

Newgen Software Technologies BUY

Gen AI and India key positives

Summary

We met Newgen management and the key highlight was that the company is seeing healthy traction in India. In addition the company is able to expand markets & solution outside India based on experience in India. Apart from India the company believes AI will be key driver going forward (expected to grow at a CAGR of 48% by 2030). To capture this opportunity the company has launched a Gen AI based product (Newgen Marvin). We believe Middle East will also drive growth. Further, we expect H2 (average 36% YoY growth) to be better than H1 (average 32% YoY growth). We now expect PAT CAGR of 34% over FY23-26E. We have moved to FY26E estimates and maintain 'BUY' rating with a TP of Rs. 1,631, valuing it at 27x PE on FY26E EPS.

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.
- **Newgen digital transformation partner:** Newgen has 100+ processes spanning across 10 verticals in Enterprise segments. The company has 12+ ready to deploy products in Enterprise like accounts payable, procurement, vendor management. In addition, the company has 40+ solution in Insurance and banking spanning across customer on boarding, retail lending, trade finance, underwriting claims, agent management and claims management.

TP	Rs1,631
CMP	Rs1,387
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	14.7	60.8	287.3
Rel to Sensex	9.8	58.0	280.6

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	39	48	60
Consensus	34	41	51
% difference	15.2	16.9	17.9

Key Stock Data	
Bloomberg/Reuters	NEWGEN IN/NEWG.BO
Sector	IT Services
Shares o/s (mn)	70
Market cap. (Rs mn)	97,218
3-m daily average value (Rs mn)	17.5
52-week high / low	Rs1,399 / 329
Sensex / Nifty	66,902 / 20,097

Shareholding Pattern (%)	
Promoters	55.2
FII	15.9
DII	3.5
Public	25.4

Financial snapshot

	(Rs mn)				
Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,790	9,740	13,097	16,613	20,729
Change (yoy, %)	16	25	34	27	25
EBITDA	1,947	2,122	3,261	4,067	5,008
Change (yoy, %)	1	9	54	25	23
EBITDA Margin(%)	25.0	21.8	24.9	24.5	24.2
Adj.PAT	1,642	1,760	2,723	3,350	4,200
EPS (Rs)	24	25	39	48	60
Change (yoy, %)	29.3	7.3	54.7	23	25
PE(x)	58.8	54.8	35.4	29	23
Dividend Yield (%)	0.3	0.3	0.7	1	1
EV/EBITDA (x)	48.5	44.8	28.9	22.7	17.9
RoE (%)	22.2	19.7	25.2	26	23
RoCE (%)	19.6	17.0	23	24	22

Source: IDBI Capital Research;

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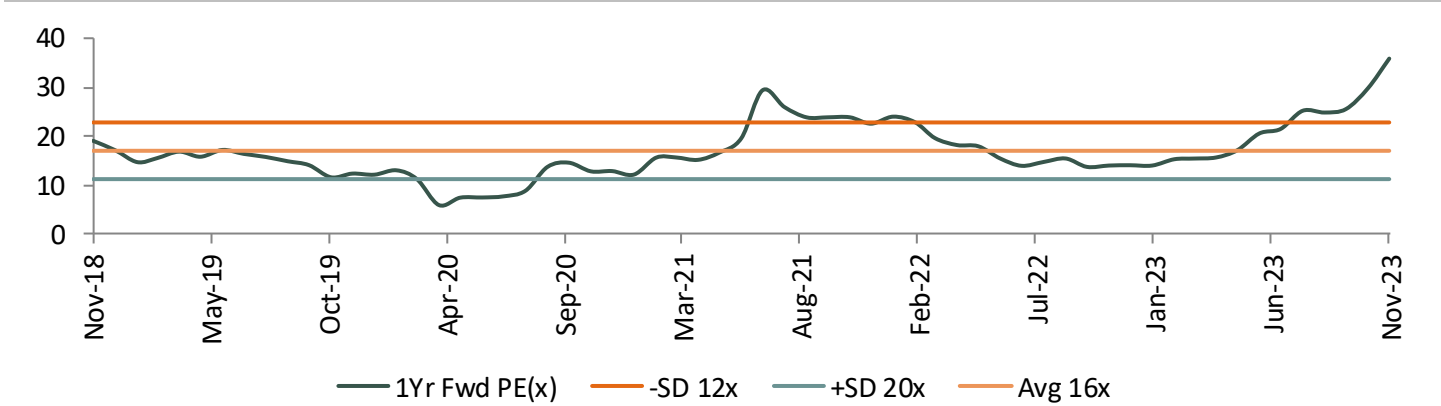
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Other highlights

- Growth in BFSI sector will lead by Hyper-personalization. Further we believe Newgen's Marvin platform will help in hyper-personalization of customers. Company stated that customers expect personalization and uniqueness for their banking needs. NewgenOne Marvin is a Gen AI platform focused on customer experience, operational efficiency & business innovation.
- Company re-iterated the emergence of AI & Gen AI in the world and especially in the BFSI segment. Management stated that Gen AI will be growing at the CAGR of 48% by 2030. Newgen Banking AI is contributing in the growth of Gen AI by way of 1) Big data based 2) AI/ML model 3) Frequently refreshed/recalibrated models 4) Explainable AI- features & predictors.
- Newgen Banking AI is focused on Maximizing customer value & experience by 1) Acquiring more behavioral segments, prospects, cross sell models, personalized credit decisioning 2) Engage in predictive CLV, increase spending on cards, personalized marketing 3) Retain & grow on personalised communication, churn prediction & management, early warning system, collections risk management & best action for customer support.
- NewgenOne Data Science platform is focused on Building & deploying unified low code platform for easy user interface. It is a flexible deployment of on premise & cloud which will enhance the customer experience. It is a platform of 1) Data preparation and feature engineering 2) AI/ML development 3) Automated Data science 4) Machine Learning operation(ML ops).
- Update for the year 2023 – Marquee wins – 1) Agricultural lending project with the largest bank(1.5lakh cr book size) 2) MSME platform integrations with India's top 3 banks 3) Newgen cloud deployment at global auto maker – Industry's first automation 4) Claims & CCM at leading private LI and public GI company 5) AP automation with the largest Healthcare co.
- Newgen Software as the Digital Transformation Partner in the BFSI segment offers 1) Integrated ecosystem(CRM, LMS, KYC, Payment Gateway) 2) Customer experience(Straight through process. Hyper personalization) 3) Pre built AI models(credit risk Decisioning, Fraud Detection) 4) Product portfolio (Retail Lending, Out of box products, Trade finance).

- Newgen Software as the digital transformation partner in the enterprise segment offers 1) Integrated Ecosystem (SAP, Oracle, Impulse, MS Dynamics, Salesforce, payment gateway) 2) Customer Experience (Strategic transformation, Last mile automation) 3) Empowered Automation (reactive to proactive, Prescriptive to predictive, Outcome based automation) 4) Product portfolio (Ready to deploy products, Procurement, payables, Vendor management across all verticals).
- Newgen Software as the Digital Transformation Partner in the Insurance segment offers 1) Integrated Ecosystem (Regulator, Network labs, RTD, Social media, CRM) 2) Pre-built AI models (Mortality prediction, Claim reserving, Fraud detection, retention model) 3) Product portfolio (New business, Underwriting, Claims management, Policy serving, etc, LOBs – Retail, Life/health, commercial, Speciality).
- Recognition – Gartner’s market Guide for Accounts payable Invoice Automation solutions.

Exhibit 1: PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	6,726	7,790	9,740	13,097	16,613	20,729
<i>Change (yoy, %)</i>	1.8	16	25	34	27	25
Operating expenses	(4,807)	(5,843)	(7,618)	(9,836)	(12,545)	(15,721)
EBITDA	1,919	1,947	2,122	3,261	4,067	5,008
<i>Change (yoy, %)</i>	83.5	1	9	54	25	23
<i>Margin (%)</i>	28.5	25.0	21.8	24.9	24.5	24.2
Depreciation	(201)	(176)	(247)	(274)	(301)	(370)
EBIT	1,718	1,770	1,875	2,986	3,766	4,637
Interest paid	(56)	(35)	(43)	(46)	(46)	(46)
Other income	150	299	340	442	468	658
Pre-tax profit	1,812	2,035	2,173	3,383	4,188	5,249
Tax	(547)	(392)	(413)	(660)	(838)	(1,050)
<i>Effective tax rate (%)</i>	30.2	19.3	19.0	19.5	20.0	20.0
Minority Interest	-	-	-	-	-	-
Net profit	1,265	1,642	1,760	2,723	3,350	4,200
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,265	1,642	1,760	2,723	3,350	4,200
<i>Change (yoy, %)</i>	73.9	30	7	55	23	25
EPS	18.3	23.6	25.3	39.2	48.2	60.4
Dividend per sh	2.0	3.5	4.5	9.8	12.1	15.1
<i>Dividend Payout (%)</i>	11.1	14.9	17.9	25	25	25

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	6,657	8,114	9,768	11,810	14,323	18,522
Share capital	693	695	697	697	697	697
Reserves & surplus	5,964	7,419	9,071	11,113	13,626	17,826
Total Debt	425	611	690	690	690	690
Other liabilities	1,039	1,260	1,680	1,680	1,680	1,680
Curr Liab & prov	1,085	1,128	1,284	1,418	1,576	1,762
Current liabilities	1,039	1,063	1,189	1,291	1,415	1,560
Provisions	46	65	95	127	162	202
Total liabilities	2,549	2,999	3,654	3,788	3,947	4,132
Total equity & liabilities	9,206	11,113	13,422	15,598	18,269	22,654
Net fixed assets	2,049	2,299	2,445	2,394	2,342	2,282
Investments	-	-	-	-	-	-
Other non-curr assets	666	1,306	2,700	2,700	2,700	2,700
Current assets	6,490	7,508	8,277	10,505	13,228	17,672
Inventories	-	-	-	-	-	-
Sundry Debtors	2,385	2,789	3,882	5,203	6,144	7,667
Cash and Bank	2,417	2,759	2,083	2,938	4,665	7,522
Loans and advances	833	926	1,315	1,315	1,315	1,315
Total assets	9,206	11,113	13,422	15,598	18,269	22,654

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,812	2,035	2,173	3,383	4,188	5,249
Depreciation	55	123	247	274	301	370
Tax paid	(291)	(493)	(402)	(660)	(838)	(1,050)
Chg in working capital	166	(351)	(1,407)	(1,187)	(783)	(1,337)
Other operating activities	-	-	(281)	(37)	(11)	986
Cash flow from operations (a)	1,742	1,314	329	1,773	2,857	4,219
Capital expenditure	106	(373)	(393)	(223)	(249)	(311)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	(350)	-	-	-
Cash flow from investing (b)	106	(373)	(743)	(223)	(249)	(311)
Equity raised/(repaid)	2	2	1	-	-	-
Debt raised/(repaid)	(785)	186	78	-	-	-
Dividend (incl. tax)	(140)	(245)	(315)	(681)	(838)	(1,050)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(160)	(543)	(30)	(15)	(44)	-
Cash flow from financing (c)	(1,083)	(599)	(265)	(696)	(882)	(1,050)
Net chg in cash (a+b+c)	765	342	(679)	855	1,727	2,858

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	96.1	117	141	170	206	266
Adj EPS (Rs)	18.3	23.6	25.3	39.2	48.2	60.4
Adj EPS growth (%)	73.2	29	7	55	23	25
EBITDA margin (%)	28.5	25.0	21.8	24.9	24.5	24.2
Pre-tax margin (%)	26.9	26.1	22.3	25.8	25.2	25.3
Net Debt/Equity (x)	-0.3	-0.3	-0.1	-0.2	-0.3	-0.4
ROCE (%)	21.7	20	17	23	24	22
ROE (%)	20.8	22	20	25	26	23

DuPont Analysis

Asset turnover (x)	0.8	0.8	0.8	0.9	1.0	0.9
Leverage factor (x)	1.5	1.4	1.4	1.3	1.3	1.2
Net margin (%)	18.8	21.1	18.1	20.8	20.2	20.3

Working Capital & Liquidity ratio

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

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	76.0	58.8	54.8	35.4	28.8	23.0
Price/Book value (x)	14.4	11.9	9.9	8.2	6.7	5.2
EV/Net sales (x)	14.0	12.1	9.8	7.2	5.6	4.3
EV/EBITDA (x)	49.1	48.5	44.8	28.9	22.7	17.9
Dividend Yield (%)	0.1	0.3	0.3	0.7	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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