

19 July 2024

India | Equity Research | Q1FY25 results review

Newgen Software Technologies

Technology

In-line quarter; robust margin performance

Newgen reported in-line revenue growth of 25% YoY. EBIT margin was at 12.7%, outperforming consensus estimates of 11.3%, despite increased hiring, employee cost and investment in sales and marketing. APAC continued to do well with 64.9% YoY growth. There is strong traction in lending, trade finance and supply chain financing. We believe, 25%-plus growth could sustain in the near term. Newgen is on the path to boosting its annuity revenue and maintaining EBITDA margins in the 23–24% range. We introduce FY27 estimates and forecast 26%/24%/22% revenue growth for FY25/FY26/FY27. Rolling over valuations, our revised TP works out INR 1,010 with an unchanged target P/E of 40x; reiterate **HOLD**.

In-line performance in a seasonally weak quarter

YoY growth was at 25%, in line with Street's estimates. Owing to weak seasonality in Q1, Newgen reported QoQ revenue decline of 16.1%, in-line with consensus estimate of a 16.2% dip. Q1 is a seasonally weak quarter led by ramp down of 41.3% in products and platforms business. Annuity-based revenue was down 4.2% QoQ. AMC/ATS, Support declined -2.2%/ -7.5%, while SaaS grew +2.5%. Banking saw the sharpest ramp down of 17.3% QoQ. Geography-wise, APAC grew the most at 64.9% YoY, followed by EMEA and Australia at 25% growth each. North America region saw 13% growth. EMEA commanded the highest margin of 47%, followed by 28.4% for India. Newgen has regrouped its verticals from six earlier, to four now. Healthcare and insurance have been grouped as one and BPO and others under others. Banking was up 34.4% YoY. 13 large orders came from retail and BFSI (Malayasia, Qatar, Indonesia, US and India).

Robust operating margin

EBIT margin is at 12.7%, up 260bps YoY, outperforming Street's 11.3% estimate. Employee costs are up 20.6% YoY. Other expense too escalated 23.7% YoY. New hiring was conducted – on campus and lateral. Sales and marketing investments continue to ascend. Management's long-term EBITDA margin target is at 23–24% range. 13 new customers were added in Q1. DSO was down by 18 days QoQ.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	12,438	15,681	19,388	23,612
EBITDA	2,890	3,660	4,536	5,509
EBITDA Margin (%)	23.2	23.3	23.4	23.3
Net Profit	2,516	3,177	3,916	4,958
EPS (INR)	18.0	22.7	28.0	35.5
EPS % Chg YoY	43.2	25.9	23.3	26.6
P/E (x)	56.9	45.2	36.6	28.9
EV/EBITDA (x)	47.9	37.5	29.8	24.0
RoCE (%)	20.1	20.6	21.1	21.3
RoE (%)	23.4	24.6	25.0	26.0

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Market Data

Market Cap (INR)	144bn
Market Cap (USD)	1,721mn
Bloomberg Code	NEWGEN IN
Reuters Code	NEWG BO
52-week Range (INR)	1,092 /337
Free Float (%)	45.0
ADTV-3M (mn) (USD)	3.4

Price Performance (%)	3m	6m	12m
Absolute	39.1	22.9	200.3
Relative to Sensex	27.8	9.4	179.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	0	0
EBITDA	2	0
EPS	4	1

Previous Reports

17-01-2024: [Q3FY24 results review](#)

18-10-2023: [Q2FY24 results review](#)

Exhibit 1: Quarterly performance

INR mn	Q1FY25	Q4FY24	QoQ	Q1FY24	YoY
Sales	3,147	3,753	-16.1%	2,517	25.0%
EBITDA	477	1,226	-61.1%	321	48.4%
EBITDA Margin	15.1%	32.7%	-1751 bps	12.8%	238 bps
PBT	615	1,290	-52.4%	366	67.9%
Tax	139	238	-41.4%	65	115.5%
Tax Rate	22.6%	18.4%	424 bps	17.6%	500 bps
Reported PAT	476	1,053	-54.8%	302	57.7%
EPS	3.3	7.3	-54.7%	2.2	53.4%

Source: I-Sec research, Company data

Exhibit 2: Newgen – change in estimates

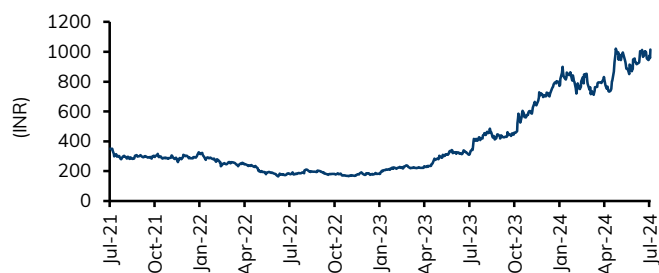
INR mn	New			Old		New vs. Old	
	FY25E	FY26E	FY27E	FY25E	FY26E	FY25E	FY26E
Revenues	15,681	19,388	23,612	15,676	19,381	0%	0%
EBITDA	3,660	4,536	5,509	3,575	4,534	2%	0%
EBITDA margin	23.3	23.4	23.3	22.8	23.4	50bps	0bps
EPS (INR/share)	22.0	27.2	34.4	21.1	27.0	4%	1%

Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	55.1	55.0	54.3
Institutional investors	25.0	26.1	27.9
MFs and others	3.7	3.7	3.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.2	0.2	0.2
FIIIs	21.1	22.2	23.8
Others	19.9	18.9	17.8

Source: Bloomberg

Exhibit 4: Price chart

Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Los

(INR mn, year ending March March)

	FY24A	FY25E	FY26E	FY27E
Net Sales (US\$ mn)	150	189	234	284
Net Sales (Rs. mn)	12,438	15,681	19,388	23,612
Operating Expense	9,549	12,022	14,852	18,103
EBITDA	2,890	3,660	4,536	5,509
EBITDA Margin (%)	23.2	23.3	23.4	23.3
Depreciation & Amortization	280	348	458	496
EBIT	2,610	3,312	4,078	5,013
Interest expenditure	-	-	-	-
Other Non-operating Income	432	638	757	1,107
Recurring PBT	3,042	3,949	4,835	6,121
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	527	773	919	1,163
PAT	2,516	3,177	3,916	4,958
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,516	3,177	3,916	4,958
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,516	3,177	3,916	4,958

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	9,301	12,222	15,887	20,297
of which cash & cash eqv.	3,364	4,997	7,189	9,921
Total Current Liabilities & Provisions	3,083	3,384	3,742	4,100
Net Current Assets	6,218	8,839	12,145	16,197
Investments	1,314	1,314	1,314	1,314
Net Fixed Assets	1,555	1,442	1,275	1,134
ROU Assets	638	638	638	638
Capital Work-in-Progress	-	-	-	-
Goodwill	-	-	-	-
Other assets	2,336	2,336	2,336	2,336
Deferred Tax Assets	184	184	184	184
Total Assets	12,574	15,126	18,317	22,285
Liabilities				
Borrowings	20	20	20	20
Deferred Tax Liability	33	33	33	33
provisions	409	516	691	841
other Liabilities	407	407	407	407
Minority Interest	-	-	-	-
Equity Share Capital	11,705	14,151	17,166	20,984
Reserves & Surplus*	-	-	-	-
Total Net Worth	11,705	14,151	17,166	20,984
Total Liabilities	12,574	15,126	18,317	22,285

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	2,932	3,237	3,753	3,147
% growth (YOY)	29.7	27.0	23.0	25.0
EBITDA	572	770	1,226	477
Margin %	19.5	23.8	32.7	15.1
Other Income	93	112	151	226
Adjusted Net Profit	478	683	1,053	476

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March March)

	FY24A	FY25E	FY26E	FY27E
CFO before WC changes	2,890	3,660	4,536	5,509
CFO after WC changes	2,140	2,734	3,545	4,283
Capital Commitments	(187)	(235)	(291)	(354)
Free Cashflow	1,800	2,197	2,918	3,474
Other investing cashflow	481	680	800	1,150
Cashflow from Investing Activities	294	445	509	796
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Cash flow from Financing Activities	(627)	(773)	(944)	(1,183)
Dividend paid	(579)	(731)	(901)	(1,140)
Others	(48)	(42)	(43)	(43)
Chg. in Cash & Bank balance	1,280	1,633	2,192	2,732
Closing cash & balance	3,364	4,997	7,189	9,921

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	18.0	22.7	28.0	35.5
Diluted EPS	17.4	22.0	27.2	34.4
Cash EPS	20.0	25.2	31.3	39.0
Dividend per share (DPS)	4.1	5.2	6.4	8.2
Book Value per share (BV)	83.9	101.2	122.7	150.0
Dividend Payout (%)	23.8	23.7	23.7	23.7
Growth (%)				
Net Sales	27.7	26.1	23.6	21.8
EBITDA	36.2	26.7	23.9	21.5
EPS	43.2	25.9	23.3	26.6
Valuation Ratios (x)				
P/E	56.9	45.2	36.6	28.9
P/CEPS	51.2	40.7	32.8	26.3
P/BV	12.2	10.1	8.4	6.8
EV / EBITDA	47.9	37.5	29.8	24.0
P/S	11.5	9.2	7.4	6.1
Dividend Yield (%)	0.4	0.5	0.6	0.8
Operating Ratios				
EBITDA Margins (%)	23.2	23.3	23.4	23.3
EBIT Margins (%)	21.0	21.1	21.0	21.2
Effective Tax Rate (%)	17.3	19.6	19.0	19.0
Net Profit Margins (%)	20.2	20.3	20.2	21.0
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	7.8	10.5	14.3	19.6
Receivables Days	129	130	131	132
Payables Days	12	12	12	12
Working Capital Days	72	78	83	87
Net Debt / EBITDA (x)	(16.7)	(18.1)	(18.5)	(22.6)
Profitability Ratios				
RoCE (%)	20.1	20.6	21.1	21.3
RoC (%)	47.2	48.9	51.7	53.7
RoNW (%)	23.4	24.6	25.0	26.0

Source Company data, I-Sec research

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