

CMP: ₹ 370

Target: ₹ 445 (20%)

Target Period: 12 months

BUY

October 19, 2022

Aspiring to reach US\$500 mn annual revenues in 5-6 years

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 break-up has been largely equal between India, US, EMEA & APAC

Q2FY23 Results: Newgen reported strong YoY revenue growth.

- Reported revenue up 21.9% YoY led by SaaS, which grew 50% YoY
- The company added 14 new logos in Q2 and 20 in H1FY23
- Annuity revenue grew 24.3% YoY

What should investors do? Newgen's share price has grown ~1.5x since listing in January 2018–October 2022.

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

Target Price and Valuation: We value Newgen at ₹ 445 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 16.2% CAGR in FY22-25E
- The company is working on 90 cases as far as GSI opportunity is concerned, which could provide an incremental revenue opportunity of ₹ 79-131 crore depending on the funnel as well as winning rate, etc
- 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 ₹ 740



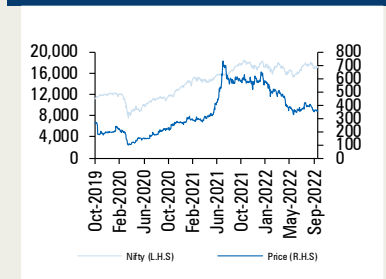
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,575
Total Debt	-
Cash and Invest (₹ Crore)	368
EV (₹ Crore)	2,206
52 week H/L	671/ 323
Equity capital	69.5
Face value	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	55.2	55.2	55.2	55.4
FII	17.5	15.7	14.8	15.7
DII	7.6	7.5	6.8	7.0
Public	19.8	21.7	23.3	21.9

Price Chart



Recent event & key risks

- Added 14 new logos in Q2FY23
- **Key Risk:** (i) Supply side challenges persist, (ii) GSI opportunity not panning out as per expectations

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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	920	1,081	1,221	16.2
EBITDA	192	195	22.6	211	254	290	14.2
EBITDA Margins (%)	28.5	25.0		23.0	23.5	23.8	
Net Profit	126	164	26.2	175	212	239	13.4
EPS (₹)	18.1	23.5		25.1	30.4	34.3	
P/E	20.2	15.7		14.7	12.1	10.8	
RoNW (%)	19.0	20.2		18.2	18.3	17.4	
RoCE (%)	26.4	23.7		21.7	21.4	20.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- The company reported revenue of ₹ 226.1 crore, up 21.9%. Annuity revenue (ATS/AMC, SaaS & Support) (which is 63% of the mix for Q2) reported a revenue of ₹ 142.5 crore, up 24.3% YoY while license revenue was 20.8% of the mix for Q2, up 15% YoY to ₹ 47.1 crore. The subscription revenue (ATS/AMC & SaaS that is 35.1% of mix), as per the company, growth momentum indicator grew 30.4% YoY
- The company reported EBITDA margin of 16.6%, down ~850 bps YoY and EBITDA of ₹ 37.6 crore. The company indicated that the drop was due to continued elevated employee cost (up 25.3% YoY) due to persistent supply side challenges and resumption of travel cost
- Geography wise India (29.8% of revenue mix), EMEA (32.6% of mix) & APAC (14.7% of mix) grew 27.2%, 23.5% & 39% YoY, respectively, while US region reported growth of 5.8% YoY due to change in company's strategy
- The company indicated that growth in the quarter was mainly driven by India, APAC and EMEA market while the US market continued to be a pain point. Newgen indicated that growth in the US market was also impacted by some change of strategy wherein it is now looking to tap some large deals and consequently also did some leadership changes there. It expects some recovery in the US market but also indicated that decision making has slowed down in the market. It indicated that its clients continue to spend on its products and it has not witnessed any slowdown in its traditional market. It expects continued growth momentum, especially from EMEA market, if oil prices remain stable at this level
- Vertical wise, banking (61.4% of mix) reported 15.2% YoY growth with revenue of ₹ 138.9 crore while government/PSU & insurance reported growth of 363.4% & 9.8% YoY, respectively, albeit on a lower base with a revenue of ₹ 34.4 crore & ₹ 16.3 crore, respectively. BPO/IT & Healthcare vertical reported a YoY decline of 2.7% & 3.8%, respectively
- The company maintained EBITDA margin guidance band of 23-25% in FY23. It mentioned that cost structures of H1 have been unusually high compared to historical trends due to a spike in attrition, which pushes wage correction for roles in Q2 as well, returning of some costs in terms of travelling and facility expenses. Newgen expects attrition to moderate in H2 and expects pyramid optimisation benefits to help margin performance in H2
- Newgen added 14 new logos in the quarter. The company had earlier indicated that it will add 50-60 new logos in FY23, which implies strong logo addition in H2
- The company launched low code, comprehensive, easily, configurable and future-ready trade finance platform during the quarter. Newgen termed this as a game changer in the banking industry as it expected banks to go paperless and streamline their end to end trade processes while ensuring compliance with domestic and international regulations. The company also opined that trade finance is on the verge of transformation as these processes are quite old i.e. seven to eight years. Newgen is pursuing 30 opportunities here and is looking to close three to four opportunities in the near term. The company also indicated that through this platform, it is chasing large size deals here. Newgen also indicated that this product is also expected to provide a long tail of opportunities ahead
- **The company is aspiring to be a US\$500mn annual revenue company in the next five to six years.** Newgen also indicated that this aspiration is based on improved performance from the US market (which is lagging currently) and continued steady performance from the other geographies. The company also indicated that its newly launched trade finance platform is expected to be one of the key growth levers for this aspiration. Newgen maintained its revenue growth guidance of 20% for FY23. The company also indicated that it not averse to an inorganic acquisition if a strategic opportunity arises as it has substantial cash reserves

- The company sees strong deal pipeline as far as GSI opportunity is concerned as the funnel now increased further and stands at 90 deals. It closed two deals during the quarter (one from the US and another from Australia). Newgen indicated that though the pipeline for GSI opportunities continues to be strong, deal conversion here is not happening as per its expectations. Hence, growth is getting impacted

Exhibit 1: P&L

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	226.1	185.5	21.9	187.9	20.3	SaaS revenue grew by 50% YoY while Subscription & Annuity revenues grew by 30.4% & 24.3% YoY respectively
Employee expense	127.8	102.0	25.3	116.2	10.0	
Gross Margin	98.4	83.5	17.7	71.7	37.2	
Gross margin (%)	43.5	45.0	-154 bps	38.2	534 bps	
other expense	60.8	36.9	64.6	52.4	15.9	
EBITDA	37.6	46.6	-19.4	19.3	95.0	
EBITDA Margin (%)	16.6	25.1	-851 bps	10.3	636 bps	Margin impacted due to supply side challenges & normalization of travel cost
Depreciation & amortisation	6.1	4.3	42.4	5.6	8.4	
EBIT	31.5	42.3	-25.6	13.6	130.7	
EBIT Margin (%)	13.9	22.8	-889 bps	7.3	666 bps	
Other income (less interest)	5.4	6.4	-14.8	9.3	-41.6	
PBT	36.9	48.7	-24.2	22.9	60.9	
Tax paid	6.6	11.3	-41.3	3.8	76.0	
PAT	30.3	37.4	-19.0	19.2	57.9	

Source: Company, ICICI Direct Research

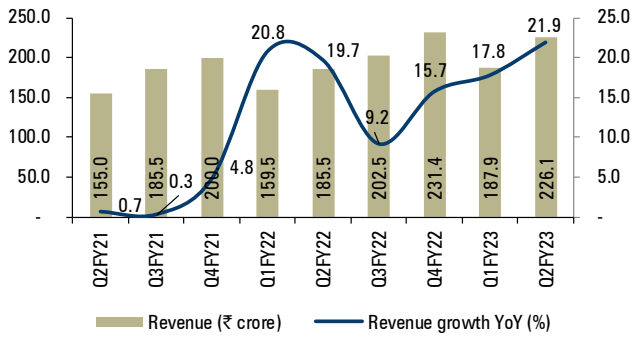
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	911	920	1.0	1,071	1,081	1.0	1,221	
EBITDA	228	211	-7.3	268	254	-5.1	290	
EBITDA Margin (%)	25.0	23.0	-205 bps	25.0	23.5	-150 bps	23.8	We are now building margin at the lower end of 23-25% guidance due to elevated employee costs amid high attrition
PAT	189	175	-7.1	218	212	-2.7	239	
EPS (₹)	27.0	25.1	-7.1	31.2	30.4	-2.7	34.3	

Source: Company, ICICI Direct Research

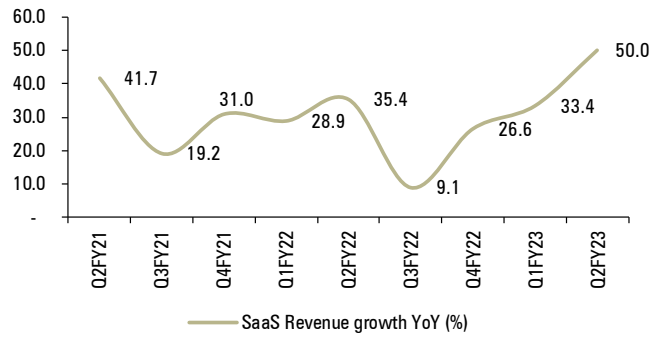
Key Metrics

Exhibit 3: Revenue grows 21.9% YoY



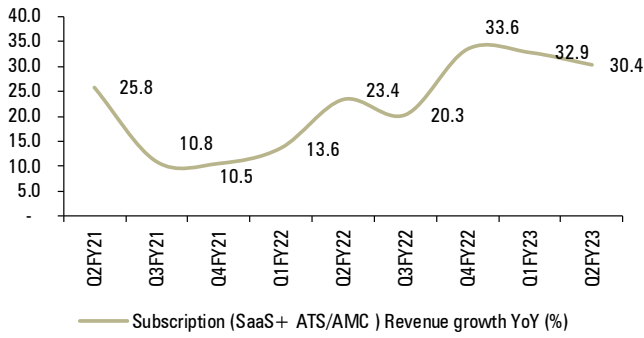
Source: Company, ICICI Direct Research

Exhibit 4: SaaS revenue forms 10.4% of revenue mix



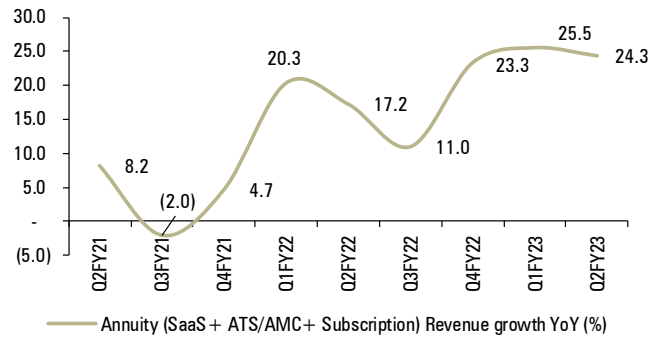
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue continues to be strong



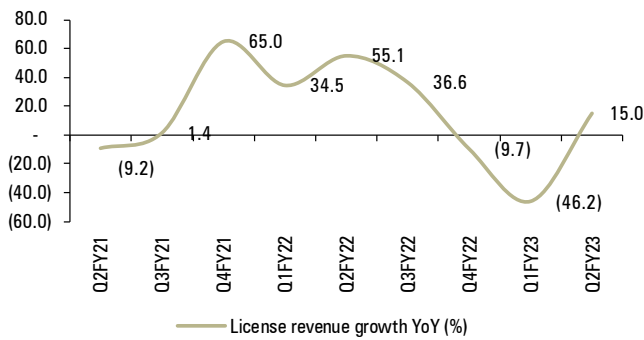
Source: Company, ICICI Direct Research

Exhibit 6: Aided by continued strong annuity growth



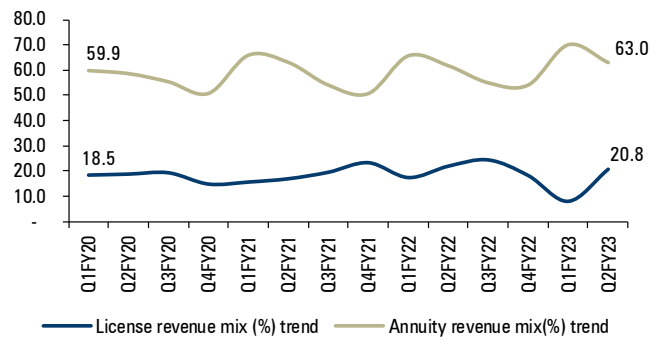
Source: Company, ICICI Direct Research

Exhibit 7: License revenue remains lumpy



Source: Company, ICICI Direct Research

Exhibit 8: License & annuity revenue mix trend



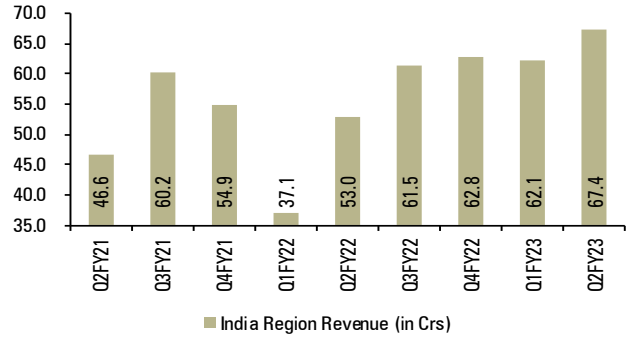
Source: Company, ICICI Direct Research

Exhibit 9: Client addition picks up in Q2, adds 20 in H1



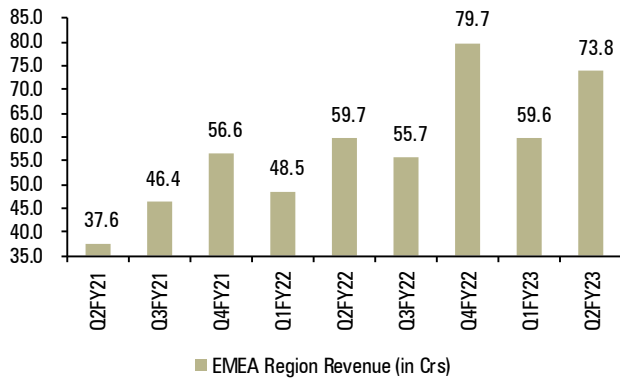
Source: Company, ICICI Direct Research

Exhibit 10: India strong revenue growth continues



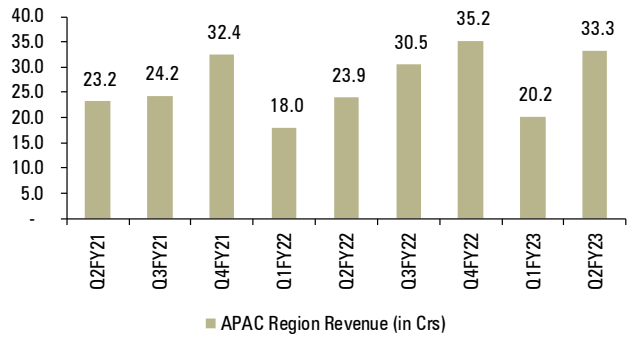
Source: Company, ICICI Direct Research

Exhibit 11: As is EMEA revenue growth



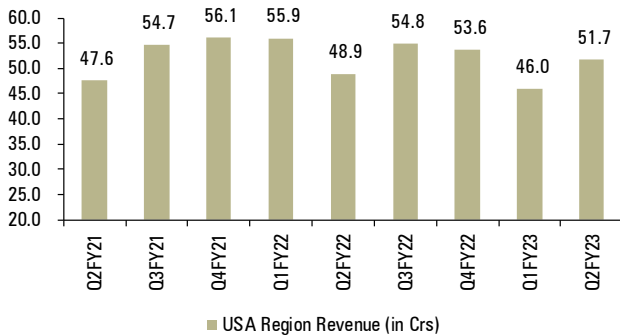
Source: Company, ICICI Direct Research

Exhibit 12: APAC revenue trend



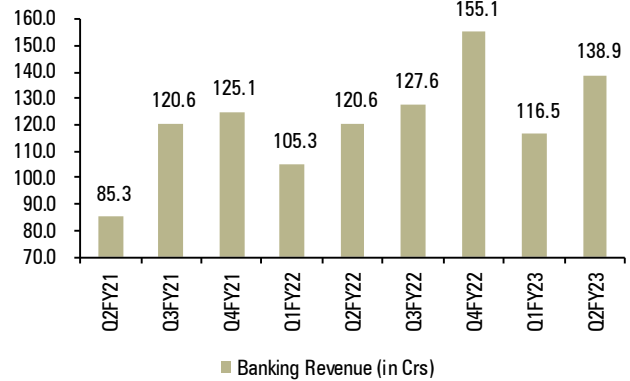
Source: Company, ICICI Direct Research

Exhibit 13: US decision making has been slower



Source: Company, ICICI Direct Research

Exhibit 14: Banking revenue growing stronger



Source: Company, ICICI Direct Research

Financial Summary

(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	779	920	1,081	1,221
Growth (%)	15.8	18.1	17.5	12.9
COGS (employee expenses)	409	489	579	650
Other expenses	175	220	248	280
Total Operating Expenditure	584	709	827	931
EBITDA	195	211	254	290
Growth (%)	1.4	8.5	20.3	14.1
Depreciation	18	18	22	24
Other income (net)	26	26	26	26
PBT	203	219	259	292
Total Tax	39	44	47	53
PAT	164	175	212	239
Growth (%)	29.8	6.8	21.1	12.8
Diluted EPS (₹)	23.5	25.1	30.4	34.3
Growth (%)	29.9	6.8	21.1	12.8

Source: Company, ICICI Direct Research,

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit	203	219	259	292
Add: Depreciation	18	18	22	24
Others	6	(26)	(26)	(26)
Inc/(dec) in working capital	(36)	69	(35)	(44)
Taxes paid	(48)	(44)	(47)	(53)
CF from operating activiti	143	236	172	194
(Inc)/dec in Fixed Assets	(13)	(16)	(18)	(21)
Others	(68)	30	30	30
CF from investing activiti	(81)	14	12	9
Dividend paid & dividend tax	(24)	(21)	(21)	(21)
Others	(8)	(3)	(3)	(3)
CF from financing activiti	(32)	(24)	(24)	(24)
Net Cash flow	30	226	159	179
Exchange difference	2	-	-	-
Opening Cash	242	276	502	661
Closing cash & Bank	276	502	661	840

Source: Company, ICICI Direct Research

(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	70	70	70	70
Reserve and Surplus	742	896	1,088	1,306
Total Shareholders funds	811	966	1,157	1,376
Total Debt	6	6	6	6
Lease liability	15	15	15	15
Provisions	33	39	46	52
Other non current liabilities	4	-	-	-
Total Liabilities	870	1,026	1,224	1,449
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	29
Other non current assets	131	74	85	96
Cash & bank balance	276	502	661	840
Current Investments	92	92	92	92
Trade receivables	279	290	326	368
Unbilled revenue	-	-	-	-
Other financial assets	88	107	125	141
Other current assets	11	10	12	14
Total Current Assets	746	1,001	1,217	1,455
Trade payables	36	31	36	41
Lease liability	7	7	7	7
OCL & provisions	194	235	254	271
Total Current Liabilities	237	273	297	318
Net Current Assets	509	729	920	1,137
Application of Funds	870	1,026	1,224	1,449

Source: Company, ICICI Direct Research

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Diluted EPS	23.5	25.1	30.4	34.3
Cash EPS	26.1	27.8	33.6	37.9
BV	117	139	166	198
DPS	3.5	3.0	3.0	3.0
Cash Per Share	40	72	95	121
Operating Ratios (%)				
EBITDA margin	25.0	23.0	23.5	23.8
PBT Margin	26.1	23.8	23.9	23.9
PAT Margin	21.1	19.1	19.6	19.6
Debtor days	120	115	110	110
Unbilled days	-	-	-	-
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.2	18.2	18.3	17.4
RoCE	23.7	21.7	21.4	20.4
RoC	28.4	34.6	39.0	41.4
Valuation Ratios (x)				
P/E	15.7	14.7	12.1	10.8
EV / EBITDA	11.4	9.4	7.2	5.7
EV / Net Sales	2.8	2.2	1.7	1.4
Market Cap / Sales	3.3	2.8	2.4	2.1
Price to Book Value	3.2	2.7	2.2	1.9
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%



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