

Newgen Software Technologies BUY

Strong tailwind from emerging markets

Summary

Newgen reported robust Q2FY24 numbers registering ~30% YoY growth in revenues and 58% YoY growth in PAT. This is despite Q2 being seasonally weak quarter. This growth was broad based across regions. The company is seeing healthy traction in order book (higher than 30% YoY) and higher deal size in insurance & BFSI. We believe in the near term growth will be led by emerging markets like India & Middle East and mature markets in long term. Further, we expect H2 (average 36% YoY growth) to be better than H1 (average 32% YoY growth). We now expect PAT CAGR of 33% over FY23-25E. We have revised our EPS estimates upwards by 14% & 8% for FY24E & FY25E. Hence, we maintain BUY rating on the stock with a revised target price of Rs 1,220 (27x FY25E EPS) (previous TP 840 and multiple of 20x).

Key Highlights and Investment Rationale

- **Strong order book & digital banking to drive growth:** Deeper penetration through digital lending platform and higher deal sizes are driving Q2 growth. In addition, the company is witnessing improved traction from existing and new clients. The company has won largest order ~Rs 68 crore in trade finance. Better opportunities in trade finance, larger deals from banks, traction in emerging countries, no code low code and digital transformation in insurance are expected to drive near term revenues. In addition, GSI partnership and partnering with other SAAS platforms are expected to drive long term growth.
- **Margins to improve:** Newgen is expected to register 34% YoY growth in revenues in FY24E. This is higher than its 20%-25% traditional growth and 17-18% PAT margins. Considering, the robust growth expectation we expect FY24E PAT margins of 20% and PAT growth of 55% YoY in FY24E.

TP **Rs1,220**

CMP **Rs1,040**

Potential upside/downside 17%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	19.5	51.0	187.6
Rel to Sensex	21.6	51.2	173.8

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	39	45
Consensus	31	40
% difference	27.0	13.9

Key Stock Data

Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	70
Market cap. (Rs mn)	72,771
3-m daily average value (Rs mn)	26.1
52-week high / low	Rs1,000 / 328
Sensex / Nifty	66,428 / 19,812

Shareholding Pattern (%)

Promoters	55.2
FII	15.9
DII	3.5
Public	25.4

Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,726	7,790	9,740	13,097	16,327
Change (yoy, %)	2	16	25	34	25
EBITDA	1,919	1,947	2,122	3,261	3,796
Change (yoy, %)	83	1	9	54	16
EBITDA Margin(%)	28.5	25.0	21.8	24.9	23.3
Adj.PAT	1,265	1,642	1,760	2,723	3,133
EPS (Rs)	18	24	25	39	45
Change (yoy, %)	73.2	29.3	7.3	55	15
PE(x)	57.0	44.1	41.1	27	23
Dividend Yield (%)	0.2	0.3	0.4	1	1
EV/EBITDA (x)	36.5	36.1	33.4	21.5	18.0
RoE (%)	20.8	22.2	19.7	25	24
RoCE (%)	21.7	19.6	17	23	23

Source: IDBI Capital Research;

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Con-call Highlights

- Revenue stood at Rs 2,932 mn, up ~30% YoY led by broad-based growth across all geographies. Newgen is observing strong traction from existing and new clients (added 14 new clients). Implementation revenue (Rs 645 mn) recorded growth of 78.3% YoY (led by higher license revenues) and SAAS revenue (Rs. 293 mn) grew ~30% YoY.
- Management stated that they are making deeper penetration through digital lending platform in the banking sector and have received high value orders during the quarter as market activity picks up in this segment across different geographies. Trade finance is also gaining traction.
- Growth was led by India (up 38% YoY), EMEA (34% YoY) and USA(30% YoY). In terms of verticals growth was led by Banking (54.8% YoY) followed by healthcare (+29.7% YoY).
- EBITDA margin expanded by 290 bps YoY led by strong top line growth.
- Management informed that order book is growing faster than revenue growth (i.e higher than 30%). Order book is driven by higher license led deal wins. The company is seeing healthy order book led by better funnel and bigger deal size. The company is optimistic on Q3 & Q4 order book.
- Demand trend – Company informed that there are expanded opportunities available in banking industry. There is a renewed demand thrust in banking which is leading to larger deals from existing clients. Banking in emerging markets continued to remain resilient and drove growth as lending and client onboarding sub segments saw strong traction. Insurance is also seeing strong demand on the back of focus on digital transformation by clients. Deal sizes in insurance is up 30-40%.
- In terms of region mid-size banks in US are seeing traction in banking. The company plans to target eastern region of US to drive growth. The company expects real momentum in US in coming quarters. US, India, Middle East and APAC is also seeing healthy demand in digital lending. Pvt and Public sector banks are driving growth in India.
- DSO days stood at 105 days. The company is targeting 90 days DSO in next 1 to 1.5 years. In terms of GSI, Coforge partnership will drive growth in insurance in mature markets. The company won 2 deals from GSI.
- Outlook – H2 is stronger than H1 and the company expects similar momentum to continue in H2. Hence we believe the company can deliver more than 30% growth for FY24E and PAT margins can be significantly higher than 17-18% which the company has seen in the past.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Revenues	2,932	2,517	16.5	2,261	29.7
COGS	1,566	1,443	8.5	1,278	22.6
Gross profit	1,366	1,073	27.3	984	38.9
SG&A	794	752	5.5	608	30.6
EBITDA	572	321	78.2	376	52.3
Depreciation & amortization	69	68	0.5	61	12.4
EBIT	504	253	99.2	315	60.1
Other income	82	113	(27.3)	54	51.3
PBT	586	366	60.1	369	58.8
Tax	108	64	68.8	69	56.5
Minority interest			<i>n.m.</i>		<i>n.m.</i>
Adjusted net profit	478	302	58.3	300	59.3
Exceptional item	0	0	<i>n.m.</i>	0	<i>n.m.</i>
Reported net profit	478	302	58.3	300	59.3
Diluted EPS (Rs)	6.7	4.2	58.3	4.3	55.0
As % of net revenue					
Gross profit	46.6	42.6		43.5	
SG&A	27.1	29.9		26.9	
EBITDA	19.5	12.8		16.6	
EBIT	17.2	10.1		13.9	
Reported net profit	16.3	12.0		13.3	
Tax rate	18.5	17.5		18.7	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

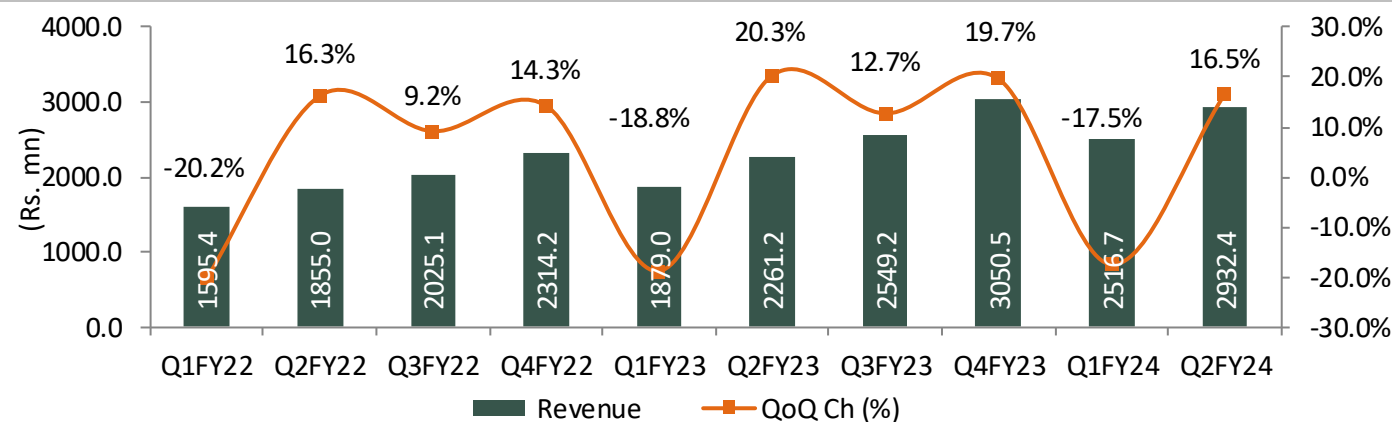
Year-end: March	New	FY24F Old	Chg (%)	New	FY25F Old	Chg (%)
Revenue (Rs mn)	13,097	12,250	6.9%	16,327	15,001	8.8%
EBIT	2,986	2,587	15.4%	3,495	3,188	9.6%
<i>EBIT margin (%)</i>	22.8%	21.10%	170 bps	21.4%	21.30%	10 bps
EPS (Rs)	38.2	33.5	14.2%	44.0	40.7	8.1%

Source: Company; IDBI Capital Research

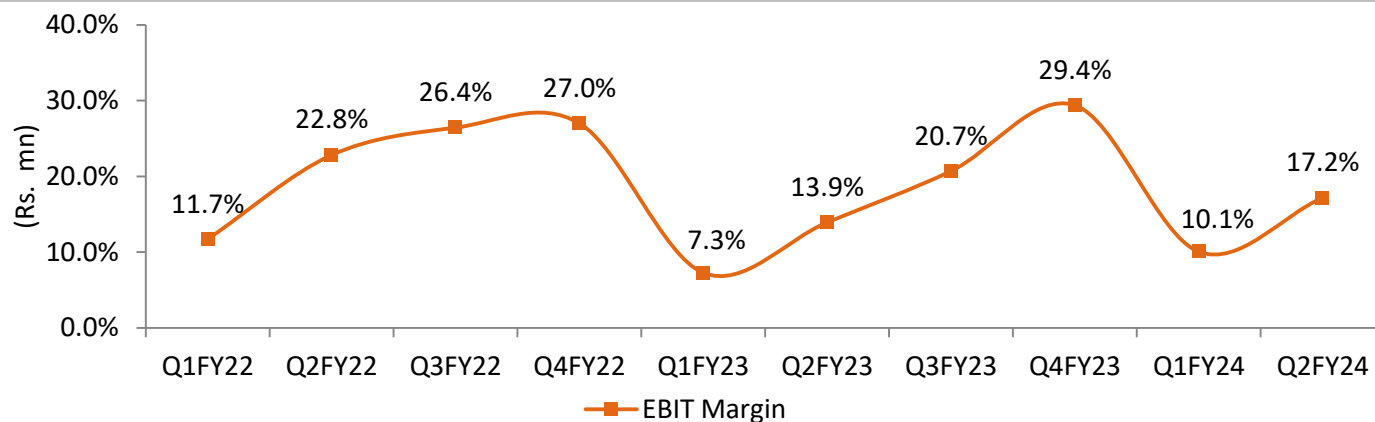
Exhibit 3: Actual vs. estimates

Year to March	Q2FY24	Q2FY24E	Variance (%)
Revenue (Rs mn)	2,932	2,940	-0.2%
EBIT (Rs mn)	504	451	11.7%
<i>EBIT margin (%)</i>	17.2%	15.3%	190 bps
Recurring PAT (Rs mn)	478	432	10.63%
<i>Recurring PAT margin (%)</i>	16.3%	14.7%	160 bps
EPS (Rs)	6.7	6.1	10.6%

Source: Company; IDBI Capital Research

Exhibit 4: Q2FY24 Revenue growth was inline with our estimates.

Source: Company; IDBI Capital Research

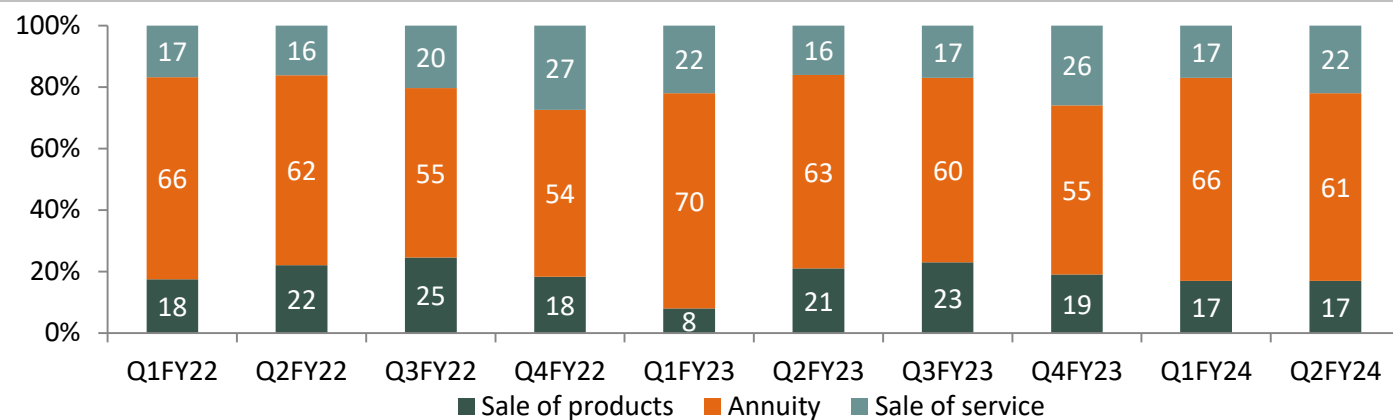
Exhibit 5: Q2FY24 EBIT margin improved by 710 bps QoQ

Source: Company; IDBI Capital Research

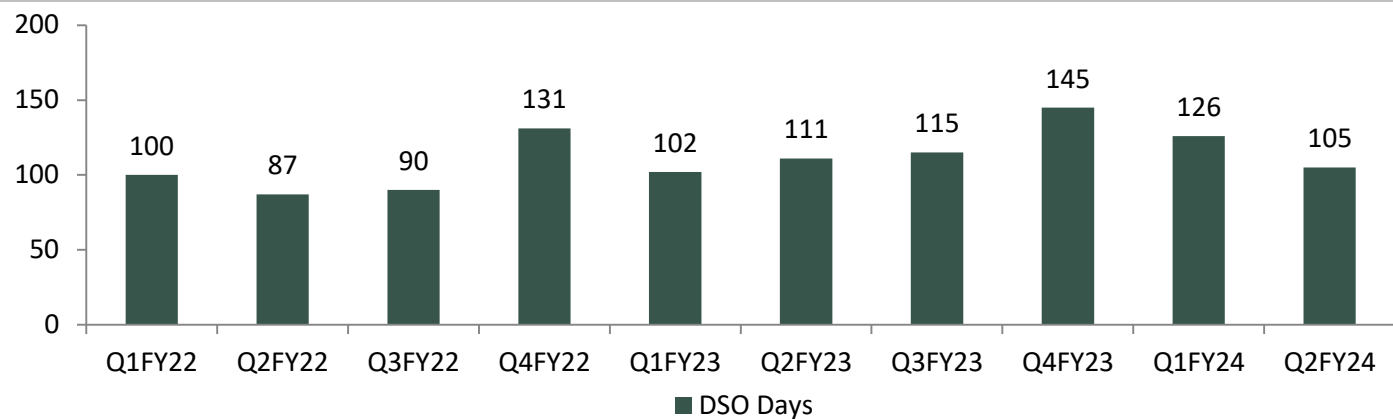
Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (%)	YoY growth (%)
	Total revenue	16.5%	30%
Geography			
India	31.7	20.1	37.9
EMEA	33.9	20.5	34.4
APAC	11.6	15.4	2.2
USA	22.8	7.3	29.9
Verticals			
Banking	74.0	28.7	54.8
Govt/PSU	8.0	33.2	-30.8
BPO/IT	1.0	(41.7)	-67.6
Insurance	5.0	(16.8)	-7.4
Healthcare	6.0	16.5	29.7
Others	6.0	(36.4)	29.7

Source: Company; IDBI Capital Research

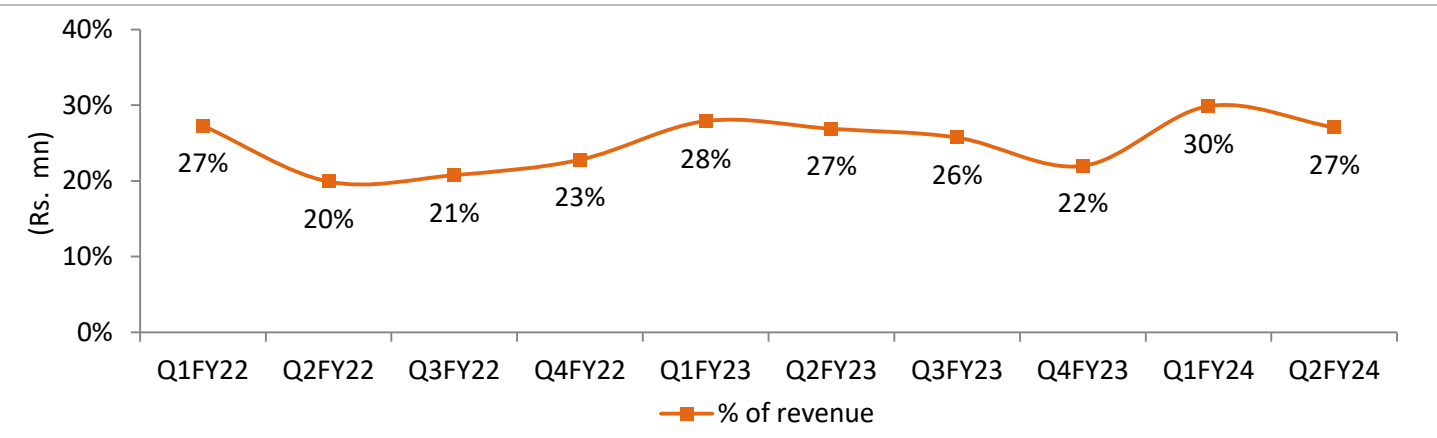
Exhibit 7: Share of annuity revenue

Source: Company; IDBI Capital Research

Exhibit 8: Trend of DSO (days)

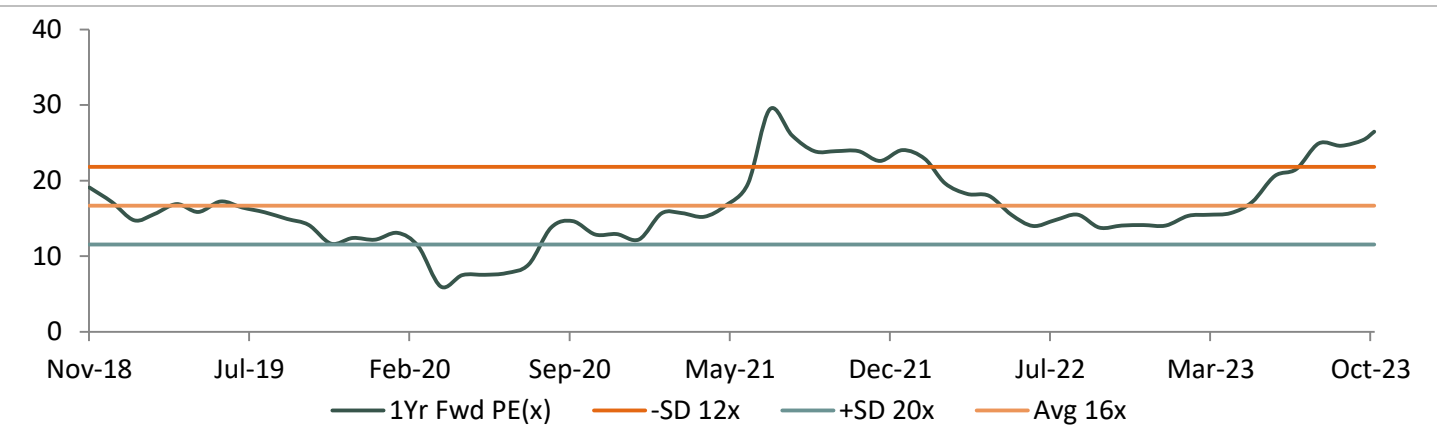
Source: Company; IDBI Capital Research

Exhibit 9: Admin expenses as a % of revenue



Source: Company; IDBI Capital Research

Exhibit 10: PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	6,608	6,726	7,790	9,740	13,097	16,327
<i>Change (yoy, %)</i>	6.5	2	16	25	34	25
Operating expenses	(5,562)	(4,807)	(5,843)	(7,618)	(9,836)	(12,531)
EBITDA	1,046	1,919	1,947	2,122	3,261	3,796
<i>Change (yoy, %)</i>	-18.1	83	1	9	54	16
<i>Margin (%)</i>	15.8	28.5	25.0	21.8	24.9	23.3
Depreciation	(199)	(201)	(176)	(247)	(274)	(301)
EBIT	847	1,718	1,770	1,875	2,986	3,495
Interest paid	(109)	(56)	(35)	(43)	(46)	(46)
Other income	210	150	299	340	442	468
Pre-tax profit	947	1,812	2,035	2,173	3,383	3,917
Tax	(220)	(547)	(392)	(413)	(660)	(783)
<i>Effective tax rate (%)</i>	23.2	30.2	19.3	19.0	19.5	20.0
Minority Interest	-	-	-	-	-	-
Net profit	727	1,265	1,642	1,760	2,723	3,133
Exceptional items	-	-	-	-	-	-
Adjusted net profit	727	1,265	1,642	1,760	2,723	3,133
<i>Change (yoy, %)</i>	(28.8)	74	30	7	55	15
EPS	10.5	18.3	23.6	25.3	39.2	45.1
Dividend per sh	3.6	2.0	3.5	4.5	9.8	11.3
<i>Dividend Payout %</i>	34.6	11.1	14.9	18	25	25

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	5,491	6,657	8,114	9,768	11,810	14,160
Share capital	691	693	695	697	697	697
Reserves & surplus	4,800	5,964	7,419	9,071	11,113	13,463
Total Debt	1,210	425	611	690	690	690
Other liabilities	1,009	1,039	1,260	1,680	1,680	1,680
Curr Liab & prov	1,001	1,085	1,128	1,284	1,418	1,573
Current liabilities	960	1,039	1,063	1,189	1,291	1,414
Provisions	41	46	65	95	127	159
Total liabilities	3,220	2,549	2,999	3,654	3,788	3,943
Total equity & liabilities	8,711	9,206	11,113	13,422	15,598	18,103
Net fixed assets	2,211	2,049	2,299	2,445	2,394	2,337
Investments	-	-	-	-	-	-
Other non-curr assets	464	666	1,306	2,700	2,700	2,700
Current assets	6,036	6,490	7,508	8,277	10,505	13,066
Inventories	-	-	-	-	-	-
Sundry Debtors	2,694	2,385	2,789	3,882	5,203	6,039
Cash and Bank	1,653	2,417	2,759	2,083	2,938	4,613
Loans and advances	774	833	926	1,315	1,315	1,315
Total assets	8,711	9,206	11,113	13,422	15,598	18,103

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	947	1,812	2,035	2,173	3,383	3,917
Depreciation	36	55	123	247	274	301
Tax paid	(317)	(291)	(493)	(402)	(660)	(783)
Chg in working capital	(234)	166	(351)	(1,407)	(1,187)	(681)
Other operating activities	-	-	-	(281)	(36)	(6)
Cash flow from operations (a)	432	1,742	1,314	329	1,774	2,748
Capital expenditure	(725)	106	(373)	(393)	(223)	(245)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	-	(350)	-	-
Cash flow from investing (b)	(725)	106	(373)	(743)	(223)	(245)
Equity raised/(repaid)	6	2	2	1	-	-
Debt raised/(repaid)	236	(785)	186	78	-	-
Dividend (incl. tax)	(252)	(140)	(245)	(315)	(681)	(783)
Chg in minorities	-	-	-	-	-	-
Other financing activities	164	(160)	(543)	(30)	(15)	(44)
Cash flow from financing (c)	154	(1,083)	(599)	(265)	(696)	(827)
Net chg in cash (a+b+c)	(138)	765	342	(679)	856	1,675

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	79.6	96	117	141	170	204
Adj EPS (Rs)	10.5	18.3	23.6	25.3	39.2	45.1
Adj EPS growth (%)	-28.5	73	29	7	55	15
EBITDA margin (%)	15.8	28.5	25.0	21.8	24.9	23.3
Pre-tax margin (%)	14.3	26.9	26.1	22.3	25.8	24.0
Net Debt/Equity (x)	-0.1	-0.3	-0.3	-0.1	-0.2	-0.3
ROCE (%)	11.8	22	20	17	23	23
ROE (%)	13.9	21	22	20	25	24

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.8	0.9	1.0
Leverage factor (x)	1.5	1.5	1.4	1.4	1.3	1.3
Net margin (%)	11.0	18.8	21.1	18.1	20.8	19.2

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	149	129	131	145	145	135
Payable days	18	17	23	17	17	17

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	98.7	57.0	44.1	41.1	26.6	23.1
Price/Book value (x)	13.1	10.8	8.9	7.4	6.1	5.1
EV/Net sales (x)	10.8	10.4	9.0	7.3	5.3	4.2
EV/EBITDA (x)	68.2	36.5	36.1	33.4	21.5	18.0
Dividend Yield (%)	0.4	0.2	0.3	0.4	0.9	1.1

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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