (₹ Crore)	2,091
52 week H/L	671/321
Equity capital	69.5
Face value	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	55.2	55.2	55.2	55.2
FII	18.5	17.5	15.7	14.8
DII	7.2	7.6	7.5	6.8
Public	19.2	19.8	21.7	23.3

Price Chart



Recent event & key risks

- GSI opportunity with India based Coforge & Indonesia based Anabatic Digital
- **Key Risk:** (i) Wage hike & normalization of travel cost impacting margins (ii) GSI opportunity not panning out as per expectations

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	661	673	779	12.8	911	1,071	17.2
EBITDA	105	192	195	22.6	228	268	17.3
EBITDA Margins (%)	15.8	28.5	25.0		25.0	25.0	
Net Profit	73	126	164	26.2	189	218	15.3
EPS (₹)	10.5	18.1	23.5		27.0	31.2	
P/E	33.5	19.3	15.0		13.0	11.3	
RoNW (%)	13.2	19.0	20.2		19.3	18.5	
RoCE (%)	15.8	26.4	23.7		23.0	22.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Q1 numbers should be looked from the context of seasonality. The company indicated that Q1 contributes about 20% of the annual revenue and the revenue normally picks up in subsequent quarters.
- The company reported revenue of ₹187.9 crore, up by 17.8%. Annuity Revenue (ATS/AMC, SaaS & Support) (which is 70% of the mix for Q1) reported a revenue of ₹ 131.5 crore, up by 25% YoY while license revenue was 8% of the mix for Q1, reported a dip of 46.2% YoY to ₹ 15 crore. The company also indicated that structurally they are looking for more annuity deals going forward which will reduce the quarterly lumpiness in the business because of licensed based model historically.
- Company reported EBITDA margin of 10.3%, down by ~400 bps YoY & EBITDA of ₹19.3 crore. The company indicated that drop was due seasonal drop in revenue & increase in employee cost due to supply side challenges, normalization of travel cost & investment in global alliances. The company indicated that travel costs which were subdued during covid times are likely to normalise going forward. The company however maintained EBITDA margin guidance band of 23-25% in FY23.
- Geography wise India contributed 33% of the revenue mix with a revenue of ₹ 62.1 crore, up by 67.3% YoY while EMEA (31.7% of mix) & APAC (10.8% of mix) reported a growth of 22.9% & 12.5% YoY. US region revenue decline by 17.8% YoY. The company indicated that it is deliberately moving away from clients where scalability is an issue due to which revenues in US & UK region have witnessed some moderation. The company also indicated that the revenue from US region will witness sustained growth in the subsequent quarters. The company do not foresee any impact of weak macros especially from the banking clients as they typically do tie up with Tier 2 & Tier 3 banks in US
- Vertical wise its largest vertical banking (62% of mix) reported 10.6% YoY growth with a revenue of ₹116 crore, while Govt./PSU, Insurance & Healthcare reported a growth of 51.4%, 57% & 34.6% YoY respectively albeit on a lower base with a revenue of ₹17 crore, ₹15 crore & ₹15 crore respectively. BPO/IT vertical reported a YoY decline of 5.8%
- Newgen reported that its total employee strength at the end of Q1FY23 was 3350. The company doesn't disclose the attrition numbers but indicated that the attrition has been at elevated levels and will take some time to settle down.
- Newgen added 6 new logos in the quarter of which 2 are in US region. Five of the deals are subscription based & 1 is license based. These 6 deals are coming at an average deal size of US\$400-500K size. The company also indicated that despite muted logo addition in Q1, it is confident of adding 50-60 logos in FY23
- Company indicated that the GSI funnel is strong & it is confident of closing 15 GSI deals in FY23 compared to 5 in last year. In the quarter, the company has announced partnership with India based Coforge and Indonesia based Anabatic digital
- Company has indicated that it has strong pipeline & the deals signed in Q4FY22 & Q1FY23 will lead to revenue up tick from Q2 onwards. The company has maintained 20%+ revenue growth guidance for FY23 & also indicated that GSI related revenues will be an incremental revenue opportunity

Exhibit 1: P&L

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	187.9	160	17.8	231.4	-18.8	Seasonally weak quarter due decline in license based model
Employee expense	116	93	24.6	111	4.5	
Gross Margin	72	66	8.2	120	-40.3	
Gross margin (%)	38.2	41.6	-339 bps	51.9	-1377 bps	
other expense	52	44	20.4	53	-0.6	
EBITDA	19.3	22.8	-15.3	67.4	-71.4	
EBITDA Margin (%)	10.3	14.3	-401 bps	29.1	-1889 bps	
Depreciation & amortisation	6	4	38.3	5	13.6	
EBIT	14	19	-27.0	62	-78.2	
EBIT Margin (%)	7.3	11.7	-445 bps	27.0	-1974 bps	Margin impacted due to supply side challenges & normalization of travel cost
Other income (less interest)	10	11	-4.2	5	97.4	
PBT	24	29	-18.8	68	-64.8	
Tax paid	4	7	-46.2	9	-56.5	
PAT	20	22	-10.1	59	-66.1	

Source: Company, ICICI Direct Research

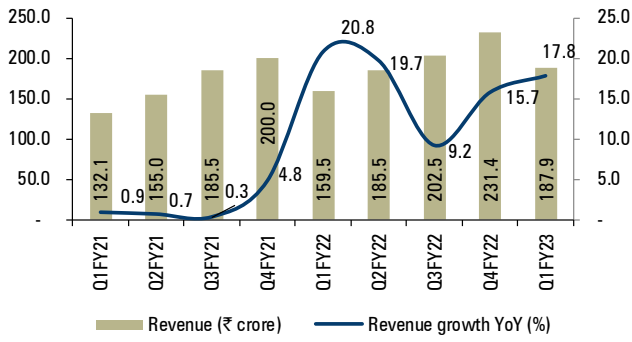
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	911	911	0.0	1,071	1,071	0.0	
EBITDA	228	228	0.0	268	268	0.0	
EBITDA Margin (%)	25.0	25.0	0 bps	25.0	25.0	0 bps	
PAT	189	189	0.0	218	218	0.0	
EPS (₹)	27.0	27.0	0.0	31.2	31.2	0.0	

Source: Company, ICICI Direct Research

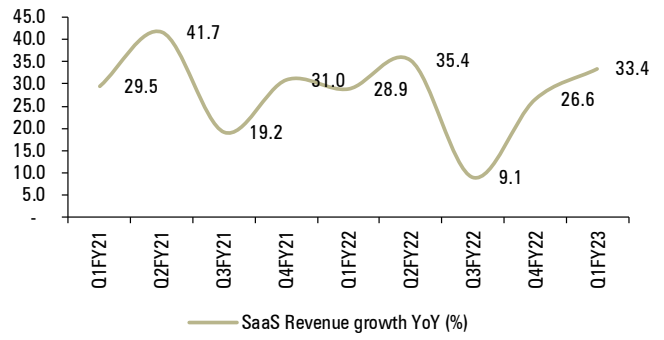
Key Metrics

Exhibit 3: Revenue with YoY growth



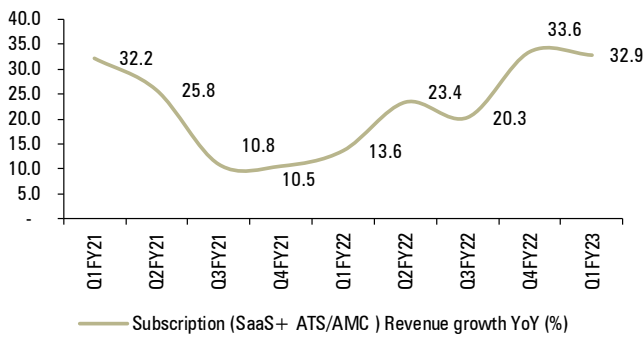
Source: Company, ICICI Direct Research

Exhibit 4: SaaS Revenue YoY growth



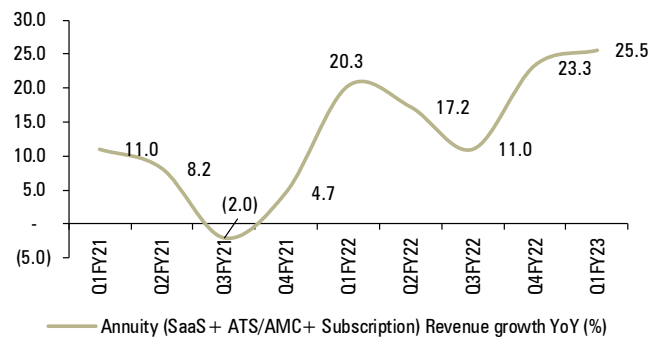
Source: Company, ICICI Direct Research

Exhibit 5: Subscription Revenue YoY growth



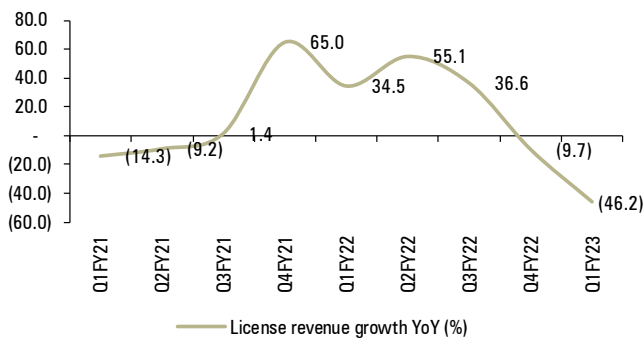
Source: Company, ICICI Direct Research

Exhibit 6: Annuity Revenue YoY growth



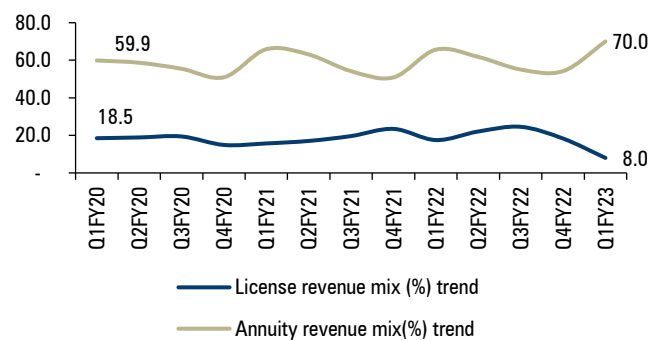
Source: Company, ICICI Direct Research

Exhibit 7: License Revenue YoY growth



Source: Company, ICICI Direct Research

Exhibit 8: License & Annuity revenue mix trend



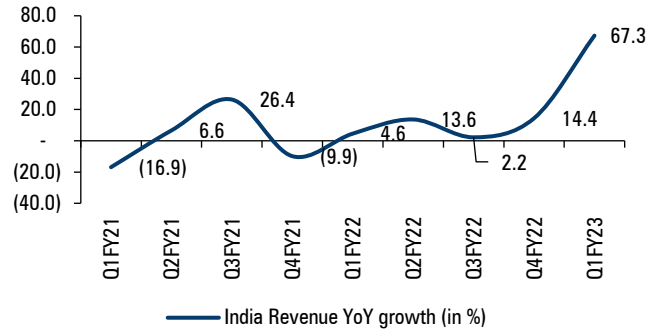
Source: Company, ICICI Direct Research

Exhibit 9: Client Addition



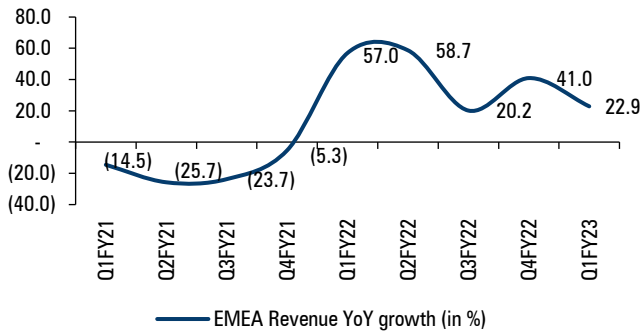
Source: Company, ICICI Direct Research

Exhibit 10: India Revenue YoY growth



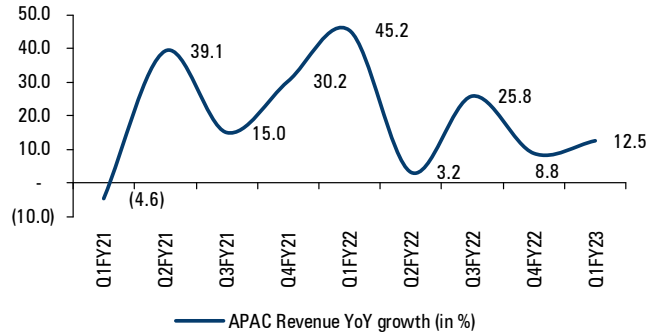
Source: Company, ICICI Direct Research

Exhibit 11: EMEA Revenue YoY growth



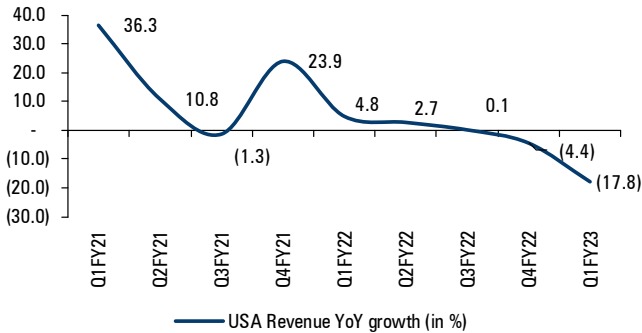
Source: Company, ICICI Direct Research

Exhibit 12: APAC Revenue YoY growth



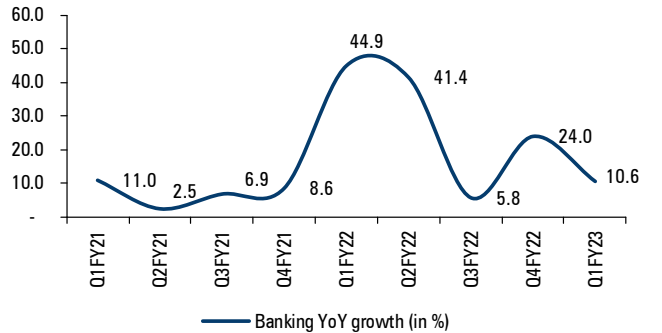
Source: Company, ICICI Direct Research

Exhibit 13: USA Revenue YoY growth



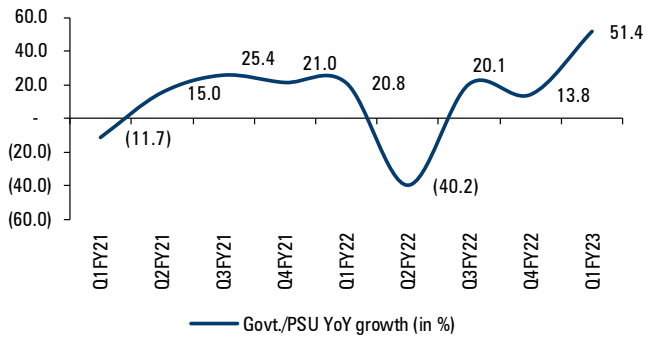
Source: Company, ICICI Direct Research

Exhibit 14: Banking Revenue YoY growth



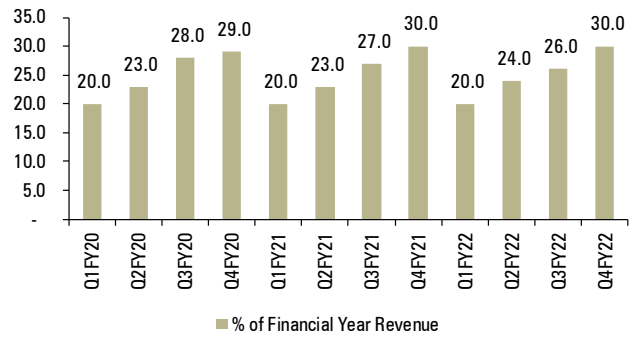
Source: Company, ICICI Direct Research

Exhibit 15: Govt./PSU Revenue YoY growth



Source: Company, ICICI Direct Research

Exhibit 16: Seasonality of Business



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit & loss statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	673	779	911	1,071
Growth (%)	1.8	15.8	16.9	17.5
COGS (employee expenses)	328	409	437	514
Other expenses	153	175	246	289
Total Operating Expenditure	481	584	683	803
EBITDA	192	195	228	268
Growth (%)	83.5	1.4	17.0	17.5
Depreciation	20	18	18	21
Other income (net)	9	26	26	26
PBT	181	203	236	273
Total Tax	55	39	47	55
PAT	126	164	189	218
Growth (%)	73.9	29.8	14.9	15.6
Diluted EPS (₹)	18.1	23.5	27.0	31.2
Growth (%)	72.2	29.9	14.9	15.6

Source: Company, ICICI Direct Research,

Exhibit 18: Cash flow statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit	181	203	236	273
Add: Depreciation	20	18	18	21
Others	23	6	(26)	(26)
Inc/(dec) in working capital	23	(36)	70	(38)
Taxes paid	(31)	(48)	(47)	(55)
CF from operating activities	216	143	250	175
(Inc)/dec in Fixed Assets	(12)	(13)	(15)	(18)
Others	(131)	(68)	30	30
CF from investing activities	(143)	(81)	14	12
Dividend paid & dividend tax	(14)	(24)	(21)	(21)
Others	(88)	(8)	(3)	(3)
CF from financing activities	(102)	(32)	(24)	(24)
Net Cash flow	(30)	30	240	163
Exchange difference	1	2	-	-
Opening Cash	270	242	276	516
Closing cash & Bank	242	276	516	679

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	69	70	70	70
Reserve and Surplus	596	742	910	1,107
Total Shareholders funds	666	811	979	1,176
Total Debt	-	6	6	6
Lease liability	14	15	15	15
Provisions	29	33	39	45
Other non current liabilities	-	4	-	-
Total Liabilities	708	870	1,039	1,243
Assets				
Property, plant and equipment	158	163	161	164
Goodwill	-	3	3	3
Intangibles	1	16	16	16
Right-of-use assets	46	48	43	36
Other non current assets	67	131	76	89
Cash & bank balance	242	276	516	679
Current Investments	83	92	92	92
Trade receivables	239	279	287	323
Unbilled revenue	-	-	-	-
Other financial assets	78	88	106	124
Other current assets	8	11	10	12
Total Current Assets	649	746	1,011	1,230
Trade payables	23	36	31	36
Lease liability	6	7	7	7
OCL & provisions	184	194	234	253
Total Current Liabilities	212	237	271	296
Net Current Assets	437	509	740	935
Application of Funds	708	870	1,039	1,243

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Diluted EPS	18.1	23.5	27.0	31.2
Cash EPS	21.2	26.1	29.7	34.4
BV	96	117	141	169
DPS	3.5	3.5	3.0	3.0
Cash Per Share	35	40	74	98
Operating Ratios (%)				
EBITDA margin	28.5	25.0	25.0	25.0
PBT Margin	26.9	26.1	25.9	25.5
PAT Margin	18.8	21.1	20.7	20.4
Debtor days	129	120	115	110
Unbilled days	-	-	-	-
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	19.0	20.2	19.3	18.5
RoCE	26.4	23.7	23.0	22.2
RoIC	35.3	28.4	37.7	41.2
Valuation Ratios (x)				
P/E	19.3	15.0	13.0	11.3
EV / EBITDA	11.1	10.8	8.2	6.3
EV / Net Sales	3.2	2.7	2.0	1.6
Market Cap / Sales	3.7	3.2	2.7	2.3
Price to Book Value	3.7	3.0	2.5	2.1
Solvency Ratios				
Debt/EBITDA	-	0.0	0.0	0.0
Debt / Equity	-	0.0	0.0	0.0
Current Ratio	3.0	3.4	2.8	2.7
Quick Ratio	3.0	3.4	2.8	2.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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