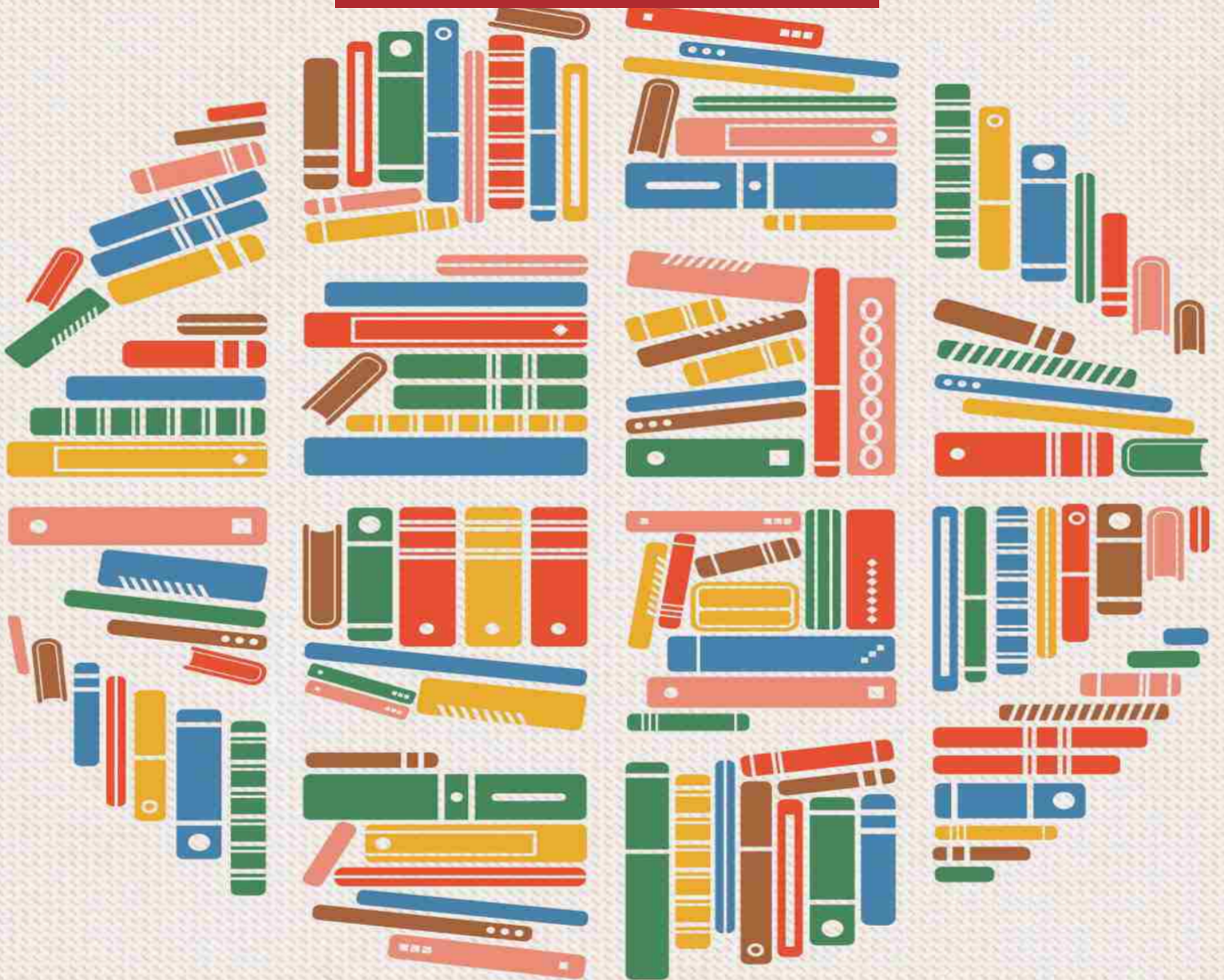


Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Resilient business model in place...

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

Key triggers for future price performance:

- Strong logo addition and increasing annuity mix (recurring business) from existing clients would aid revenue growth as we baked in 17.2% CAGR revenue growth over FY22-24. We expect the company to return to historical 70-80 logo additions/year as travel opens up. This coupled with subscription (SaaS + ATS/AMC) growth of 31% CAGR over FY22-24 is expected to drive annuity (SaaS + ATS/AMC+Support) revenues, which are expected to grow at 21.8% CAGR in the same period and forms 63% of the revenue mix
- The company is working on 70-80 cases as far as GSI opportunity is concerned. Depending on the scenario analysis we did, it has an incremental revenue opportunity of ₹ 79-131 crore in the next two years over and above its normal revenue run rate
- Strong focus on R&D investments to stay competitive. Newgen now has 23 patent grants across India and US out of 43 patents filed so far. Its R&D team has grown to about 580 employees in FY22 (vs ~250 in FY18) and R&D investments as percentage of sales is 10.2% in FY22 vs. 7.2% in FY18. The company also acquired recently 'Number Theory' to strengthen its platform with AI/ML modelling and data analytics capability

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

- We initiate coverage under Stock Tales format with a **BUY** rating and a target price of ₹ 440

Target Price and Valuation: We value Newgen at 14x FY24 EPS to arrive at a target price of ₹ 440 per share

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

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	621	661	673	779	12.8	911	1,071	17.2
EBITDA	128	105	192	195	22.6	228	268	17.3
EBITDA Margins (%)	20.6	15.8	28.5	25.0		25.0	25.0	
Net Profit	102	73	126	164	26.2	189	218	15.3
EPS (₹)	13.4	10.5	18.1	23.5		27.0	31.2	
P/E	24.1	33.6	19.4	15.0		13.1	11.3	
RoNW (%)	20.6	13.2	19.0	20.2		19.3	18.5	
RoCE (%)	23.9	15.8	26.4	23.7		23.0	22.2	

Source: Company, ICICI Direct Research



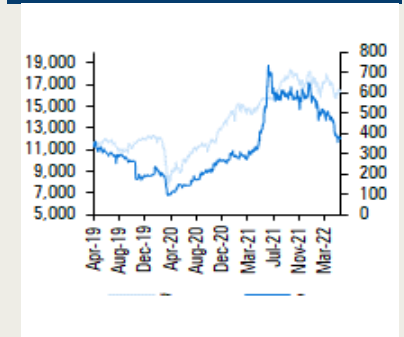
Particulars

Particular	Amount
Market Cap (₹ Crore)	2,470
Total Debt	-
Cash and Invest (₹ Crore)	368
EV (₹ Crore)	2,102
52 week H/L	754/320
Equity capital	69.5
Face value	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	55.2	55.2	55.2	55.2
FII	20.5	18.5	17.5	15.7
DII	7.5	7.2	7.6	7.5
Public	16.8	19.2	19.8	21.7

Price Chart



Key risks

- GSI opportunity does not materialise as per expectations
- Continued high costs on employees/travel impacting margin

Research Analyst

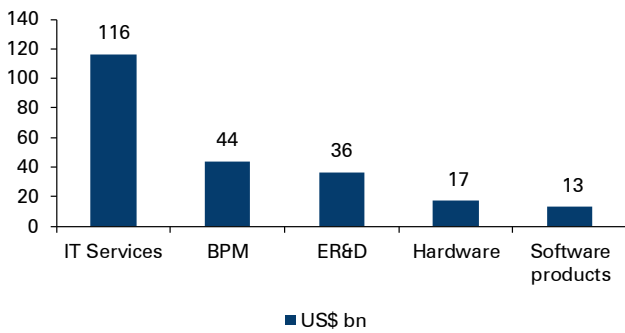
Sameer Pardikar
sameer.pardikar@icicisecurities.com

Software products pie expected to grow from current 5.8% to 8.6% in FY26

As per Nasscom, the Indian technology industry crossed the US\$200 billion (bn) revenue mark and is now at US\$227 bn in FY22. If we break it down into various components, then IT services forms a major chunk i.e. US\$116 bn (51.3% mix). It is followed by Business Process Management (BPM), ER&D, Hardware, which forms 19.5%, 15.9%, 7.5% of the revenue mix, respectively. Software products form ~5.8% of the revenue mix i.e. US\$13 bn.

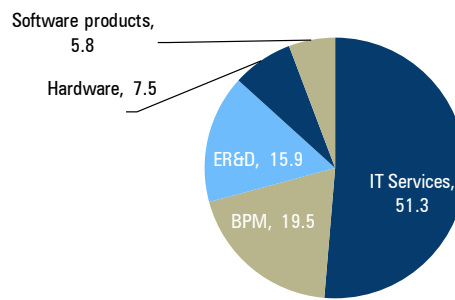
Historically, from FY1990 to FY22, software products revenue grew at 21.3% CAGR i.e. from US\$40 mn to US\$13 bn now. As per Nasscom, software products revenue is expected to reach US\$30 bn by FY26 i.e. 23.3% growth over FY22-26. At the same time, the Indian technology industry is expected to reach US\$350 bn by FY26 i.e. 11% CAGR over FY22-26E. Subsequently, the software products pie is expected to reach 8.6% in FY26 from 5.8% in FY22.

Exhibit 1: Indian IT industry at US\$227 bn in FY22



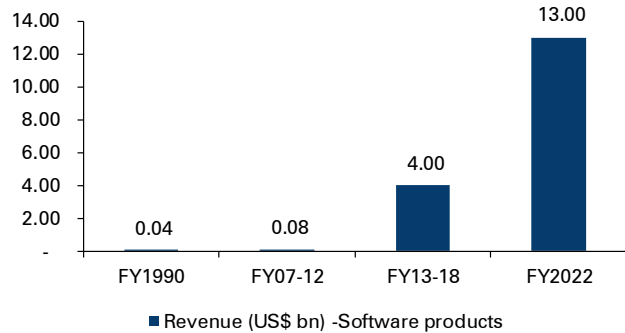
Source: Nasscom, ICICI Direct Research

Exhibit 2: Software products forms 5.8% of pie



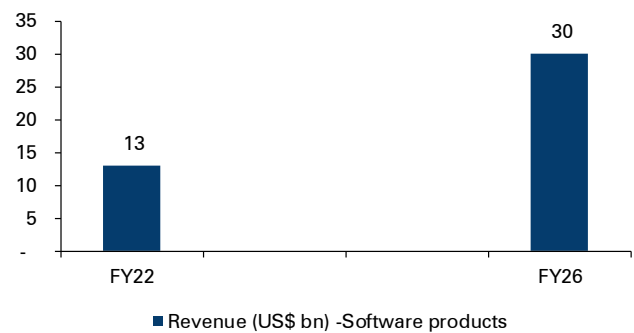
Source: Nasscom, ICICI Direct Research

Exhibit 3: Software products grow 21.3% over FY90-22



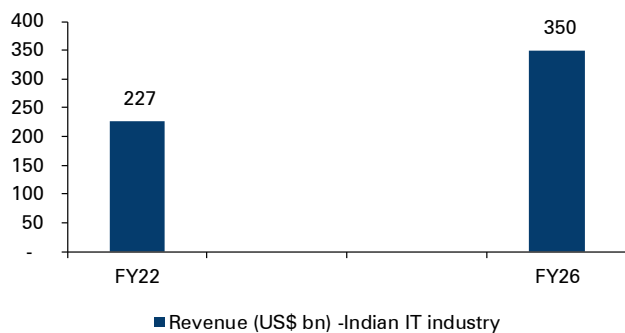
Source: Nasscom, ICICI Direct Research

Exhibit 4: Expected to grow 23.3% over FY22-26



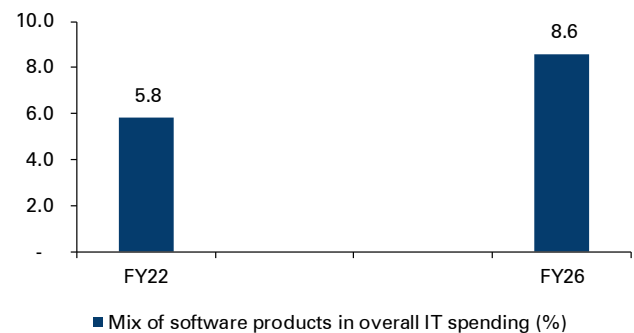
Source: Nasscom, ICICI Direct Research

Exhibit 5: IT industry to grow 11.4%



Source: Company, ICICI Direct Research

Exhibit 6: Resulting software products pie to reach 8.6%

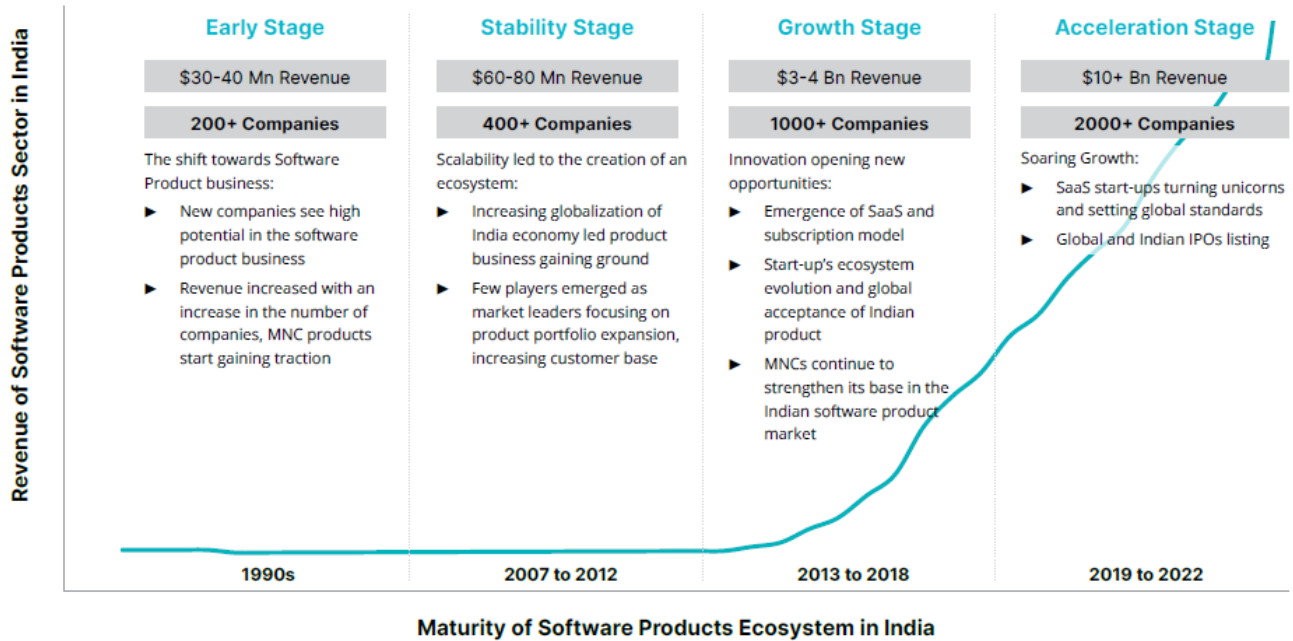


Source: Company, ICICI Direct Research

Landscape of India software product sector

The Indian software market has evolved over the years from a US\$30-40 mn market in 1990s to US\$10+ bn market in 2019-22. The Journey of products sector in India can be bifurcated into four stages from 1990 to 2022, namely early stage, stability stage, growth stage and acceleration stage. As per Nasscom, we are currently in the acceleration stage where the revenues are expected to grow 23.3% over the next four to five years. Number of companies grew 10x from 200 to 2000+ currently during 1990-2022.

Exhibit 7: Evolution of software products market in India



Source: Nasscom, ICICI Direct Research

The following slide depicts software product market in India. The current landscape suggests 2000+ companies, US\$13 bn revenues with employment of 160,000 headcounts across the industry. The market consists of companies like VYMO, Vsoft which are at the lower end of the pyramid (<US\$5 mn revenues) while Newgen, which reported ₹ 779 crore in FY22 revenue competes with players like Ramco, RateGain, Zeta, etc, in the US\$10-100 mn annual revenue run rate bracket. There are large IT companies like TCS, Infosys, HCL Tech, which also have product portfolio and revenue of that unit is ~US\$ 1bn.

Exhibit 8: Current landscape of software products sector in India (figures in US\$ denotes revenue)



Source: Nasscom, ICICI Direct Research

As per Nasscom, US\$13 bn market is can be bifurcated into horizontal and vertical software product market in the ratio of 70:30. The top five horizontal focus area consists of Enterprise customer relationship management software, Cloud enterprise planning, etc (earlier ERP), enterprise cybersecurity software, etc. As per Nasscom.

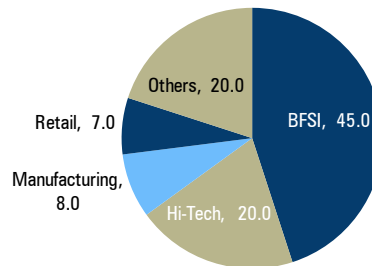
BFSI and Hi-tech remained focus areas vertically as 45% and 20% of revenue, respectively is coming from these verticals. As per Nasscom, US\$9.2 bn was spent on enterprise software in 2021, growing at 16.9% while spent on cloud services was of US\$7.3 bn, which is growing 30%.

Exhibit 9: Top five horizontal focus area



Source: Nasscom, ICICI Direct Research

Exhibit 10: BFSI remains focus area vertically



Source: Nasscom, ICICI Direct Research

What is driving growth?

The software product market has evolved substantially over the last few years. Following factors are driving the growth of software products

- As per Nasscom, global enterprises are embracing software products like Software as a Service (SaaS) with 80% of buyers in mid- size BFSI, Retail, Travel/Tourism and Pharma/Healthcare
- Total >30% spending by large and mid- size enterprises towards digital acceleration aiding the penetration of software products
- Also, >50% adoption, >30% of revenue growth in horizontal products like cybersecurity, CRM and niche products like Low Code No Code (LCNC), etc
- Verticalisation - An area of increased focus for companies to develop vertically focused solutions will help them to tap into \$15 billion opportunities e.g. Entertainment, Energy & utilities, TMT, sports, etc

Exhibit 11: Global enterprises embracing software products

	Mid size BFSI, Retail, Travel/Tourism and Pharma/Healthcare account for 80% of Global Buyers	GCCs building Products for global markets in collaboration with 25-30 start-ups through accelerator programs and Universities	Illustrative
Indian SaaS	<ul style="list-style-type: none"> 70% to 80% adopters from Travel/Tourism, Airlines and Leisure sector Product offers global functionalities and competitive pricing 		
Digital Banking	<ul style="list-style-type: none"> 60% to 70% adopters from Southeast Asia, US, Australia markets Offer partner model along with strong direct sales 		
Cloud Enterprise Solutions	<ul style="list-style-type: none"> 60% to 70% adopters from Mid size Banking, Financial Services & Co-operative Financial units in Malaysia, Indonesia, Singapore Offer partner model along with strong direct sales 		
Banking LCNC/ Enterprise Products	<ul style="list-style-type: none"> 70% to 80% adopters of Digital Banking Solutions from UAE, Southeast Asia, US, Japan FinTech penetration growing across Mid size clients in US and India market 		

Source: Nasscom, ICICI Direct Research

Exhibit 12: Digital acceleration among Indian enterprises aiding penetration of software products

Product businesses from India have followed "Customer Centric Go To Market" solution approach to evolve and grow

New Age and Mid Sized Companies are investing heavily in Cloud and Digital to stay competitive

Breakup of Indian Enterprises, 2021

% Buyers Spend in FY2021

Large Companies
5,000+ Public Companies



30%-40%

Spend by Enterprise Buyers

13.6%¹

Enterprise Software Spend Growth in 2021

\$7.4 Bn¹

Enterprise Software Spend in 2021

35%²

Growth End-user Cloud Spending in 2021

Mid Size Enterprises –
~125,000 Companies
(101 – 1000 Employees)



40%-50%

Spend by New Age Mid Size Buyers

New Age Buyers will drive future Growth of Indian Software Products



SMBs (< 100 Employees)
~75 Million Companies



10%-20%

Spend by SMBs in FY2021

40%-50%

Spending Growth on SaaS Products in FY2021

Source: Nasscom, ICICI Direct Research

Exhibit 13: Verticalisation – US\$15 bn opportunity



FINTECH PRODUCTS

20%-40% ARR

Example – Vymo, PayNearby, Setu, Tookitaki, Vsoft, CRMNEXT



MARTECH PRODUCTS

20%-40% ARR

Example – Netcore, CleverTap, Simplify360, Zoho Marketing Suite



LOGISTICS PRODUCTS

30%-50% ARR

Example – Freight Tiger, Locus, BlackBuck, FarEye, LogiNext



HEALTHTECH PRODUCTS

30%-40% ARR

Example – Innovaccer, CareStack, Zenoti



HOSPITALITY/FIELD MGMT. PRODUCTS

30%-40% ARR

Example – Zenoti, RateGain, Innovapptive, Zinier



MANUFACTURING TECH PRODUCTS

30%-40% ARR

Example – Adobe DAM, Universal Robots, Altizon, Vitrium



EDTECH PRODUCTS

80%-90% ARR

Example – MindTickle, Classplus, ClassPro, Eupheus Learning



B2B AUTOTECH PRODUCTS

60%-80% ARR

Example – Koovers, Zendrive, Xoocar, NetraDyne



B2B GAMING/ ESPORTS PRODUCTS

60%-80% ARR

Example – Techfront, Sportz Interactive, Playboy, Fantain etc.



RETAIL/COMMERCE PRODUCTS

50%-60% ARR

Example – Manthan, Avataar.me, Unbxd, Vue.ai, DataWeave



B2B FOODTECH

40%-50% ARR

Example – HungerBox, Smart Cube, Restaurant365, Ai Palette



KIRANA STORE DIGITALIZATION

50%-60% ARR

Example – Khatabook, LoveLocal, Jumbotail

Source: Nasscom, ICICI Direct Research

Company background

Newgen Software, founded in 1992, is a software products company offering a platform that enables organisations to rapidly develop powerful applications addressing their strategic business needs. The applications created on its platform enable organisations to drive digital transformation and competitive differentiation. This may include automation of routine business functions making them faster, easier and more accurate and increasing the channels or devices through which these functions can be performed.

The three core products of Newgen Digital Automation Platform are Enterprise Content Services (ECM), Low Code Business Process Automation (BPM) and Customer Communication Management (CCM).

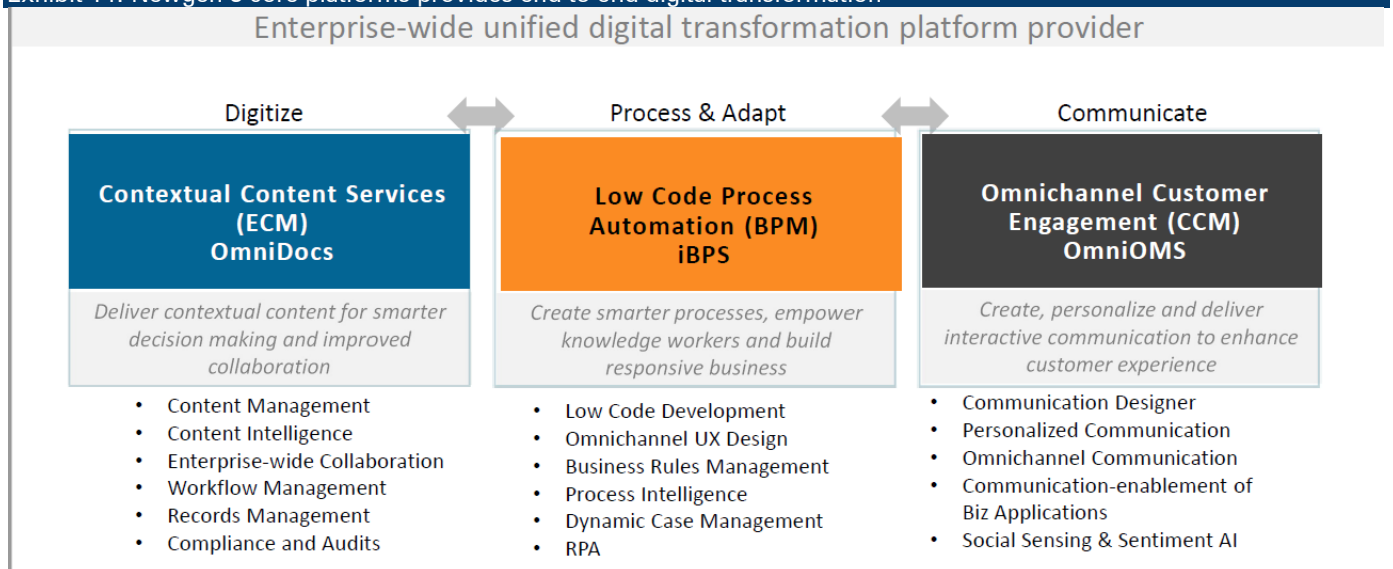
One of the examples, which we could explain these three products is loan process wherein customer has to submit various documents like salary slips, identification documents along with loan application form. These contents are captured through ECM. Managing the workflow around the content like checking eligibility criteria of the applier before approval/rejection of the loan to disbursal is captured through BPM. Communication to the customer regarding statements regarding debit of principal/interest from the account to various channels of sms, email, etc, is captured through CCM.

ECM: Enterprise Content Management platform allows digitisation of enterprise content and information. This platform provides smart tools for enterprises to capture and extract information from various sources, classify, store, archive, retrieve as well as dispose of any content and documents required in day-to-day business operations. It provides the flexibility to access or deliver content over mobile and cloud, creating a highly connected and digital workplace. All the standard document management features are available including audit trails, search, navigation, content classification & reporting.

BPM: Business Process Management is managing the workflow around the content. It is an integrated system, which allows enterprises to manage a complete range of business processes, including designing and modelling flow of work, executing the flow of work through the workflow engine and monitoring the flow of work for future improvement. Work flow management is critical tool as content have to pass through chain of employees for authorisation, approval before the objective met for which the process has been designed. (e.g. loan disbursal).

CCM: Customer communication management is dissemination of the content across multiple channels such as email, web, SMS, print, fax, etc.

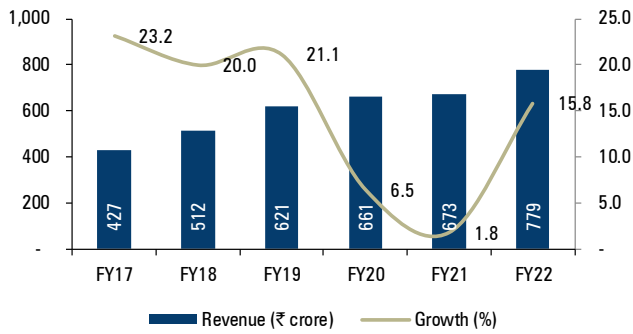
Exhibit 14: Newgen 3 core platforms provides end to end digital transformation



Source: Nasscom, ICICI Direct Research

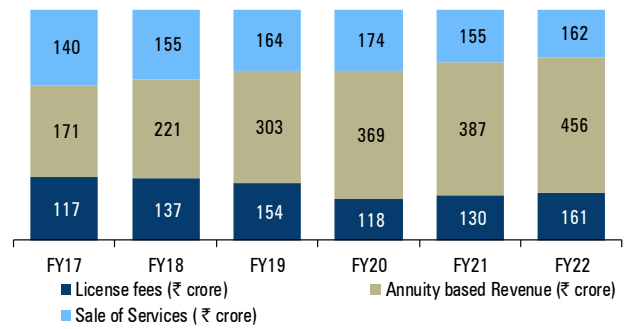
Key historical numbers

Exhibit 15: Revenues grow at 14.4% CAGR over FY17-22



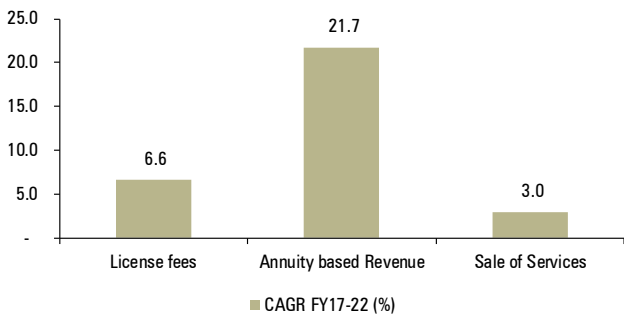
Source: Company, ICICI Direct Research

Exhibit 16: Revenue mix (₹ crore)



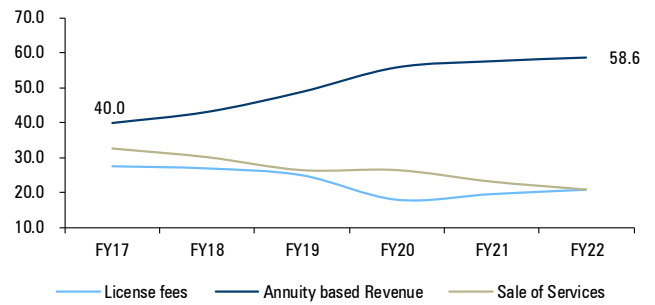
Source: Company, ICICI Direct Research

Exhibit 17: Annuity grows at 21.7% CAGR over FY17-22...



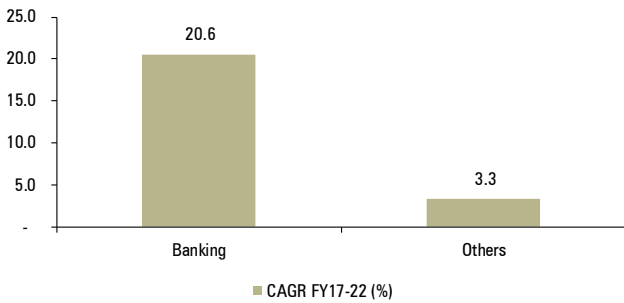
Source: Company, ICICI Direct Research

Exhibit 18: Resulting into ~59% of revenue mix in FY22



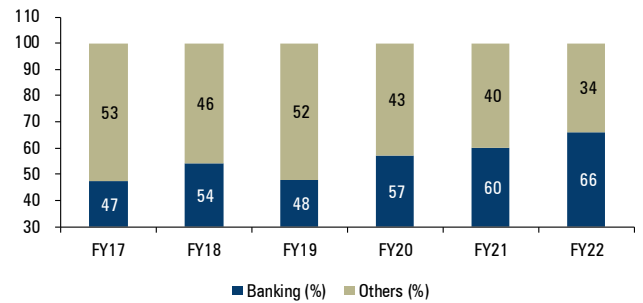
Source: Company, ICICI Direct Research

Exhibit 19: Banking grows 20.6% CAGR over FY17-22...



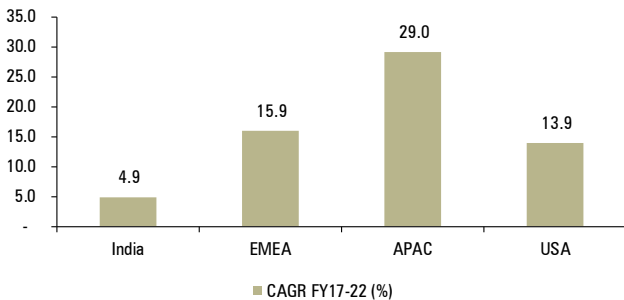
Source: Company, ICICI Direct Research

Exhibit 20: Resulting in 66% of vertical mix in FY22



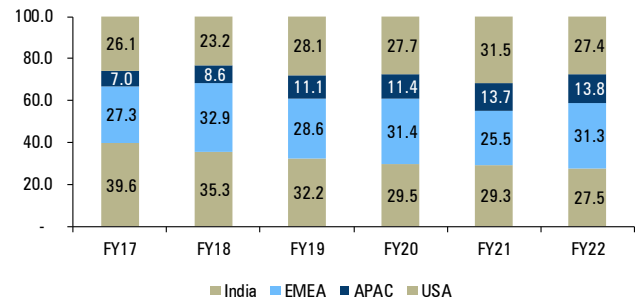
Source: Company, ICICI Direct Research

Exhibit 21: EMEA grows at 15.9% CAGR over FY17-22



Source: Company, ICICI Direct Research

Exhibit 22: Resulting in 31.3% of vertical mix in FY22



Source: Company, ICICI Direct Research

Newgen revenue model

The company generate its revenue from: (i) sale of software products, (ii) annuity based revenue, and (iii) sale of services.

Sale of products (software) includes its revenue from sale of licenses for its software products. The company enter into licensing agreements with its customers for each product whereby their customers are required to pay licensing fees. The licensing fee constitutes a one-time upfront fee on a per-user basis. Additional license fees are payable for an increase in the number of users or for purchase of additional products.

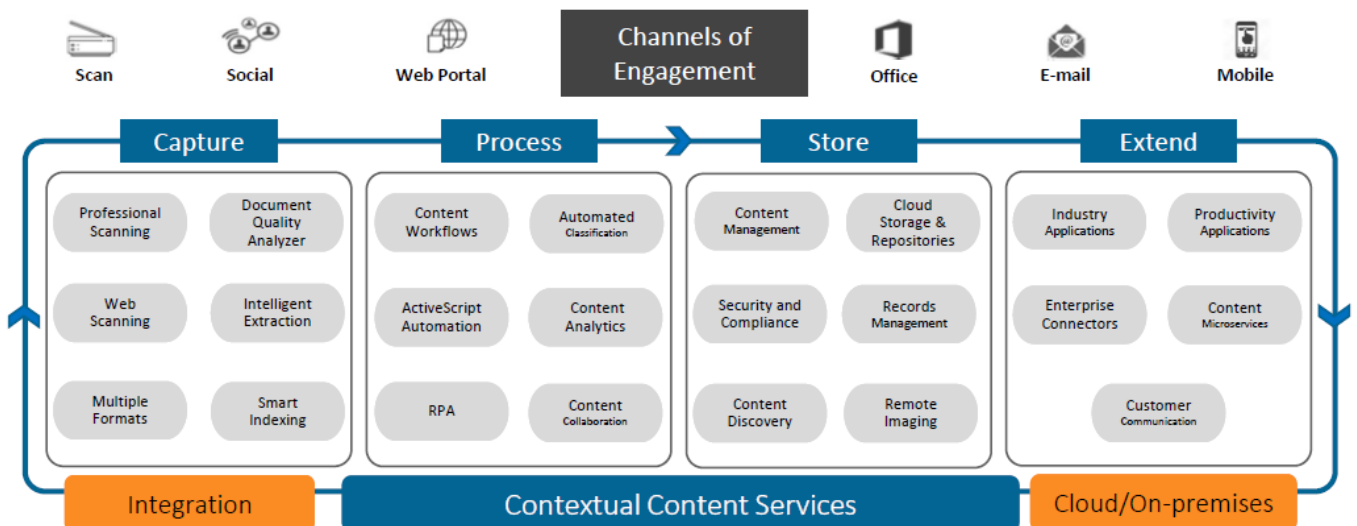
Annuity based revenue includes: (i) revenue from annual maintenance contracts and technical support (ATS/AMC), (ii) revenue from support/development services, and (iii) SaaS revenue. In addition to the licensing agreements, it typically enter into ATS/AMC contracts with the customers, whereby its customers are required to pay support and maintenance fees annually. The company also provides support and development services to its customers and charges fees on a periodic basis. SaaS revenue relates to its customers' use of software functionality in a cloud-based-infrastructure provided by the company and the customers pay them subscription fees on a per user per month (PUPM) model on a monthly, quarterly or an annual basis.

Sale of services includes its revenue from implementation, development and digitisation services. Implementation refers to the service of installing and integrating its products with the customer’s existing platform or system. The company charges an implementation fee based on fixed cost or man-month basis for this service. Development refers to work done for customer based on its specific requirements. The company charge a development fee based on fixed cost or man-month basis. Digitisation services refer to scanning of documents and archival to document management.

NewgenONE platform

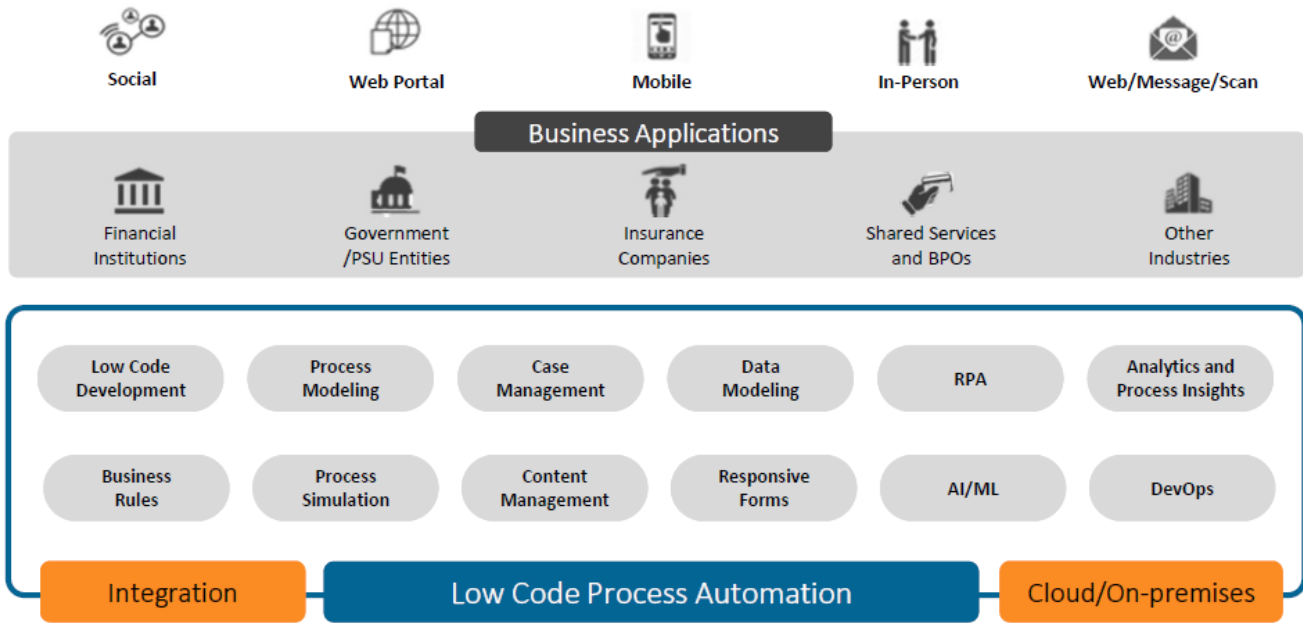
Newgen Software launched [Link](#) a new, comprehensive digital transformation platform, NewgenONE in July 2021. It combines existing process automation, content services, and communication management capabilities into one platform. It is designed to simplify complex business processes, manage unstructured information, and drive customer engagement based on changing demands. The platform enables businesses to leverage low-code to develop and deploy complex, content-driven, and customer-engaging business applications in the cloud. From customer on-boarding to service requests, from lending to underwriting, and many more, NewgenONE unlocks simplicity with speed and agility.

Exhibit 23: Newgen ONE with contextual content services capability



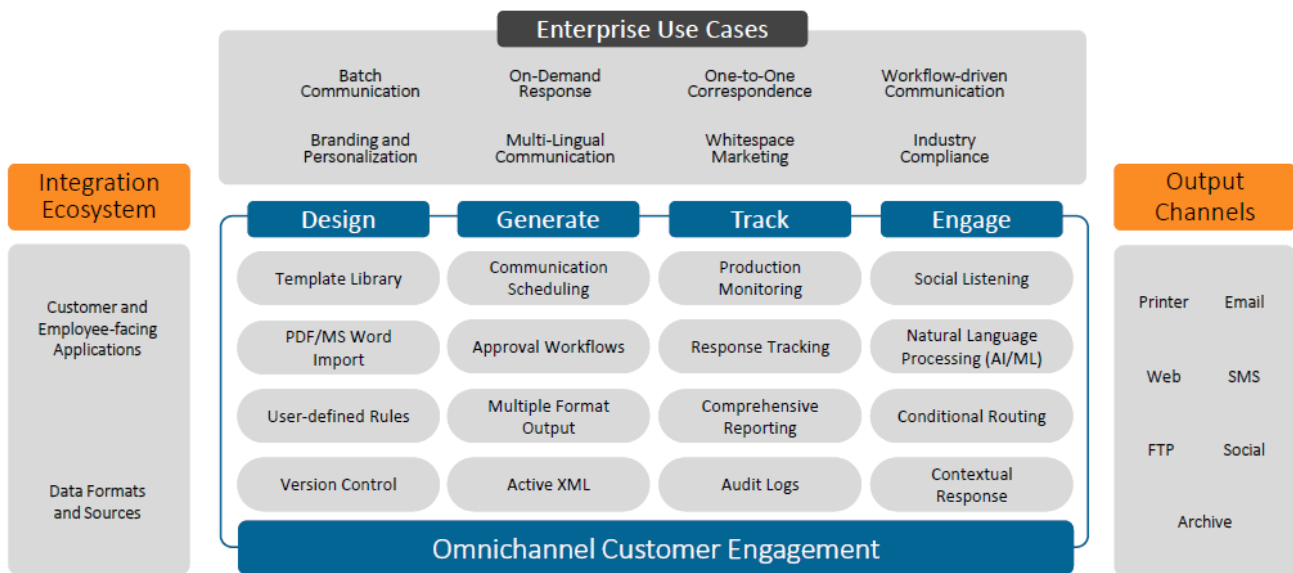
Source: Nasscom, ICICI Direct Research

Exhibit 24: Newgen ONE with low code process automation capability



Source: Nasscom, ICICI Direct Research

Exhibit 25: Newgen ONE with personalised customer engagement capability



Source: Nasscom, ICICI Direct Research

Brief on low code platform on which Newgen operates

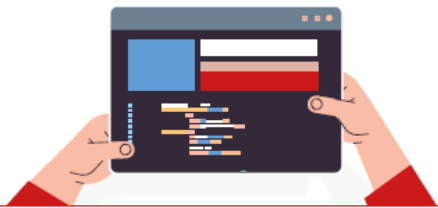
Low code options allow users to design complex applications, without learning complex computer languages. The global low code development platform market size is expected to grow at 28% CAGR from CY20-25 to reach US\$45 bn. Some of the drivers for rapid adoption of low code development platforms in recent years has been i) Increased operational efficiency and device integration by creating apps for mobiles and supporting offline capabilities ii) lower development costs and time, and reduces possible errors caused by manual processes iii) Uses visual, declarative techniques rather than traditional lines of coding iv) shorter low code development cycle i.e. up to two months vs. three to nine months cycle depending on developing basic app to large app (exhibit 18). Exhibit 19 shows pricing across different low code platform, which starts at US\$60 per user per month, which is at the lower end indicated by Newgen (US\$60-180 per month per user).

Exhibit 26: Low code definition

Definitions

01

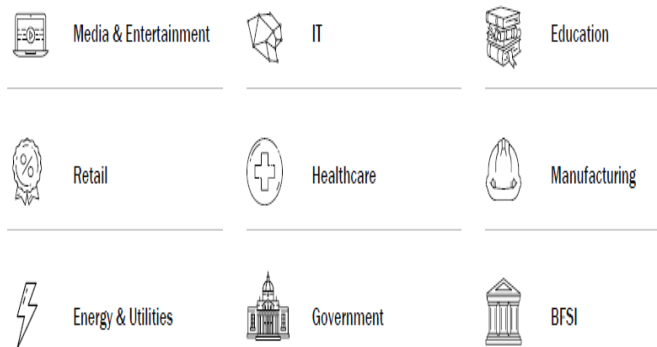
Low Code



Low Code application platform supports rapid application development (RAD), one-step deployment, execution and management using declarative, high-level programming abstractions.

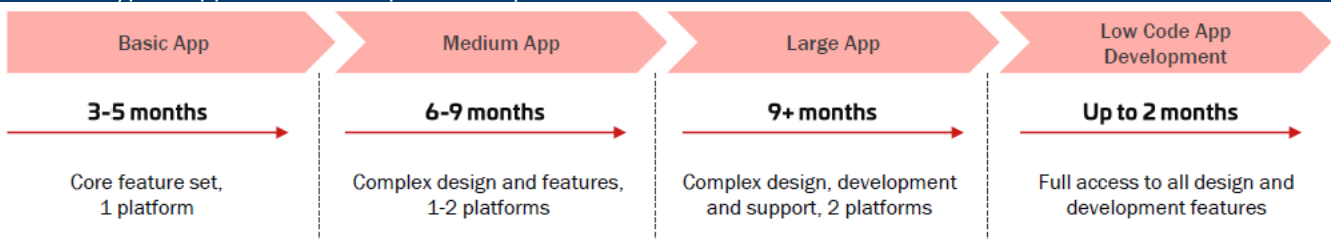
Source: Avendus Low code report, ICICI Direct Research

Exhibit 27: Industries targeted by low code providers



Source: Avendus Low code report, ICICI Direct Research

Exhibit 28: Typical application development lifecycle



Source: Avendus Low code report, ICICI Direct Research

Exhibit 29: Pricing across different low code platforms



- Free for up to 10 users for basic app creation, deployment, and support
- For enterprises, the pricing starts at \$1,875 per month for a single app with automated backups and guaranteed uptime



- Pricing starts at \$1,470 per month billed annually with 10GB storage
- The company also offers a free version for basic users



- One single app that is priced per user
- ~\$60 per user per month



- Pricing starts at \$4,000 for up to 1,000 end-users
- Pricing starts at \$10,000 for unlimited end-users

Source: Avendus Low code report, ICICI Direct Research

Investment Rationale

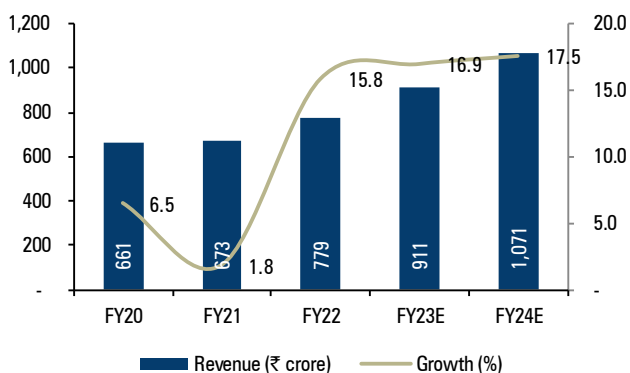
Increasing annuity mix, new logo addition to drive growth

Newgen Software has added 53 logos in FY22. Historically, it was adding 70-80 logos in a year but the logo addition has slowed down in the last couple of years due to i) Covid restriction on travel ii) India business impact due to consolidation of banks (66% vertical mix). The company is now looking to scale up the logo additions, going forward, as travel opens up and indicated that they would like to go back to run rate of 70-80 logo additions in a year, going forward.

Newgen is also focusing on increasing mix of annuity based revenues (recurring business) from its existing clients. As customer relationships mature and deepen, Newgen seeks to maximise its revenues and profitability by expanding the scope of its offerings with the objective of winning more business from customers. Many of its existing customers typically expand their usage by either purchasing additional products or expanding the usage of the product from one location to additional locations in which they operate (consequently, increasing number of users).

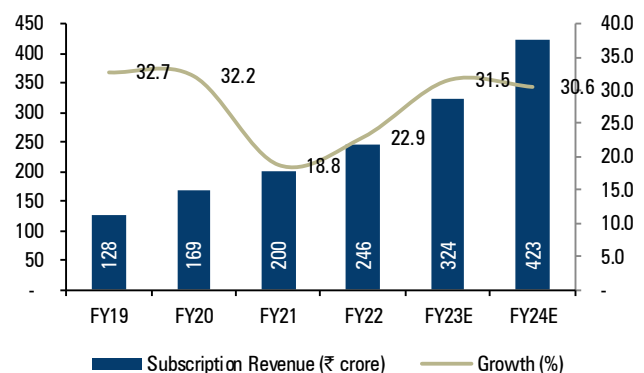
We bake in 17.2% CAGR revenue growth over FY22-24, which would be driven by 31% revenue growth in subscription (SaaS+ ATS/AMC). Subscription revenues would grow on addition of new logos and mining of existing customer relationship. We estimate 10% CAGR growth in support revenues (which is typically billed on additional manpower provides for some of its selected large customers), resulting Annuity (SaaS + ATS/AMC+ Support) revenues to grow 21.8% growth over FY22-24 and forms 63% of the revenue mix.

Exhibit 30: Revenues to grow at 17.2% CAGR over FY22-24



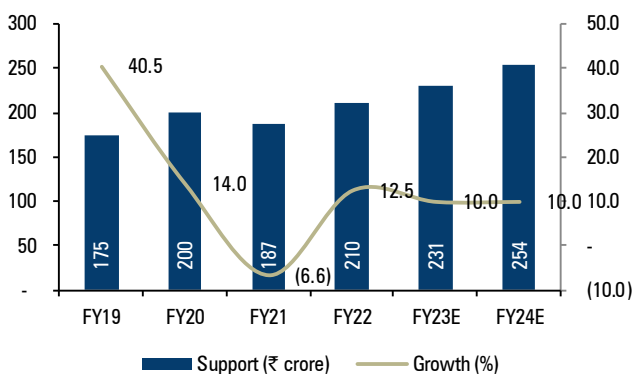
Source: Company, ICICI Direct Research

Exhibit 31: Driven by subscription growth 31% CAGR



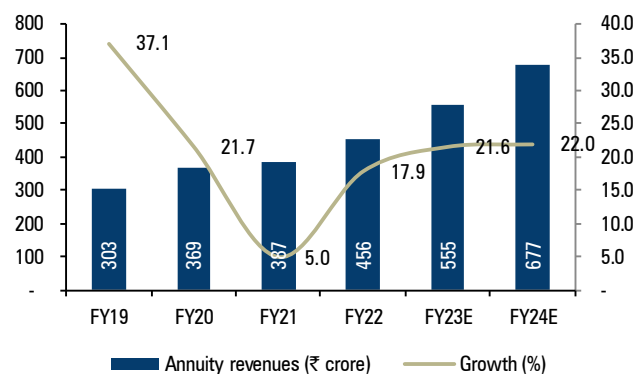
Source: Company, ICICI Direct Research

Exhibit 32: While support to grow at 10% CAGR



Source: Company, ICICI Direct Research

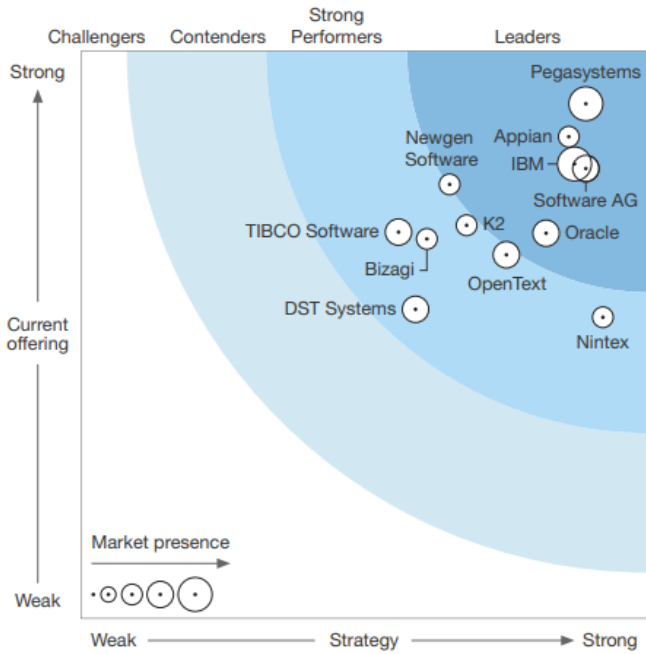
Exhibit 33: Resulting annuity growth of 21.8% CAGR



Source: Company, ICICI Direct Research

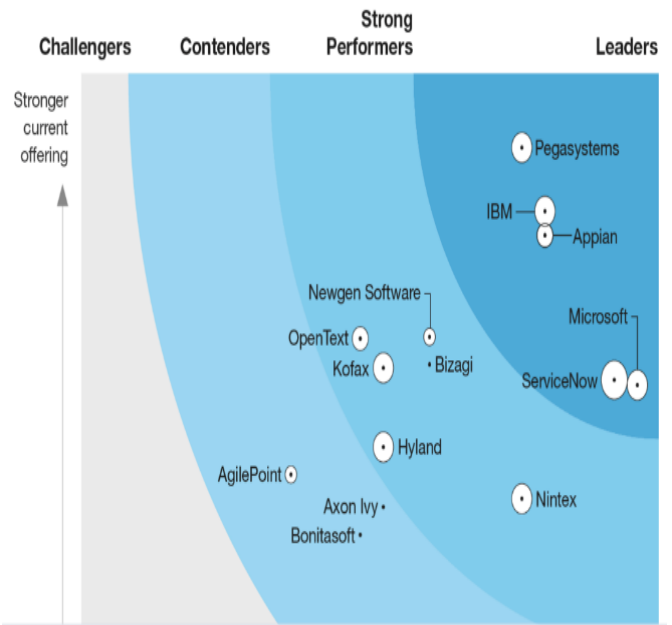
We believe repeat business is also a function of recognition of the company as a strong performer in Forrester Wave report of digital process automation where the company has been recognised in the strong performers category consistently over the last few years.

Exhibit 34: Forrester report Q3 2017



Source: Forrester Wave report for digital process automation, ICICI Direct Research

Exhibit 35: Forrester report Q4 2021

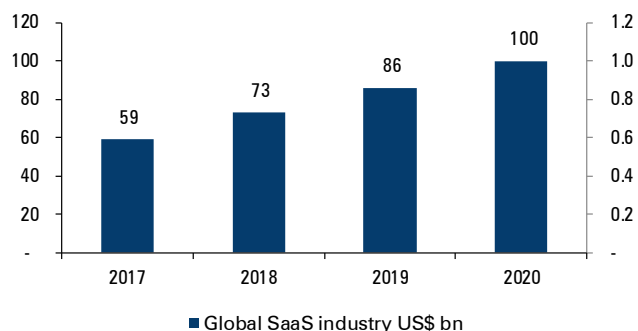


Source: Forrester Wave report for digital process automation, ICICI Direct Research

SaaS, which has formed only 9% of the revenue still has a long runway for growth, which we can pick up from the data points mentioned

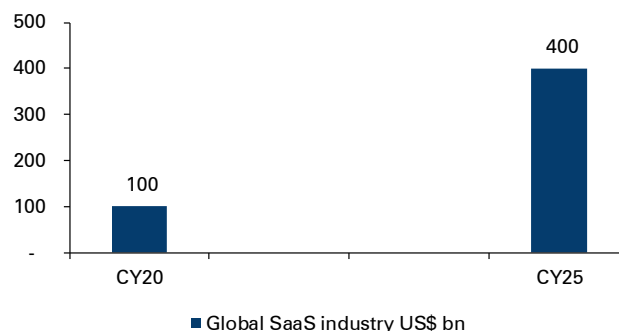
- As per ESDS RHP document, Global Software as a Service (SaaS) market grew at 19.2% CAGR over CY17-20 to reach to US\$100 bn. The global SaaS market is expected to grow 4x to US\$400 bn by CY25. Indian SaaS market grew 27% over FY15-20 while it is expected to grow.4% over FY20-25
- As per ESDS RHP document, some of the growth drivers for SaaS globally includes: i) promotion of SaaS adoption by governments worldwide, ii) data driven decision making culture, iii) rise in consumption based models and iv) deployment of futuristic technologies in SaaS

Exhibit 36: Global SaaS industry grows 19.2% over 2017-20



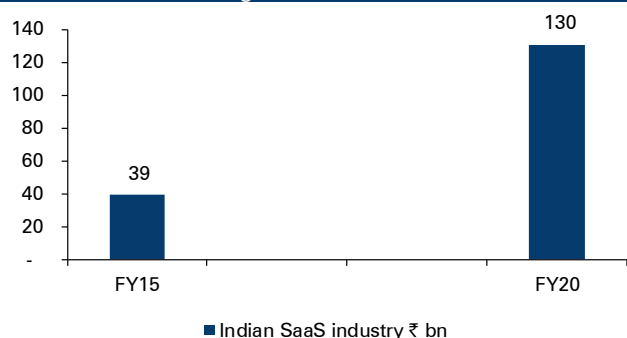
Source: ESDS Software DRHP, ICICI Direct Research

Exhibit 37: While expected to grow 4x by CY25



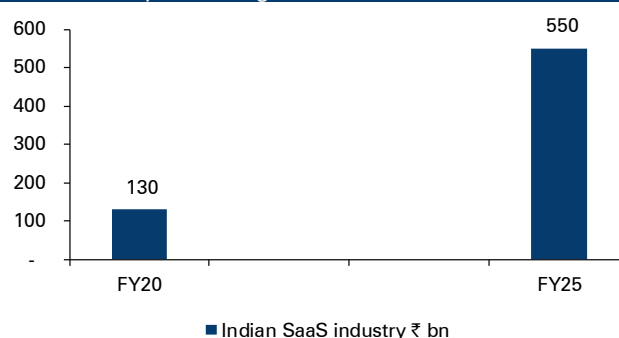
Source: ESDS Software DRHP, ICICI Direct Research

Exhibit 38: India SaaS grows 27.2% over FY15-20



Source: ESDS Software DRHP, ICICI Direct Research

Exhibit 39: Expected to grow 33.4% CAGR over FY20-25



Source: ESDS Software DRHP, ICICI Direct Research

GSI provides huge runway for growth, if executed as per plans

Once most software product companies reach a particular size and scale, their products are carried by global system integrators (GSI). It is a worldwide phenomenon. The typical milestone that the product companies follow is revenue touching US\$100 mn. Newgen’s FY22 revenue achieved that milestone. Now it is looking to scale up GSI opportunity to the next level.

The company started working with GSIs 18 to 24 months back. It is currently working with four to five GSIs. The opportunity funnel has improved significantly as it grew from 40 cases in FY21 to 70-80 cases in FY22. The idea here is to capture accounts of Fortune 2000 companies where GSI will already have made inroads and Newgen will not have direct access due to size and scale. Initially GSI deals were largely localised to US geography but Newgen started exploring deals in other territories, which resulted in securing few wins in Australia, APAC and in Europe as well.

As per the company, currently the revenue mix from GSI is miniscule i.e. <5% as it is recent initiative. The company is looking to scale up this opportunity in the next three to four years. The typical revenue model here is per user per month (PUPM). Hence, customers end up buying this platform and depending on their usage, the payment happens. E.g. it has contracted for 100 users or 500 users or thousand users and will charge anywhere between \$50 and \$60 per user per month to \$180 depending on the kind of components they are consuming.

We have worked on scenario analysis for GSI opportunity. We have made certain assumptions as per indications by the management on the funnel size, winning rate and indicate revenue potential range.

Exhibit 40: Scenario analysis of GSI opportunity

Scenario	A	B	C	Remark
GSI accounts being persuaded - A	70	70	70	
Deal Size range (USD mn) - B	500K-3mn	500K-3mn	500K-3mn	
Winning rate (%) -C	15	20	25	As per management indication
No of accounts can be won - D = A*C%	11	14	18	
Max potential revenue opprtunity (USD mn)- E	11	14	18	D* USD 1 mn
USD/INR rate	75	75	75	
Max potential revenue opprtunity (in INR crore)	79	105	131	
Revenue in FY22 -G	779	779	779	
Revenue in FY24E -H	1,030	1,030	1,030	Assuming 15% CAGR over FY22-24E
Revenue in FY24E - I	1,122	1,122	1,122	Assuming 20% CAGR over FY22-24E
Calculation for 15% revenue growth in FY22-24E				
Revenue potential Including GSI - F+H - FY24E	1,109	1,135	1,161	
EBITDA	255	261	267	at 23% margin - lower end of the guidance
PAT	222	227	232	Guidance of 20% PAT margin
Current Mcap	2,506	2,506	2,506	
P/E(x) - FY24E	11.3	11.0	10.8	
Calculation for 20% revenue growth in FY22-24E				
Revenue potential Including GSI - F+I - FY24E	1,201	1,227	1,253	
EBITDA	276	261	267	at 23% margin - lower end of the guidance
PAT	240	245	251	Guidance of 20% PAT margin
Current Mcap	2,506	2,506	2,506	
P/E(x) - FY24E	10.4	10.2	10.0	

Source: Nasscom, ICICI Direct Research

Our calculation suggests that depending on the winning rate, GSI could provide incremental revenue opportunity in the range of ₹ 79 crore to ₹ 131 crore, which is over and above 20% revenue growth guidance given by the management.

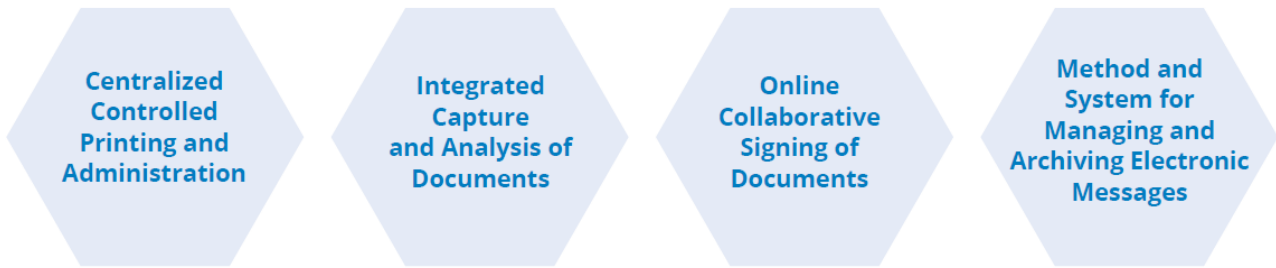
Strong focus on R&D to remain competitive

Newgen plans to expand the product portfolio through investments in advanced features and technologies. It is constantly engaged in enhancement of R&D capabilities, particularly with a view to create solutions in emerging technologies that enhance the ability to develop tools for enabling entry into new areas and developing products that address customers in specific industries. Key focus areas include artificial intelligence/ machine learning, business intelligence and analytics. Newgen continues to work with customers in mature markets to build capabilities, both in domain and technology, for enhancing the product offering, strengthening the platform and expanding the number of features available to customers.

Over the years, its products, have been consistently recognised by leading industry analysts across categories. Its R&D team has grown to about 580 employees as of FY22 and has been consistently working on strengthening capabilities on its platform. The company now has 23 patent grants across India and US out of 43 patents filed so far.

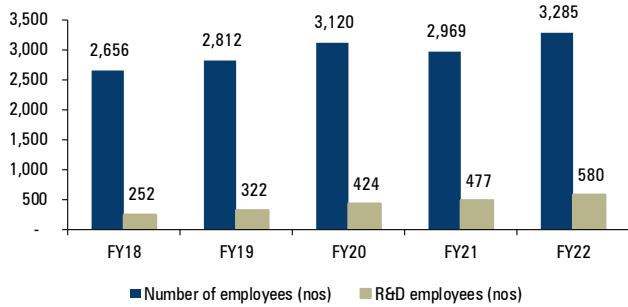
The company also did small acquisition of 'Number Theory' in FY22 for the total consideration of ₹14 crore (₹7.03 crore upfront payment and rest would be paid over the next 3 years equally). The acquisition is expected to further strengthen Newgen's platform with AI/ML (artificial intelligence and machine learning) modelling and data analytics capabilities. Number Theory is expected to bring domain expertise, along with a powerful engine to extract actionable insights in real time. The platform improves productivity, enhances collaboration, and speeds up AI project execution to accelerate the data to insights journey

Exhibit 41: Key patents granted



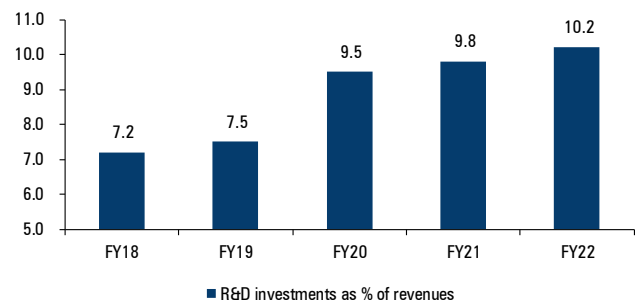
Source: Nasscom, ICICI Direct Research

Exhibit 42: Skilled R&D team of 580 people as on FY22



Source: Company, ICICI Direct Research

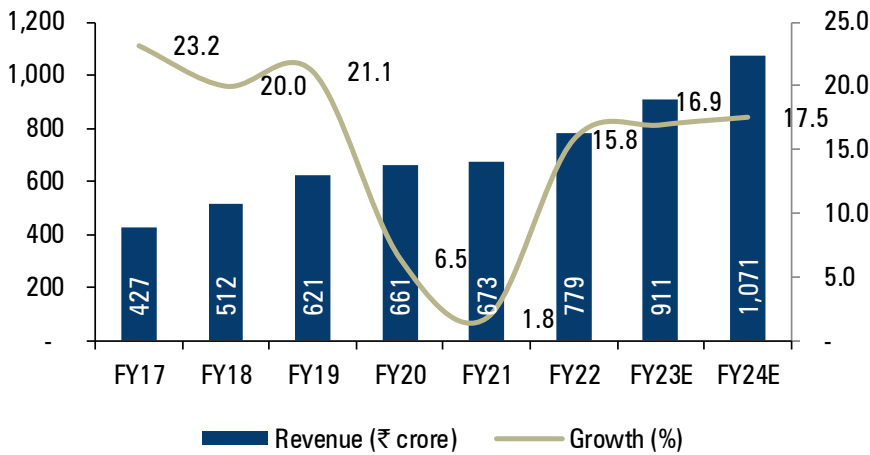
Exhibit 43: R&D investments now at 10.2% of revenue



Source: Company, ICICI Direct Research

Financial story in charts

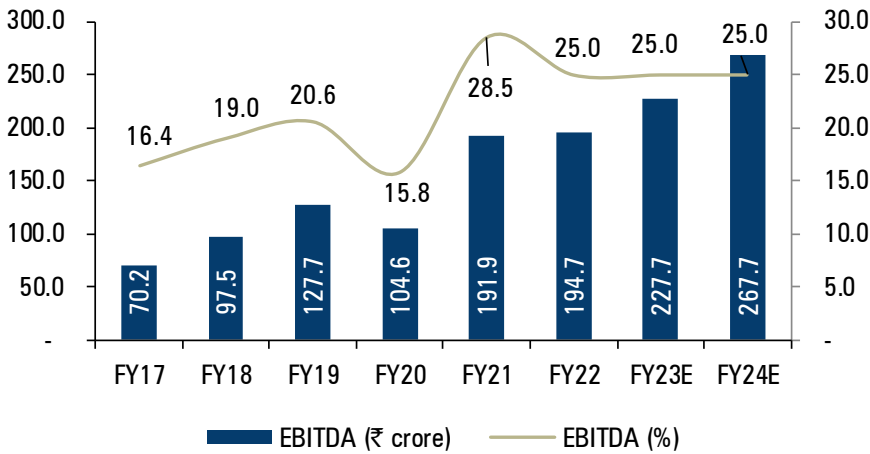
Exhibit 36: Revenues trend (₹ crore)



Revenues to grow at ~17.2% CAGR over FY22-24E on the back of better growth from annuity based revenue, license revenues

Source: Company, ICICI Direct Research

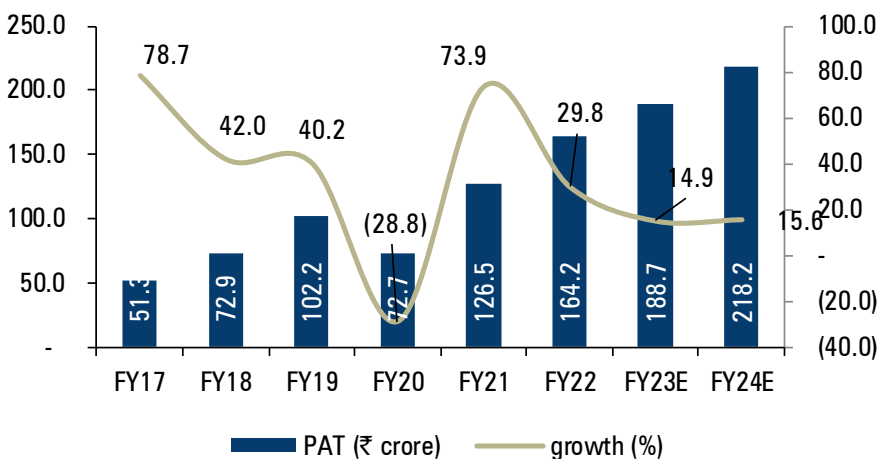
Exhibit 37: EBITDA margin trend over the years..



EBITDA margins were elevated in FY21 because of savings in travelling expenses, some part of it was normalised in FY22, we expect largely similar margins, which is also as per management guidance

Source: Company, ICICI Direct Research

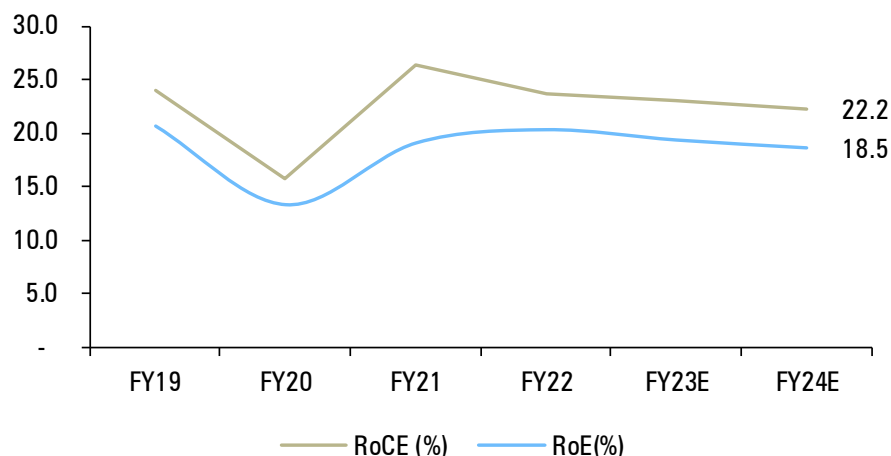
Exhibit 38: PAT trend



PAT expected to grow at ~15.2% CAGR over the same period

Source: Company, ICICI Direct Research

Exhibit 39: RoE & RoCE trend (%)



Source: Company, ICICI Direct Research

Key risks and concerns

GSI opportunity does not materialise as per expectation

Newgen is looking to tap Global system integrators (GSI) like TCS, Infosys, Wipro, HCL Tech for the next stage of growth. The GSI funnel has increased from 40 cases in FY21 to 70-80 cases in FY22. The GSI contributes less than 5% of revenue currently which they are looking to scale up going forward.

On account of near term headwinds such as high interest cost, elevated energy prices and possibility of recession in US, large business impact on GSIs cannot be ruled out in terms of significant reduction in tech spending from some of their biggest clients. This would have a direct bearing on Newgen's incremental revenue growth.

Travelling cost, if go back to historical levels may impact EBITDA margins

The company reported 28% EBITDA margins in FY21 because of significant savings in travel related costs. Historically travel related costs used to be at 9-11% of sales has come down to 1.8% of sales in FY21. The management indicated that as percentage of sales, this costs can go back to 4-5% of sales. If travel costs reach closer to historical trends, it can impact EBITDA margins.

High attrition impacting profitability

LTM attrition in Newgen has touched 40% in FY22, which is concerning. The company indicated that they have been taking some corrective measures, which includes salary hikes and upskilling of the employees. Failure of retention of key talent especially in the R&D unit can impact financials.

Financial Summary

Exhibit 27: 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 28: 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 29: Balance Sheet Statement (₹ 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 30: 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	19.4	15.0	13.1	11.3
EV / EBITDA	11.2	10.8	8.2	6.4
EV / Net Sales	3.2	2.7	2.1	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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Sell: <-15%



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