

Continued Growth Momentum; Maintain Buy

Newgen's 3Q results beat estimates, driven by higher than expected revenue growth, but margins were impacted by one-offs. Management expects growth momentum to sustain in its core markets (India, EMEA) driven by rising demand for digitization/automation in its core markets. We raise our EPS estimates by 4-5% and expect a 26% EPS Cagr over FY24-26E. We maintain BUY with PT of Rs 1,070 at 39x (1.5x PEG) given strong growth outlook and consistent execution.

3Q growth ahead of estimates... Newgen's 3QFY24 revenue of Rs 3.2bn, up 27% YoY, beat estimates. Ebitda margin of 23.8%, up 70bps YoY, was broadly in-line with estimates, with benefits of higher revenue growth offset by higher than expected other expenses. Profit at Rs 683m, up 44% YoY, was ahead of estimates, driven by higher Ebitda, higher other income and lower than expected tax rate due to higher SEZ benefits.

...driven by sales of services: Revenue growth was driven by implementation services (+71% YoY), as a result of strong license sales and larger deals in previous quarters. Scanning/hardware revenues more than doubled YoY. Annuity revenues grew at a healthy 24% YoY led by Support revenues, which rose 36% YoY. However, license sales down 5% YoY disappointed. Revenue growth was led by EMEA (+41% YoY) and India (+29% YoY). Among verticals, Healthcare (+78%) and Govt/PSU (+75% YoY) drove growth, while growth in Banking softened but remains healthy at 23% YoY.

Strong growth outlook led by Core markets: Management remained confident of continuing with the strong growth momentum, led primarily by its traditional markets - India and Middle East. Management indicated continued traction in India for digitization in MSME lending, corporate and commercial lending, Trade finance, Agri lending and Supply chain financing, which is driving larger and multi-year deals. Order book has risen by 20% YoY in 9MFY23, and a significant proportion of the large deal wins are yet to executed, offering strong growth visibility over the next 2-3 quarters. We keep our revenue estimates unchanged and expect a 24% revenue Cagr over FY24-26E.

Margins to remain steady: Newgen's 3Q Ebitda margin expanded by 70bps YoY, driven by lower Employee costs (-220bps YoY). However, other expenses (+150bps YoY) rose sharply by 34% YoY and impacted margins. Management highlighted Rs 80-100m of one-off expenses that should discontinue from next quarter. Management reiterated its Ebitda margin target of 22-23% over the medium term. We raise our margin estimates by 40-50bps and expect margins to be in the 22.6-22.9% range over FY24-26E.

Maintain Buy: We raise our FY24-26E EPS estimates by 5% due to higher margin estimates and lower tax rate from SEZ benefits. We expect a 26% EPS Cagr over FY24-26E, given the strong growth outlook and visibility. The stock has quadrupled over the last year, driven by strong growth and consistent execution. We expect growth momentum to sustain and maintain Buy with a revised PT of Rs 1,070 at 39x PE (1.5x PEG).

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (MM)	9,739.8	12,369.5	15,461.9	19,172.8
Cons. Rev.	9,328.0	12,553.0	15,618.0	19,913.0
EBITDA (MM)	2,122.1	2,793.6	3,514.5	4,375.9
Net Profit	1,762.7	2,401.0	3,029.3	3,822.6

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	INR855.85*
PRICE TARGET % TO PT	↑INR1,070 (INR870) +25%
52W HIGH-LOW	INR855.85 - INR190.55
FLOAT (%) ADV MM (USD)	38.3% 1.80
MARKET CAP	INR119.2B \$1.4B
TICKER	NEWGEN IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NM	NM	-1%	-1%
EPS	+5%	+5%	NA	NA

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	↑17.20
PREV					16.40

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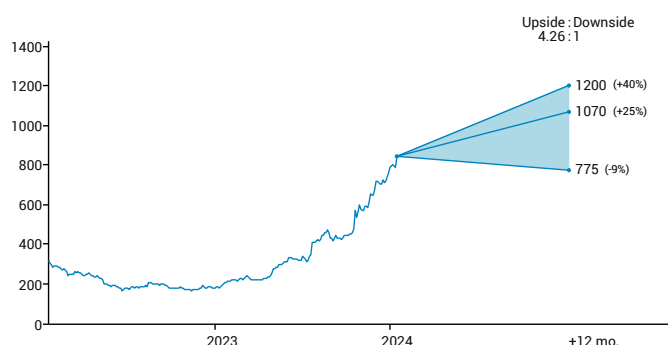
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The Long View: Newgen Software

Investment Thesis / Where We Differ

- Focus on Annuity-based revenues to provide greater revenue visibility and stability
- Strong revenue growth of 24% Cagr in FY24-FY26E, led by continued traction in traditional markets
- Steady Margins to be around 22-23% over FY24-26E
- Expect management to take necessary steps to mitigate risk from high debtor days, which have been a concern
- Strong earnings growth to sustain valuations

Risk/Reward - 12 Month View



Base Case, INR1070, +25%

- Revenue growth of 24% Cagr over FY24-26E
- EBITDA margin of ~22-23% over FY24-26E
- FY24/25/26E EPS of Rs 17/22/27
- Price target of Rs1,100 based on 40x 12m fwd EPS

Upside Scenario, INR1200, +40%

- Higher-than-expected revenue growth of 27% over FY24-26E
- EBITDA margin of 23%+ by FY26E
- FY24/25/26E EPS of 18/23/29
- Price target of Rs1,200 based on 37x 12m fwd EPS

Downside Scenario, INR775, -9%

- Revenue growth to slow down to 18-20% over FY24-26E
- Lower than expected EBITDA margin
- FY24/25/26E EPS of Rs 16/19/23
- Price target of Rs775 based on 32x 12m fwd EPS

Sustainability Matters

Top Material Issue(s): Customer Protection and Data privacy, Data Security, Workforce Management & Diversity, Impact on Environment & Society.

Company Target(s): **1)** Reducing ecological footprint through optimized utilization of natural resources and by ensuring the responsible use of energy. **2)** Reducing and working towards the elimination of the use of plastic products by becoming Plastic Free and introducing more sustainable and green products. **3)** Preventing pollution and minimizing all types of waste by adopting Reduce-Reuse-Recycle philosophy. **4)** Build a workforce with a range of backgrounds and diversity and focus on training new talent and building competencies.

Qs to Mgmt: **1)** What are the safeguards in place for the company to protect its IP and ensure security and customer privacy? **2)** How does the company ensure employee engagement and upskilling? **3)** What are some of the environmental initiatives taken by the company to ensure data security and customer privacy?

Catalysts

- Traction in deal wins, including in the US, leading to higher-than-expected revenue growth
- Beat in margin
- Lower receivable/debtor days
- Favourable currency movement

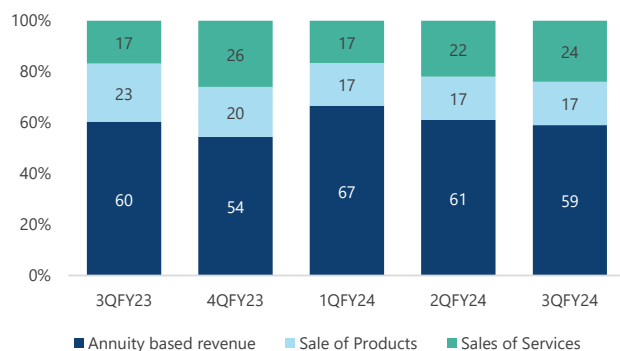
Exhibit 1 - 3QFY24: Beat on revenue Growth and Profit

Rs mn	3QFY23	2QFY24	3QFY24	% QoQ	% YoY	3QFY24E	vs. Est. (%)
Revenue	2,549	2,932	3,237	10	27	3,186	2
%YoY	26	30	27	n/a	n/a	25	n/a
Employee expenses	1,304	1,566	1,585	1	22	1,613	(2)
% of revenues	51.2	53.4	49.0	-445bps	-219bps	50.6	n/a
Other expenses	656	797	881	11	34	810	9
% of revenues	25.7	27.2	27.2	6bps	150bps	25.4	n/a
Total expenditure	1,960	2,363	2,466	4	26	2,423	2
% of revenues	76.9	80.6	76.2	-439bps	-69bps	76.0	n/a
EBITDA	589	569	770	35	31	764	1
EBITDA margin (%)	23.1	19.4	23.8	439bps	69bps	24.0	n/a
Depreciation	62	69	69	1	12	69	(0)
EBIT	528	501	701	40	33	694	1
EBIT margin (%)	20.7	17.1	21.7	459bps	98bps	22	
Other income	94	93	112	19	19	90	24
Finance cost	11	8	13	n/a	22	11	16
PBT	611	586	800	36	31	773	3
Taxes	138	108.2	116.4	8	(15)	155	(25)
Tax rate (%)	22.5	18.5	14.5	-391bps	-798bps	20.0	(27)
PAT	473	478	684	43	44	618	11
EPS	3.4	3.4	4.9	43	44	4.4	10

Source: Company data, Jefferies estimates

Exhibit 2 - Services revenue contributing to 24% of revenue...

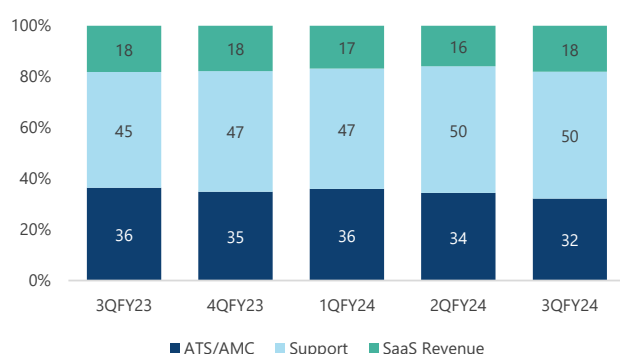
Revenue split by revenue stream



Source: Company data, Jefferies estimates

Exhibit 4 - Support revenues, contributing to 50% of annuity revenues...

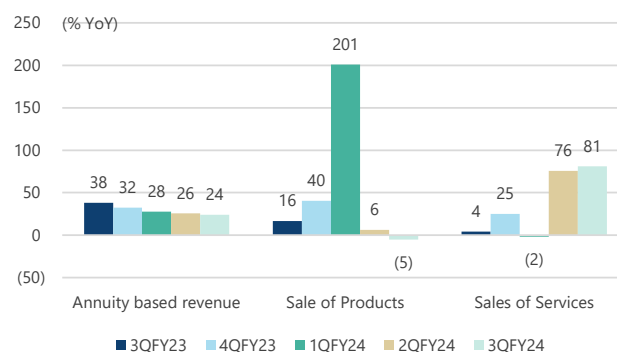
Revenue split of Annuity revenues



Source: Company data, Jefferies estimates

Exhibit 3 - ...grew sharply YoY; Annuity based revenues witness healthy growth, while Product revenue fell YoY

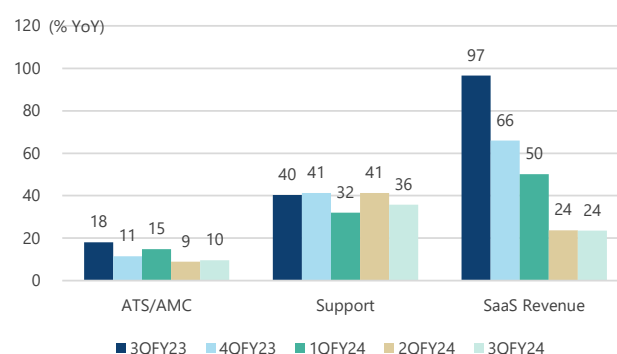
Revenue growth by revenue streams



Source: Company data, Jefferies estimates

Exhibit 5 - ...grew by 24% YoY; Growth in SaaS revenue was steady at 24% YoY

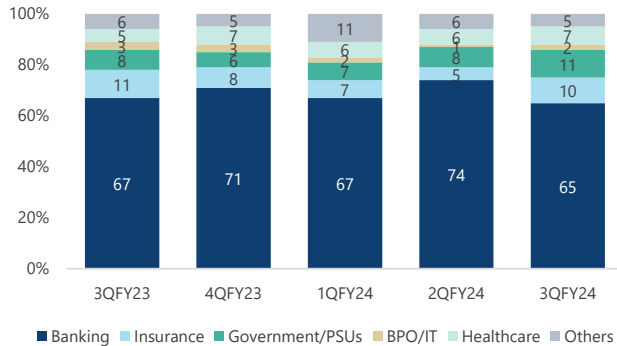
YoY growth in Annuity revenue streams



Source: Company data, Jefferies estimates

Exhibit 6 - Govt/PSU and Healthcare vertical...

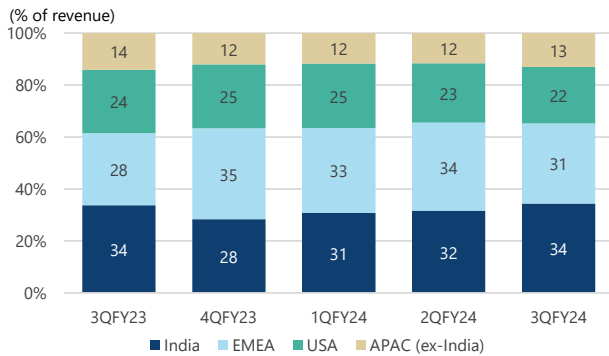
Vertical wise revenue split



Source: Company data, Jefferies estimates

Exhibit 8 - India and EMEA, accounting for 65% of revenue...

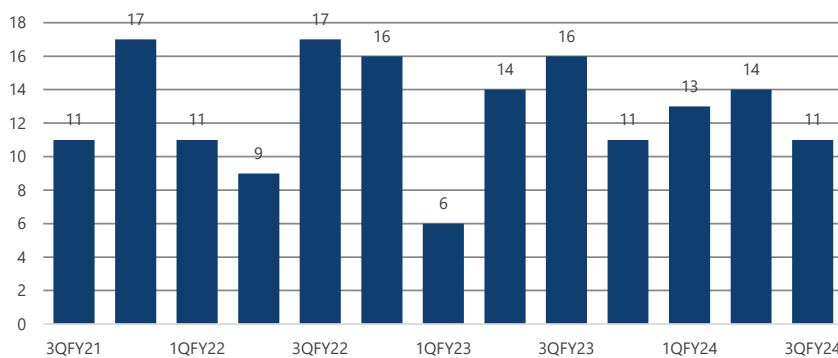
Geography revenue split



Source: Company data, Jefferies estimates

Exhibit 10 - Newgen's new logo wins were slightly soft in 3Q

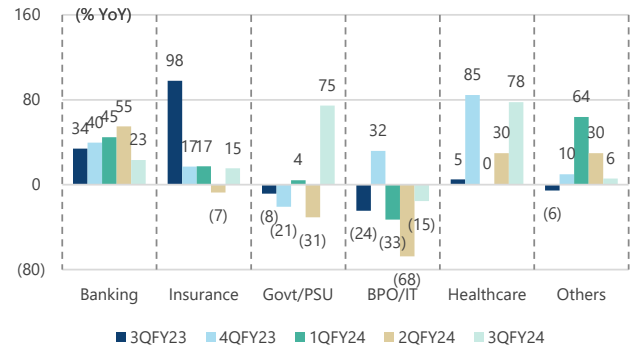
New logo wins



Source: Company data, Jefferies estimates

Exhibit 7 - ...witnessed strong growth of 70%+ YoY; BPO/IT vertical revenues declined YoY

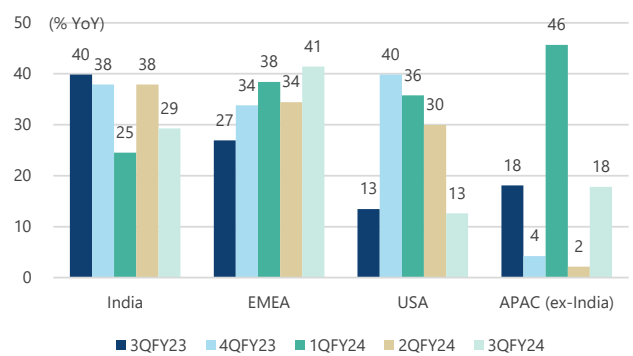
Vertical wise revenue growth



Source: Company data, Jefferies estimates

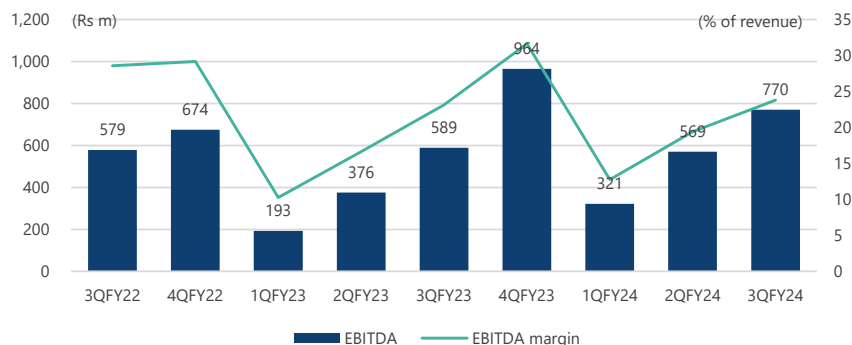
Exhibit 9 - ...drove revenue growth in 3Q

Geography revenue split



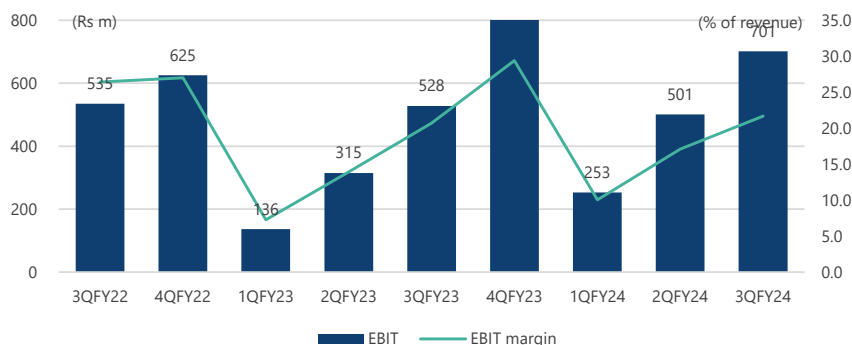
Source: Company data, Jefferies estimates

Exhibit 11 - 3Q EBITDA margins were up 70bps YoY, with benefit of operating leverage offset to some extent by a sharp pickup in other expenses
EBITDA trends



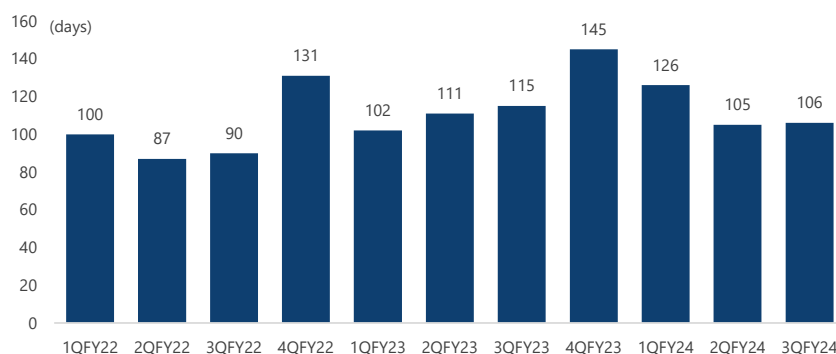
Source: Company data, Jefferies estimates

Exhibit 12 - EBIT margins expanded by 100bps YoY driven by Ebitda margin expansion
EBIT trends



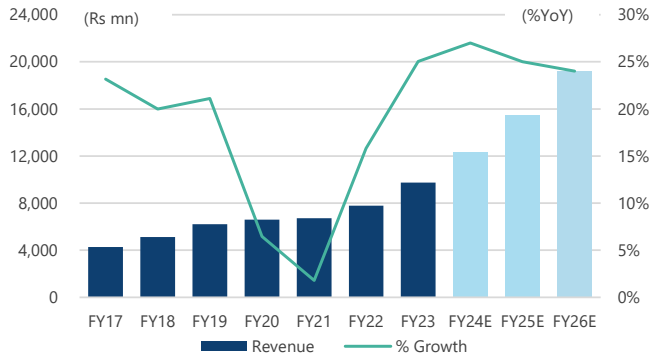
Source: Company data, Jefferies estimates

Exhibit 13 - Debtor days were steady in 3Q
Net debtor days



Source: Company data, Jefferies estimates

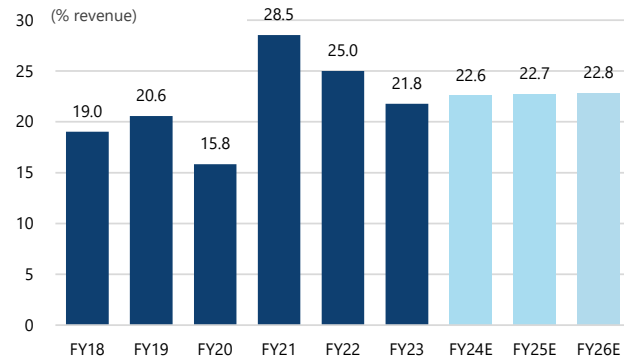
Exhibit 14 - We estimate revenue growth of 27% YoY over FY24-26E...
Revenue forecasts



Source: Company data, Jefferies estimates

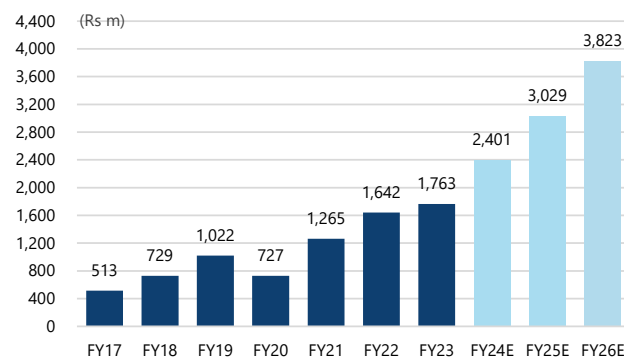
Exhibit 16 - We expect margins to remain range-bound as benefits of operating leverage are ploughed back into growth investments

EBITDA margin trends



Source: Company data, Jefferies estimates

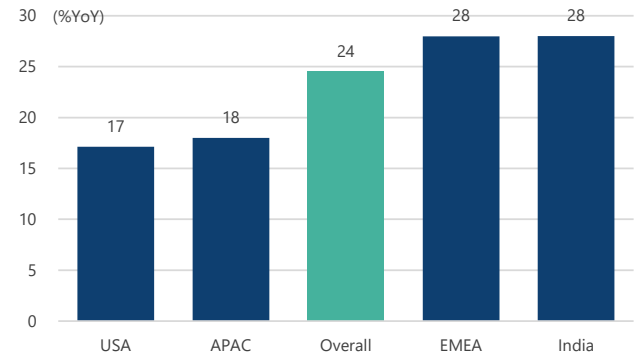
Exhibit 18 - We estimate a 24% PAT Cagr over FY24-26E
PAT forecasts



Source: Company data, Jefferies estimates

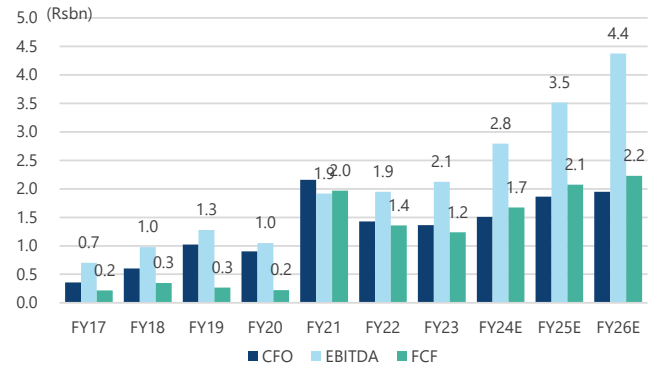
Exhibit 15 - ...driven by traditional markets (India/EMEA)

Newgen: Geography wise revenue growth forecasts (FY24-26 Cagr)



Source: Company data, Jefferies estimates

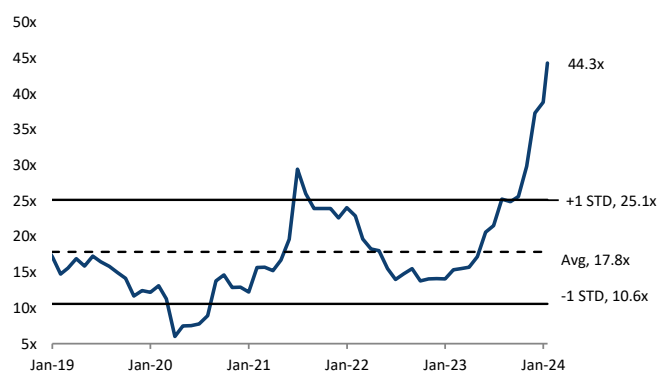
Exhibit 17 - We expect the company to maintain strong cash flow profile
Cash flow trends



Source: Company data, Jefferies estimates

Exhibit 19 - Newgen has related to peak multiples due to strong execution and growth outlook

Newgen's 1-yr forward PE range



Source: Bloomberg, Jefferies estimates

Exhibit 20 - Newgen - Changes to estimates

Estimates	Old			New			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (Rs mn)	12,321	15,401	19,097	12,370	15,462	19,173	0	0	0
EBITDA (Rs mn)	2,718	3,421	4,286	2,794	3,514	4,376	3	3	2
Margin (%)	22.1	22.2	22.4	22.6	22.7	22.8	53bps	52bps	38bps
EBIT	2,444	3,128	3,969	2,519	3,220	4,058	3	3	2
Reported PAT (Rs mn)	2,291	2,878	3,655	2,401	3,029	3,823	5	5	5
Recurring EPS (Rs)	16.4	20.7	26.2	17.2	21.7	27.4	5	5	5

Source: Company data, Jefferies estimates

Exhibit 21 - Valuation Matrix

	Ticker	Currency	Price	Rating	PT	MCAP	Turnover	FY24-26		EV/Sales			P/E		
						(US\$bn)	(US\$m)	Sales Cagr	EPS Cagr	FY24	FY25	FY26	FY24	FY25	FY26
Newgen	NEWGEN IN	Rs	900	Buy	1,070	1.518	2.6	24.5	26.2	10.0	8.0	6.4	52.2	41.4	32.8
OFSS	OFSS IN	Rs	4,913	NC	NA	5.12	8.1	9.9	11.0	6.1	5.5	5.0	21.0	19.0	17.1
Ramco Systems	RMCS IN	Rs	307	NC	NA	0.131	0.5	14.9	n/m	2.1	1.8	1.6	n/m	n/m	n/m
Nucleus Software	NCS IN	Rs	1,561	NC	NA	0.503	0.9	15.3	17.6	4.5	3.8	3.4	19.9	16.4	14.4
Appian Corp	APPN US	USD	33	NC	NA	2.42	16	15.6	n/m	4.7	4.1	3.5	n/m	n/m	n/m
Pegasystems	PEGA US	USD	47	NC	NA	3.9	16	9.1	33.3	3.0	2.8	2.5	28.0	19.4	15.8
Intellect Design	INDA IN	Rs	854	NC	NA	1.4	4	13.1	25.9	4.5	4.0	3.5	34.1	26.2	21.5
Average								13.9		5.2	4.2	4.0	26.1	21.0	17.9

Source: Company data, Jefferies estimates

Exhibit 22 - Newgen: Financial Summary

Rs m	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
P&L								
Revenue	6,206	6,608	6,726	7,790	9,740	12,370	15,462	19,173
EBITDA	1,277	1,046	1,919	1,947	2,122	2,794	3,514	4,376
EBIT	1,217	847	1,718	1,770	1,875	2,519	3,220	4,058
PBT (Reported)	1,336	947	1,812	2,035	2,173	2,893	3,694	4,662
PAT (Reported)	1,022	727	1,265	1,642	1,763	2,401	3,029	3,823
PAT (Recurring)	1,022	727	1,411	1,642	1,763	2,401	3,029	3,823
Recurring EPS	7.5	5.3	10.2	11.8	12.7	17.2	21.7	27.4
Balance Sheet								
Net Worth	4,967	5,491	6,657	8,114	9,768	11,820	14,369	17,586
Debt	810	1,108	201	278	427	427	427	427
LT liabilities	1	2	0	41	33	33	33	33
Total liabilities	5,778	6,601	6,858	8,434	10,228	12,281	14,830	18,046
Net fixed assets	1,522	2,211	2,049	2,299	2,445	2,404	2,396	2,427
Investments	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Sundry debtors	2,527	2,694	2,385	2,789	3,882	4,406	5,083	6,303
Cash & current investments	2,308	2,414	3,249	3,683	3,397	4,698	6,270	7,866
Other current assets	1,070	1,392	1,522	2,299	3,697	4,695	5,869	7,277
Deferred sales revenue	680	1,009	1,039	1,260	1,680	2,134	2,668	3,308
Other current liabilities & provisions	969	1,101	1,309	1,377	1,513	1,788	2,121	2,520
Total assets	5,777	6,601	6,858	8,434	10,227	12,280	14,829	18,046
Cash flow statement								
CFO	1,022	901	2,157	1,428	1,364	1,508	1,864	1,948
CFI	(854)	(1,040)	(1,430)	(806)	(943)	(1,014)	(966)	(899)
Capex	(717)	(438)	(116)	(126)	(167)	(210)	(263)	(326)
Acquisitions	0	0	0	(69)	0	(23)	(23)	(23)
CFF	(51)	(472)	(1,023)	(320)	(440)	(394)	(526)	(652)
FCFE	266	222	1,967	1,358	1,236	1,672	2,075	2,226
Growth (%YoY)								
Revenue growth	21.1	6.5	1.8	15.8	25.0	27.0	25.0	24.0
EBITDA growth	30.9	(18.1)	83.5	1.4	9.0	31.6	25.8	24.5
EBIT growth	32.7	(30.4)	102.8	3.1	5.9	34.3	27.8	26.0
PBT growth	41.9	(29.1)	91.2	12.3	6.8	33.1	27.7	26.2
PAT growth	40.2	(28.8)	73.9	29.8	7.3	36.2	26.2	26.2
Recurring EPS growth	39.1	(29.5)	93.4	16.0	7.2	36.2	26.2	26.2
Margin (%)								
EBITDA Margin	20.6	15.8	28.5	25.0	21.8	22.6	22.7	22.8
EBIT Margin	19.6	12.8	25.5	22.7	19.3	20.4	20.8	21.2
Reported PAT Margin	16.5	11.0	18.8	21.1	18.1	19.4	19.6	19.9
Return ratios (%)								
ROE	22.7	13.9	23.2	22.2	19.7	22.2	23.1	23.9
ROA	13.8	8.4	13.7	14.8	13.1	14.8	15.4	16.0
ROIC	30.1	17.0	30.8	34.4	26.4	29.1	32.8	35.6
Per share								
EPS (Reported)	7.5	5.3	9.1	11.8	12.7	17.2	21.7	27.4
DPS	1.5	1.0	1.8	2.3	2.5	3.4	4.3	5.5
BPS	36.3	39.7	48.0	58.3	70.1	84.8	103.1	126.2
FCF/share	1.9	1.6	14.2	9.8	8.9	12.0	14.9	16.0
Valuation								
PE	120.6	171.0	88.4	76.2	71.1	52.2	41.4	32.8
PB	24.8	22.6	18.7	15.4	12.8	10.6	8.7	7.1
P/sales	20.2	19.0	18.6	16.1	12.9	10.1	8.1	6.5
P/FCF	463.2	559.9	63.4	92.2	101.4	75.0	60.4	56.3
FCF yield	0.2	0.2	1.6	1.1	1.0	1.3	1.7	1.8
Dividend yield	0.2	0.1	0.2	0.3	0.3	0.4	0.5	0.6

Source: Company data, Jefferies estimates

Company Description

Newgen Software

Newgen is a software product company that operates across Enterprise Content Management (ECM), Business Process Management (BPM), and Customer Communication Management (CCM). The company's products are fairly well established and have been recognized in Forrester and Gartner surveys over the last few years.

Company Valuation/Risks

Newgen Software

Our Rs1,070 price target is based on 40x 12m fwd EPS, below its average multiples. Risks include 1) write-offs on receivables; 2) weaker macro, lower traction in the US, and higher competition from Tier 1 players hurting growth; 3) higher wage inflation and other expenses leading to miss in margin; and 4) adverse currency.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	January 16, 2024 , 13:41 ET.
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Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Valuation Methodology

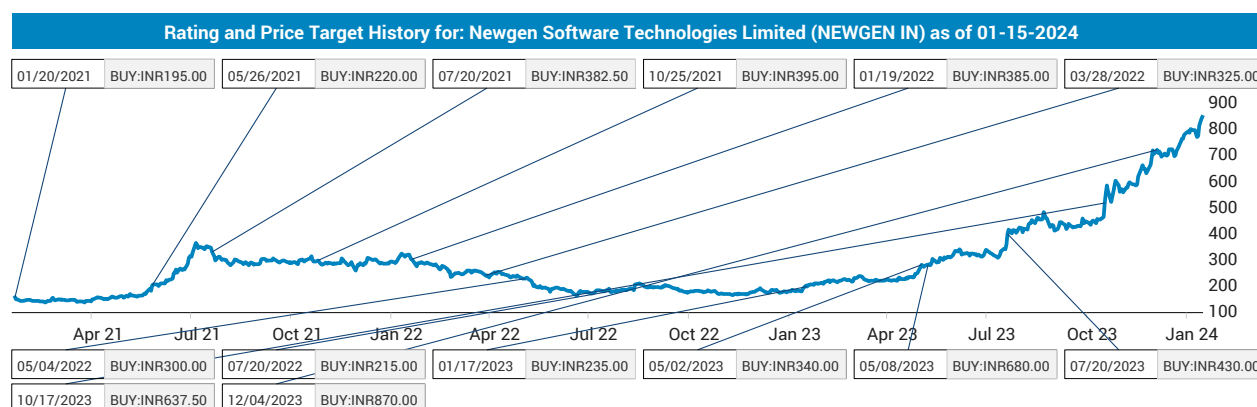
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Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1943	58.24%	336	17.29%	112	5.76%
HOLD	1227	36.78%	117	9.54%	19	1.55%
UNDERPERFORM	166	4.98%	5	3.01%	3	1.81%

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