

## Strong growth in FY23 likely to sustain in FY24...

**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) comprise 61% of the revenue mix while license & others form 18.3% 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

**Q4FY23 Results:** Newgen reported strong revenue numbers in Q4FY23.

- Revenue grew 31.9% YoY while SaaS revenue grew 66.6% YoY
- The company added 11 new logos in Q4
- Annuity revenue grew 32.4% YoY

**What should investors do?** Newgen's share price has grown ~2.3x over the past five years (from ~₹ 251 in May 2018 to ₹ 565 levels in May 2023).

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

**Target Price and Valuation:** We value Newgen at ₹ 660 i.e. 19x 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 20.9% CAGR in FY23-25E
- The company is targeting 10 deals per year as far as the 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 Infosys.

- Key beneficiary of improved digital demand, double digit revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 1600



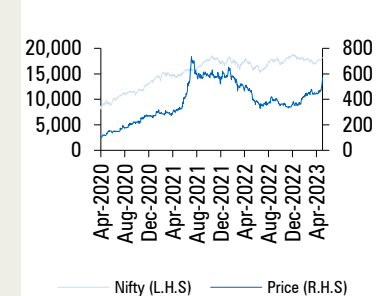
### Particulars

| Particular                | Amount   |
|---------------------------|----------|
| Market Cap (₹ Crore)      | 3,934    |
| Total Debt                | 4.2      |
| Cash and Invest (₹ Crore) | 340      |
| EV (₹ Crore)              | 3,599    |
| 52 week H/L               | 595/ 300 |
| Equity capital            | 69.7     |
| Face value                | 10.0     |

### Shareholding pattern

|          | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|----------|--------|--------|--------|--------|
| Promoter | 55.2   | 55.4   | 55.2   | 55.2   |
| FII      | 14.8   | 15.7   | 12.5   | 14.0   |
| DII      | 6.8    | 7.0    | 8.1    | 8.2    |
| Public   | 23.3   | 21.9   | 24.3   | 22.6   |

### Price Chart



### Recent event & key risks

- Added 47 new logos in FY23
- **Key Risk:** (i) Lower than expected revenues (ii) Lower than expected margins

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### Key Financial Summary

| ₹ Crore            | FY21 | FY22 | FY23 | 5 Year CAGR (FY17-22) | FY24E | FY25E | 2 Year CAGR (FY23-25E) |
|--------------------|------|------|------|-----------------------|-------|-------|------------------------|
| Net Sales          | 673  | 779  | 974  | 13.7                  | 1,187 | 1,424 | 20.9                   |
| EBITDA             | 192  | 195  | 212  | 16.8                  | 247   | 300   | 18.9                   |
| EBITDA Margins (%) | 28.5 | 25.0 | 21.8 |                       | 20.8  | 21.0  |                        |
| Net Profit         | 126  | 164  | 176  | 19.3                  | 206   | 247   | 18.4                   |
| EPS (₹)            | 18.1 | 23.5 | 25.0 |                       | 28.9  | 34.7  |                        |
| P/E                | 30.9 | 23.9 | 22.3 |                       | 19.1  | 15.9  |                        |
| RoNW (%)           | 19.0 | 20.2 | 18.0 |                       | 17.9  | 18.2  |                        |
| RoCE (%)           | 26.4 | 23.7 | 21.1 |                       | 20.8  | 21.2  |                        |

## Key takeaways of recent quarter & conference call highlights

- The company reported revenue of ₹ 305.1 crore, up 31.9% YoY. Annuity revenue (ATS/AMC, SaaS & Support), forming 54.4% of the mix in Q4, was at ₹ 166.2 crore, up 32.4% YoY while license revenue was at 19.3% of the mix, up 39% YoY to ₹ 58.8 crore. The subscription revenue (ATS/AMC & SaaS that is 28.7% of mix), grew 25.5% YoY to ₹ 87.6 crore. SaaS revenue, 9.7% of mix, grew 66.6% YoY
- EBITDA margins increased ~850 bps sequentially and ~250 bps YoY to 31.6%
- Geography wise US region (24.6% of mix) continued its growth momentum from Q3FY23 and reported strong growth of 39.9% YoY. Indian region (28.4% of mix) and EMEA (35% of mix) grew 37.8% & 33.8% YoY, respectively, while the APAC region grew 4.2% YoY
- Vertical wise BFS (71% of mix) grew 39.7% YoY while the smaller verticals of healthcare, BPO/IT & insurance grew 84.5%, 31.8% & 17.2% YoY, respectively
- For FY23, the company reported a revenue of ₹ 974 crore, up 25%. EBITDA margin for FY23 declined 320 bps to 21.8% due to resumption of travel expenses and increase in sales & marketing expenses. Newgen, for FY23, reported PAT of ₹ 176.3 crore with a PAT margin of 18.1%. The company mentioned that in FY23 it incurred R&D expenses of ~10% of revenue
- The company reiterated its goal to reach US\$500 mn annual revenues in the medium term. Newgen mentioned that it posted strong growth of 25% in FY23, which was even higher than its guidance (of 20%+ growth, given at the start of the year). The company mentioned that growth was aided not only by its traditional markets like India, EMEA & APAC but also by the US market where it is witnessing recovery. Newgen mentioned that this strong growth of FY23 is likely sustainable in FY24 as well. As far as AMEA region is concerned, the company mentioned that it is seeing some structural changes in the market wherein some markets like Saudi Arabia, UAE are now de-linking their strategy (of technology investments) from oil price movements. Hence, the region may see sustainable tech investments
- The company expects EBITDA margins in the range of 20-21% for FY24 & PAT margin of ~18% and mentioned that it is now looking to step up investments in terms of manpower, R&D, etc. Newgen also said that the cost base for the company is more realistic now as employee and travel costs started normalising, which, along with facility costs (99% of the workforce has started coming to office at least once in a week), will likely restrict margin expansion. The company also mentioned that EBITDA margin expansion may play out as in when it reaches US\$400 mn annual revenues
- The company mentioned that client additions in FY23 may look lower than its historical numbers as it has moved away from a few deals coming from its channel partners in some regions. Newgen also added that it is looking to accelerate logo additions in future by entering new geographies as well as acceleration of logo additions from its existing markets of Australia, US and Europe. The company also mentioned that it aims to win large deals at a similar or higher than the average deal size in coming years
- The company added that its product Newgen 1 & Trade Finance (which it launched 1.5 years ago) is witnessing increased demand and is also getting accreditation by Gartner & Forrester. Newgen added that its Trade Finance product is getting increased traction in the Middle East, India and US markets where it closed some marquee deals while some more deals are in the pipeline. Newgen also mentioned that the GTM strategy in trade finance is still being worked out in lending portfolio of some banks with annual revenues of more than US\$20 billion

- On the US market, the company mentioned that its growth has picked up from Q3FY23 onwards. Newgen mentioned that its business is diversified in the US as it is looking to scale up both opportunities (organic as well as through GSI) for its growth ahead. The company added that scaling & winning logos with GSIs has not been at its expected pace so far but it expects the GSI momentum to pick up and likely contribute to revenue growth of the company
- The company mentioned that it is not seeing any systematic risk pertaining to the US market due to recent banks related issue there and expects growth in the region to continue. Newgen further added that its funnel in the US market remains strong and it is now looking to acquire clients within the revenue band of US\$50-100 bn
- The company mentioned that it has entered into strategic agreements with Mambu & Sopra to expand its geographical presence in Europe wherein Mambu & Sopra has a strong presence. Newgen mentioned that it will provide low code digital lending products to Sopra clients and core banking products with Mambu. The company said that partner ecosystem with Mambu & Sopra will aid in revenue growth of the company
- The company's clients with annual billing over ₹ 5 crore has increased from 38 to 51 indicating that the company strategy of client mining & upselling is helping to grow its revenues and also helping to reduce the client concentration
- Newgen for the first time reported the total bookings numbers. It reported a total bookings amount of ₹ 1,290.5 crore, up 29% YoY in Q4FY23
- On the R&D front, the company mentioned that since it is a product-based company R&D is core to its business and will continue to invest in R&D to enhance its services. Newgen mentioned that it will continue to invest 10% of revenue on R&D activities. The company also mentioned that compared to international competitors it enjoys cost advantage as it conduct its R&D activities in India
- On the recent tech development in generative AI, the company mentioned that since it is a product-based company it does not see generative AI as a threat for them compared to service-based IT companies. Newgen, however, mentioned that it will work to see how the generative AI will aid in its R&D activities and also mentioned tech disruption would provide an opportunity to develop new products in the areas of content management & document processing, which can increase productivity using AI
- The company mentioned that its DSO increased to 145 days in March, 2023 which is due to major billing done in the March quarter. Newgen added that it is working to bring the DSO to the levels of 120 days
- The company mentioned that its effective tax rate (ETR) for FY23 was at 18.9% and also indicated that it ETR will be at similar rate for the next two to three years
- The company declared a final dividend of ₹ 5 per share for FY23 and also mentioned that it has fixed June 20 as record date for determining the eligible shareholders for payment of dividend

**Exhibit 1: P&L**

|                              | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) | Comments  |
|------------------------------|--------|--------|---------|--------|---------|---|
| Revenue                      | 305.1  | 231.4  | 31.8    | 254.9  | 19.7    | SaaS revenue grew by 66.6% YoY and annuity based revenue 54.4% of mix grew by 32.4% YoY |
| Employee expense             | 141.5  | 111.2  | 27.3    | 130.4  | 8.5     |   |
| Gross Margin                 | 163.5  | 120.2  | 36.0    | 124.5  | 31.3    |   |
| Gross margin (%)             | 53.6   | 51.9   | 166 bps | 48.8   | 476 bps |   |
| Other expense                | 67.1   | 52.8   | 27.1    | 65.6   | 2.2     |   |
| EBITDA                       | 96.4   | 67.4   | 43.0    | 58.9   | 63.7    |   |
| EBITDA Margin (%)            | 31.6   | 29.1   | 248 bps | 23.1   | 850 bps | Margins grew on YoY basis on operating leverage   |
| Depreciation & amortisation  | 6.8    | 5.0    | 37.1    | 6.2    | 10.1    |   |
| EBIT                         | 89.7   | 62.5   | 43.5    | 52.8   | 70.0    |   |
| EBIT Margin (%)              | 29.4   | 27.0   | 239 bps | 20.7   | 870 bps |   |
| Other income (less interest) | 6.7    | 3.6    | 86.6    | 8.3    | -19.5   |   |
| PBT                          | 96.4   | 66.1   | 45.8    | 61.1   | 57.8    |   |
| Tax paid                     | 17.7   | 8.7    | 104.6   | 12.9   | 37.9    |   |
| PAT                          | 78.6   | 57.4   | 36.9    | 48.2   | 63.1    |   |

Source: Company, ICICI Direct Research

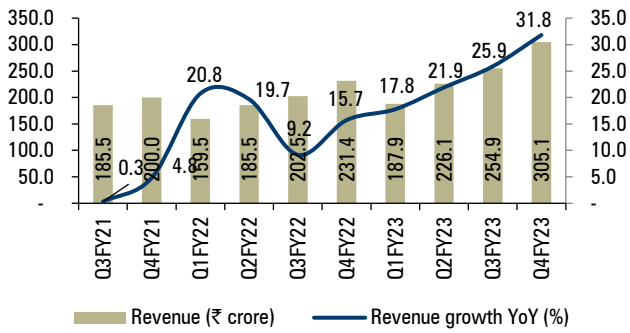
**Exhibit 2: Change in estimates**

|                   | FY24E |       |          | FY25E |       |          | Comments  |
|-------------------|-------|-------|----------|-------|-------|----------|---|
|                   | Old   | New   | % Change | Old   | New   | % Change |   |
| (₹ Crore)         |       |       |          |       |       |          |   |
| Revenue           | 1,112 | 1,187 | 6.7      | 1,304 | 1,424 | 9.2      | Revenue re-aligned on management commentary on sustainable growth in FY24 |
| EBITDA            | 240   | 247   | 3.3      | 287   | 300   | 4.6      |   |
| EBITDA Margin (%) | 21.5  | 20.8  | -70 bps  | 22.0  | 21.0  | -92 bps  | We cut margins on planned increased in investments                        |
| PAT               | 212   | 206   | -3.1     | 248   | 247   | -0.2     |   |
| EPS (₹)           | 30.4  | 28.9  | -3.1     | 35.5  | 34.7  | -0.2     |   |

Source: Company, ICICI Direct Research

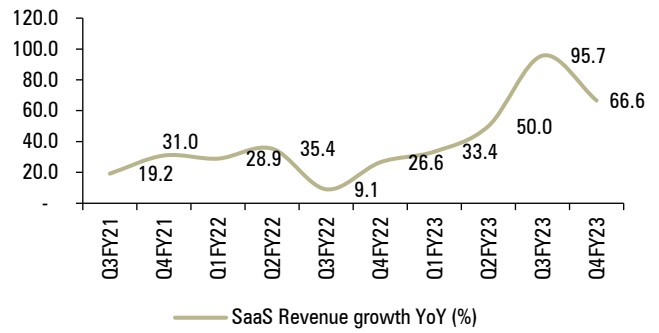
Key Metrics

Exhibit 3: Revenue growth momentum continues



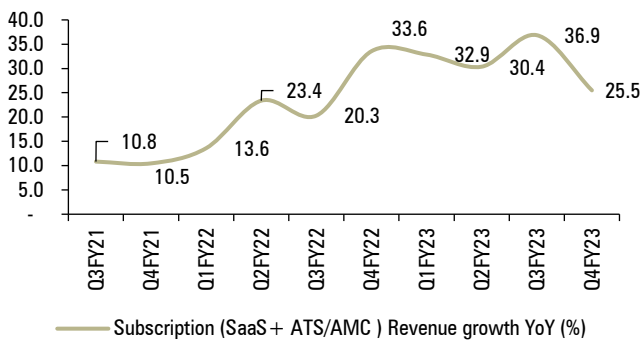
Source: Company, ICICI Direct Research

Exhibit 4: SaaS continues healthy growth



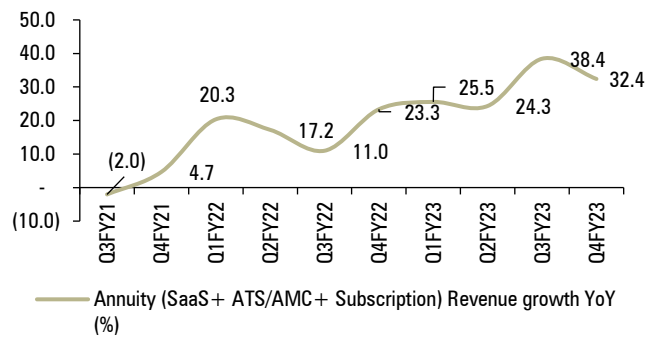
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue continues to grow strong



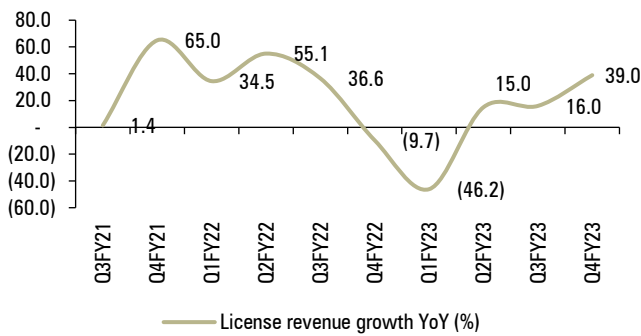
Source: Company, ICICI Direct Research

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



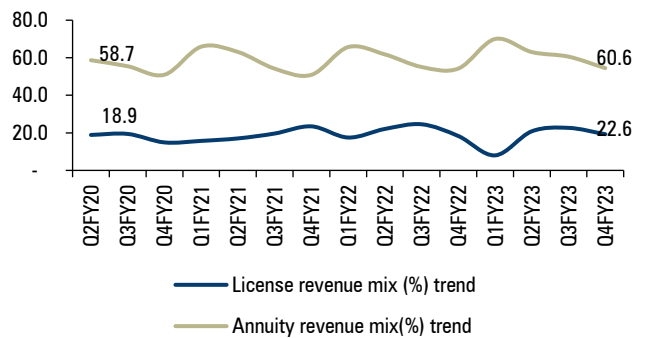
Source: Company, ICICI Direct Research

Exhibit 7: License revenue remains lumpy



Source: Company, ICICI Direct Research

Exhibit 8: License & annuity revenue mix trend



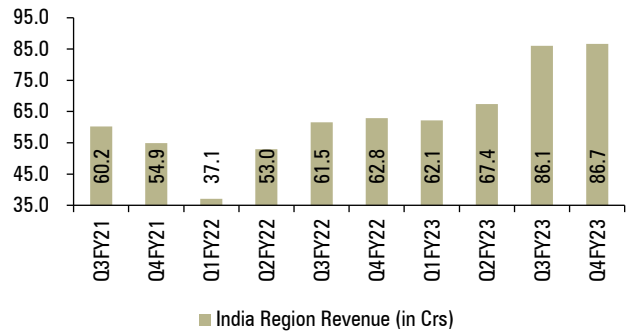
Source: Company, ICICI Direct Research

Exhibit 9: Total 47 logos added in FY23



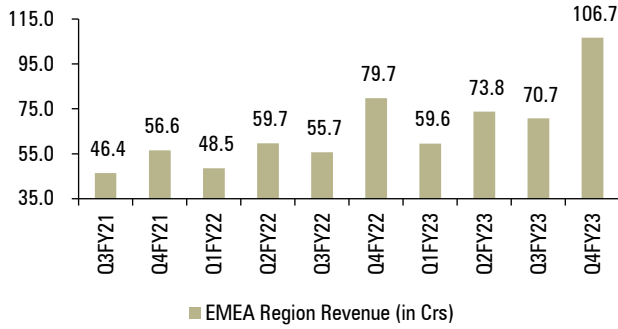
Source: Company, ICICI Direct Research

Exhibit 10: India revenue grows 37.9% YoY in Q4



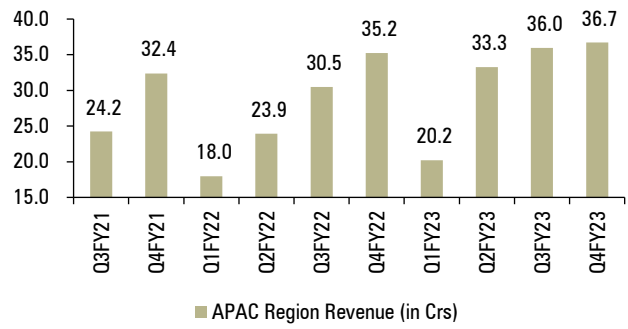
Source: Company, ICICI Direct Research

Exhibit 11: EMEA grows 33.8% YoY



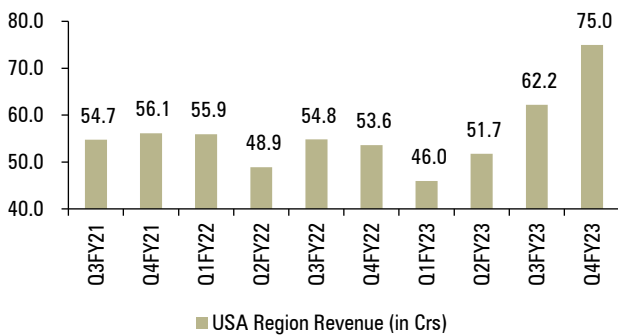
Source: Company, ICICI Direct Research

Exhibit 12: APAC growth moderates to 4.2% YoY



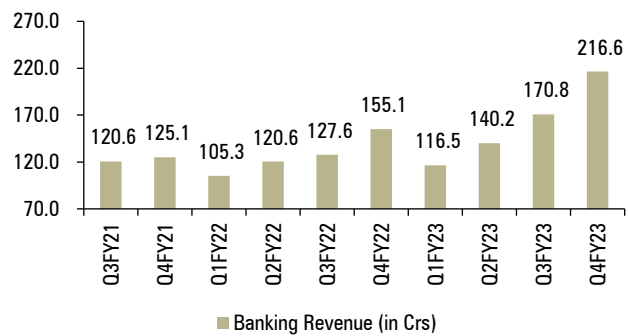
Source: Company, ICICI Direct Research

Exhibit 13: US region showing recovery with 39.9% growth



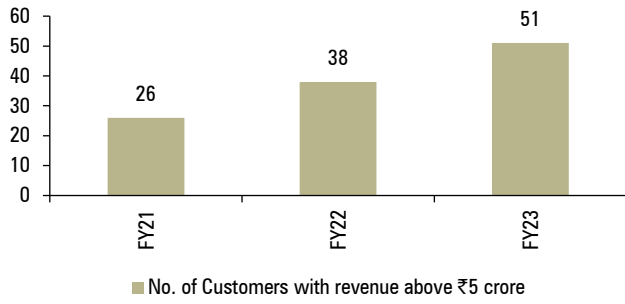
Source: Company, ICICI Direct Research

Exhibit 14: BFSI still contributes majority of revenue



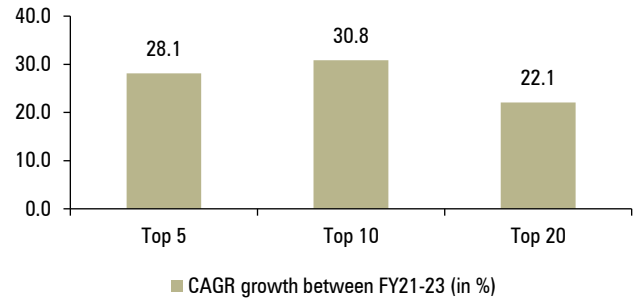
Source: Company, ICICI Direct Research

**Exhibit 15: Customers with more than ₹5 crore in annual billings growth trend**



Source: Company, ICICI Direct Research

**Exhibit 16: Top clients growing higher than company growth rate in last three years**



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 17: Profit & loss statement (₹ crore)

| (Year-end March)              | FY22        | FY23        | FY24E        | FY25E        |
|-------------------------------|-------------|-------------|--------------|--------------|
| <b>Total operating Income</b> | <b>779</b>  | <b>974</b>  | <b>1,187</b> | <b>1,424</b> |
| Growth (%)                    | 15.8        | 25.0        | 21.9         | 20.0         |
| COGS (employee expenses)      | 409         | 516         | 643          | 771          |
| Other expenses                | 175         | 246         | 297          | 354          |
| Total Operating Expenditure   | 584         | 762         | 940          | 1,125        |
| <b>EBITDA</b>                 | <b>195</b>  | <b>212</b>  | <b>247</b>   | <b>300</b>   |
| Growth (%)                    | 1.4         | 9.0         | 16.6         | 21.2         |
| Depreciation                  | 18          | 25          | 29           | 30           |
| Other income (net)            | 26          | 30          | 32           | 32           |
| PBT                           | 203         | 217         | 251          | 301          |
| Total Tax                     | 39          | 41          | 45           | 54           |
| <b>PAT</b>                    | <b>164</b>  | <b>176</b>  | <b>206</b>   | <b>247</b>   |
| Growth (%)                    | 29.8        | 7.3         | 16.7         | 20.2         |
| <b>Diluted EPS (₹)</b>        | <b>23.5</b> | <b>25.0</b> | <b>28.9</b>  | <b>34.7</b>  |
| Growth (%)                    | 29.9        | 6.3         | 15.5         | 20.2         |

Source: Company, ICICI Direct Research,

### Exhibit 18: Cash flow statement (₹ crore)

| (Year-end March)                    | FY22        | FY23        | FY24E       | FY25E       |
|-------------------------------------|-------------|-------------|-------------|-------------|
| PBT                                 | 203         | 217         | 251         | 301         |
| Add: Depreciation                   | 18          | 25          | 29          | 30          |
| Others                              | 6           | 7           | (32)        | (32)        |
| Inc/(dec) in working capital        | (36)        | (73)        | (94)        | (140)       |
| Taxes paid                          | (48)        | (40)        | (45)        | (54)        |
| <b>CF from operating activities</b> | <b>143</b>  | <b>136</b>  | <b>108</b>  | <b>105</b>  |
| (Inc)/dec in Fixed Assets           | (13)        | (17)        | (20)        | (24)        |
| Others                              | (68)        | (78)        | 36          | 36          |
| <b>CF from investing activities</b> | <b>(81)</b> | <b>(94)</b> | <b>16</b>   | <b>12</b>   |
| Dividend paid & dividend tax        | (24)        | (31)        | (36)        | (36)        |
| Others                              | (8)         | (13)        | (4)         | (4)         |
| <b>CF from financing activities</b> | <b>(32)</b> | <b>(44)</b> | <b>(40)</b> | <b>(40)</b> |
| Net Cash flow                       | 30          | (2)         | 84          | 78          |
| Exchange difference                 | 2           | 6           | -           | -           |
| Opening Cash                        | 242         | 276         | 208         | 292         |
| <b>Closing cash &amp; Bank</b>      | <b>276</b>  | <b>208</b>  | <b>292</b>  | <b>370</b>  |

Source: Company, ICICI Direct Research

### Exhibit 19: Balance Sheet (₹ crore)

| (Year-end March)              | FY22       | FY23         | FY24E        | FY25E        |
|-------------------------------|------------|--------------|--------------|--------------|
| Equity Capital                | 70         | 70           | 70           | 70           |
| Reserve and Surplus           | 742        | 907          | 1,077        | 1,289        |
| Total Shareholders funds      | 811        | 977          | 1,147        | 1,358        |
| Total Debt                    | 6          | 4            | 4            | 4            |
| Lease liability               | 15         | 28           | 28           | 28           |
| Provisions                    | 33         | 35           | 43           | 51           |
| Other non current liabilities | 4          | 3            | -            | -            |
| <b>Total Liabilities</b>      | <b>870</b> | <b>1,048</b> | <b>1,222</b> | <b>1,442</b> |
| <b>Assets</b>                 |            |              |              |              |
| Property, plant and equipment | 163        | 165          | 162          | 165          |
| Goodwill                      | 3          | 3            | 3            | 3            |
| Intangibles                   | 16         | 13           | 13           | 13           |
| Right-of-use assets           | 48         | 64           | 55           | 46           |
| Other non current assets      | 131        | 270          | 325          | 390          |
| Cash & bank balance           | 276        | 208          | 292          | 370          |
| Current Investments           | 92         | 131          | 131          | 131          |
| Trade receivables             | 279        | 388          | 439          | 527          |
| Unbilled revenue              | -          | -            | -            | -            |
| Other financial assets        | 88         | 84           | 103          | 123          |
| Other current assets          | 11         | 15           | 19           | 22           |
| Total Current Assets          | 746        | 827          | 984          | 1,174        |
| Trade payables                | 36         | 35           | 43           | 51           |
| Lease liability               | 7          | 10           | 10           | 10           |
| OCL & provisions              | 194        | 249          | 267          | 287          |
| Total Current Liabilities     | 237        | 294          | 320          | 348          |
| Net Current Assets            | 509        | 533          | 664          | 826          |
| <b>Application of Funds</b>   | <b>870</b> | <b>1,048</b> | <b>1,222</b> | <b>1,442</b> |

Source: Company, ICICI Direct Research

### Exhibit 20: Key ratios

| (Year-end March)            | FY22 | FY23 | FY24E | FY25E |
|-----------------------------|------|------|-------|-------|
| <b>Per share data (₹)</b>   |      |      |       |       |
| Diluted EPS                 | 23.5 | 25.0 | 28.9  | 34.7  |
| Cash EPS                    | 26.1 | 28.9 | 33.6  | 39.9  |
| BV                          | 117  | 140  | 165   | 195   |
| DPS                         | 4.5  | 5.0  | 5.1   | 5.1   |
| Cash Per Share              | 40   | 30   | 42    | 53    |
| <b>Operating Ratios (%)</b> |      |      |       |       |
| EBITDA margin               | 25.0 | 21.8 | 20.8  | 21.0  |
| PBT Margin                  | 26.1 | 22.3 | 21.1  | 21.2  |
| PAT Margin                  | 21.1 | 18.1 | 17.3  | 17.4  |
| Debtor days                 | 131  | 145  | 135   | 135   |
| Unbilled days               | -    | -    | -     | -     |
| Creditor days               | 17   | 13   | 13    | 13    |
| <b>Return Ratios (%)</b>    |      |      |       |       |
| RoE                         | 20.2 | 18.0 | 17.9  | 18.2  |
| RoCE                        | 23.7 | 21.1 | 20.8  | 21.2  |
| RoIC                        | 28.2 | 21.4 | 22.6  | 24.3  |
| <b>Valuation Ratios (x)</b> |      |      |       |       |
| P/E                         | 23.9 | 22.3 | 19.1  | 15.9  |
| EV / EBITDA                 | 18.3 | 17.0 | 14.2  | 11.5  |
| EV / Net Sales              | 4.6  | 3.7  | 3.0   | 2.4   |
| Market Cap / Sales          | 5.1  | 4.0  | 3.3   | 2.8   |
| Price to Book Value         | 4.8  | 4.0  | 3.4   | 2.9   |
| <b>Solvency Ratios</b>      |      |      |       |       |
| Debt/EBITDA                 | 0.0  | 0.0  | 0.0   | 0.0   |
| Debt / Equity               | 0.0  | 0.0  | 0.0   | 0.0   |
| Current Ratio               | 3.4  | 3.9  | 3.7   | 3.7   |
| Quick Ratio                 | 3.4  | 3.9  | 3.7   | 3.7   |

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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