



newgen

A Niche Player

Multiple Reforms To Spur Growth

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Company Snapshot

- ❑ **Single Phase Buying Strategy** = Buy between INR 360-365 (CMP = 360)
- ❑ **Price Target** = INR 550+ in next 12 months & INR 1500+ in next 5 years. It can deliver ~30-35% CAGR over the period of 5 years.
- ❑ **IPO came in Jan 2018 @ 245rs per share, today stock is trading @ 360rs**, Up ~50% in last 5 years (stock price made a high of 700+ in July'21); appreciation was just 8% CAGR during last 5 years which is good for those who are entering now. It is trading ~45% down from ATH of 700rs.

Newgen Software Technologies is a global software Company and is engaged in the business of software product development including designing and delivering end-to-end software solutions covering the entire spectrum of software services from workflow automation to Document management to imaging. Successful businesses all over the world rely on Newgen's well-known low code application platform to create and deploy sophisticated, content-driven, and customer-engaging business apps for a variety of use cases in various industries.

Current market price- ₹ 360	Market Cap- ₹ 2,500 Cr.	ROE- 22.1 %
BSE- 540900	52 week high/low- ₹ 755/321	ROCE- 27.0 %
NSE- NEWGEN	Promoter's holding- 55.2 %	Debt to equity- 0.03
Bloomberg code- NEWGEN:IN	Pledged percentage- 0.00%	Stock P/E- 16.1
Sales growth (5Y) – 13.2 %	Profit growth (3Y)- 17.3 %	Net worth: ₹ 769 Cr..

Revenues
Rs 779 Cr
(16% YoY growth)

Subscription Revenues
Rs 246 Cr
(23% YoY growth)

Profit after Tax
Rs 164 Cr
(30% YoY growth)

Newgen at a Glance

Newgen Software is an India based leading Enterprise software company, targeting Enterprise Content services (ECM), Low code business process automation (BPM) and omni-channel customer communication (CCM) space. Newgen has ~530 active clients and is scaling up key clients fast, it is investing ~10% of revenues into R&D to sustain/expand products relevance.

Key Business Segments	Description
Contextual Content Services (ECM):	Empowers customers in managing the end-to-end lifecycle of enterprise content, from origination to disposition, and providing the flexibility to access and deliver digital content across all channels and devices. It leads to creating a connected and digital workplace to empower customers with contextual information for informed interactions with internal and external customers.
Low Code Process Automation (BPM):	Newgen’s low code process automation platform is a proven, intelligent platform to develop complex, context-aware, and customer-centric business applications. It enables rapid application development, end-to-end automation of business processes, and contextual engagement with customers across multiple touchpoints while driving continuous process improvement.
Omnichannel Customer Engagement (CCM):	Enhances customer experience with personalized, content-rich and consistent communication across channels, while tapping into various cross and up-sell opportunities across touchpoints, such as e-mail, SMS, web, and print.

Key Recognitions:

Gartner:

- ❑ A Niche Player in 2021 Gartner® Magic Quadrant for Enterprise Low Code Application Platforms
- ❑ A Visionary in 2021 Gartner® Magic Quadrant™ for Content Services Platforms

Forrester:

- ❑ A “Strong Performer” in Forrester Wave™: Content Platforms, Q2 2021 Report
- ❑ A “Strong Performer” in Forrester Wave™: Digital Process Automation, Q4 2021 Report

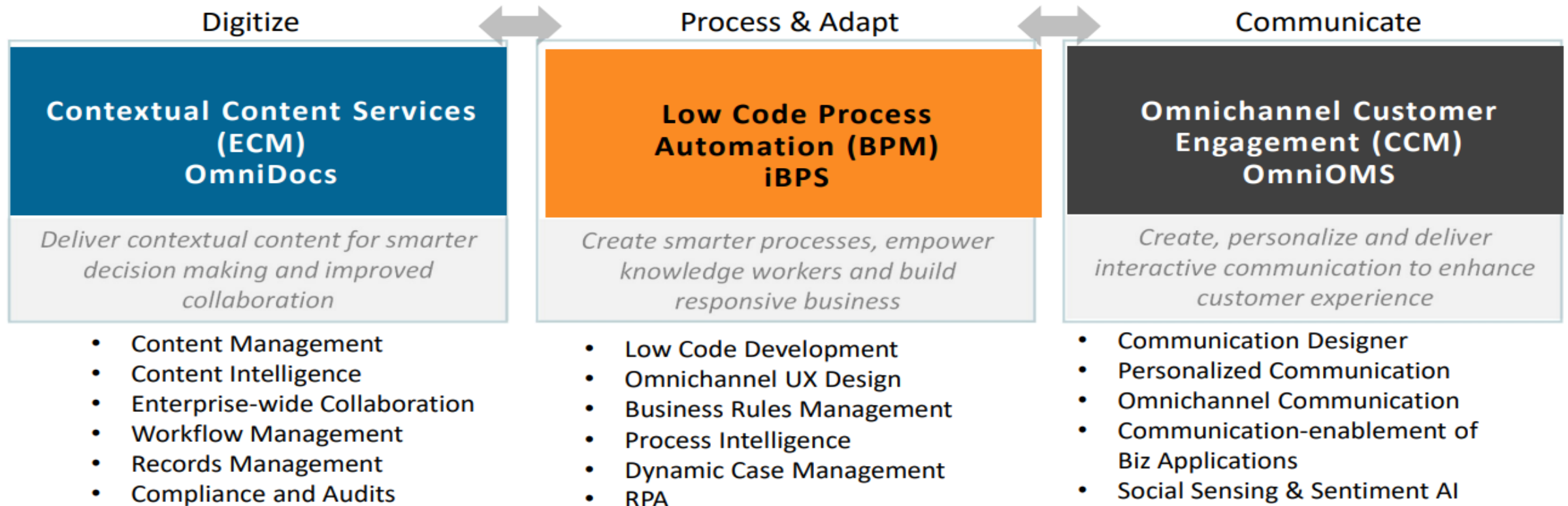


Overview of Products & Services

Newgen Software provides an enterprise-grade digital automation platform to private and government organisations. Its three main offerings are:

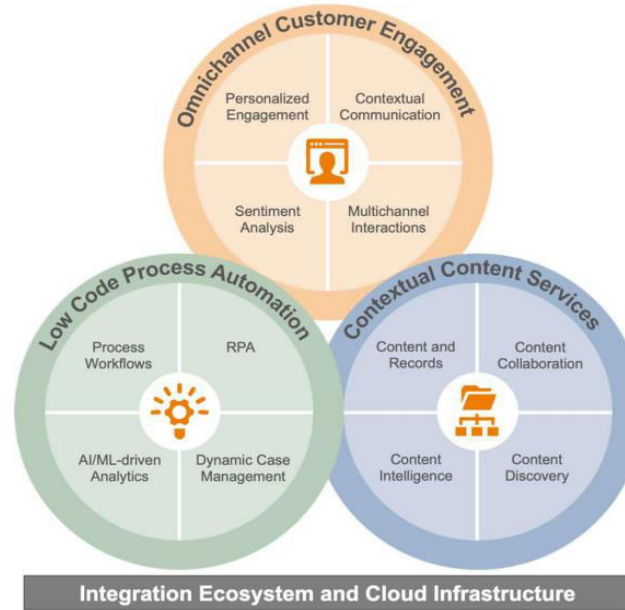
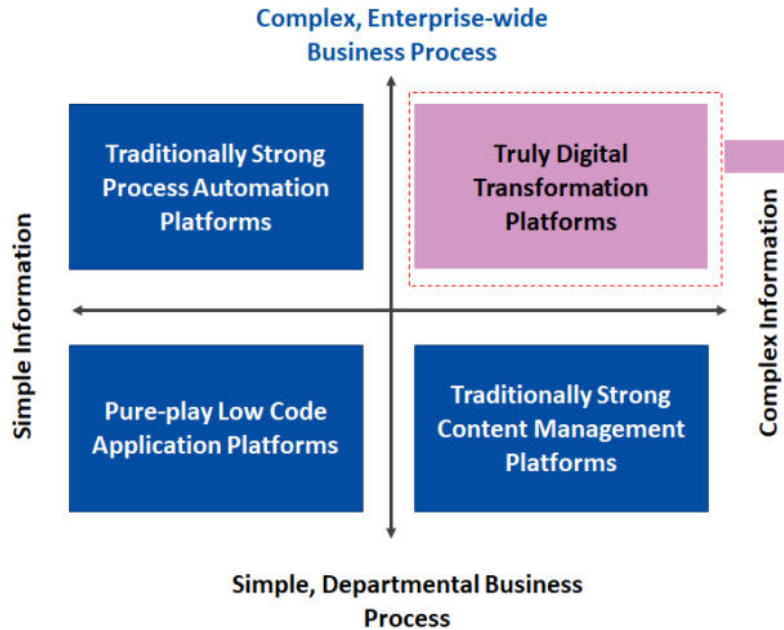
- 1) **OmniDocs** for contextual content services, targeted at the **ECM** segment
- 2) **iBPS** for low code process automation, targeted at the **BPM** market
- 3) **OmniOMS** for personalised customer communication, targeted at the **CCM** market.

Enterprise-wide unified digital transformation platform provider



NewgenONE: Digital Transformation Platform

NewgenONE – A low code platform integrating ECM, BPM and CCM. NewgenONE digital transformation platform is a comprehensive, unified platform with native process automation, content services, and communication management capabilities.



- A unified platform suite that is,
- Cloud-hosted single platform for process, content, and communication automation
 - Scalable and extensible
 - For secure access to processes
 - Highly-available for data governance (auditable)
 - Capable of delivering deep insights/analytics

- Used by enterprises globally to,
- Rapidly develop and deploy complex and critical business applications
 - Perform millions of transactions
 - Enable remote access to hundreds of thousands of employees
 - Handle billions of documents and communications

What Makes NewgenONE Stand Out!

Focused on professional IT developers for agility and productivity

Domain expertise packaged as composable components

Global SI partnerships for reach and scale

Investment Rationale

Innovative Product Suite With Continuing Focus On R&D

Unified platform with modular deployment, Deep domain expertise - Intuitive applications and scalable performance, Cloud-ready architecture on AWS and Azure, Low Code Application Platform, Enhancing Artificial Intelligence/ Machine Learning capabilities with acquisition of Number Theory.

Growth across regions with EMEA region being the largest revenue contributor

During the year, EMEA revenues grew at 42% YoY followed by US, India, and APAC. Received first orders from the Australia market.

30 years of Experience with 23 patents approved

Presence in 17 verticals with 5 core verticals

Low client concentration risk and DSO likely to moderate with the scaling up of operations in developed markets. 16 new logo wins in Q4 FY22 and 6 new logo wins in Q1FY23 across geographies

Huge Addressable market

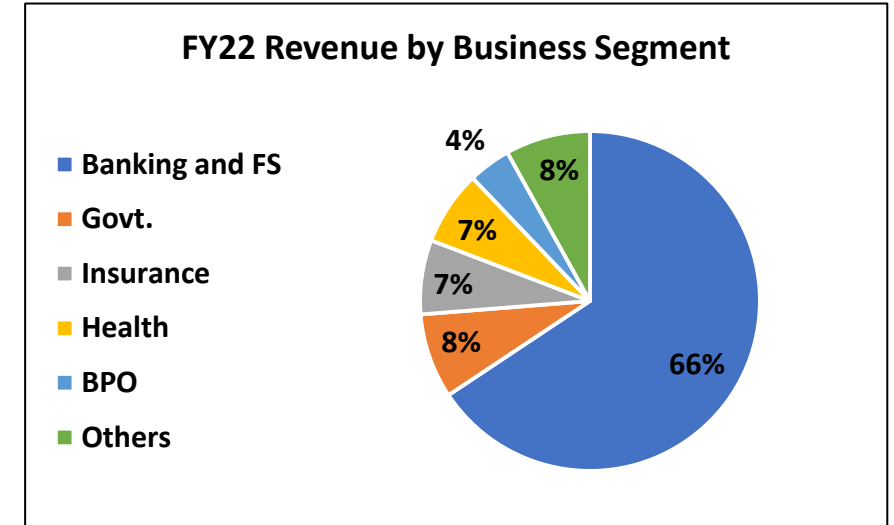
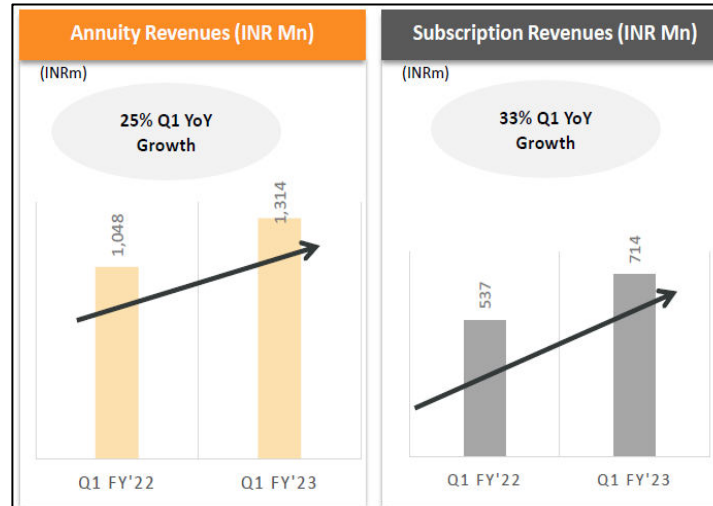
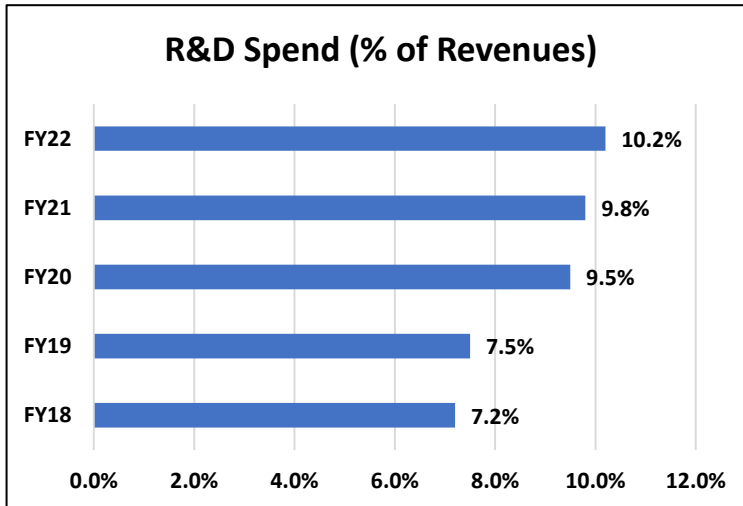
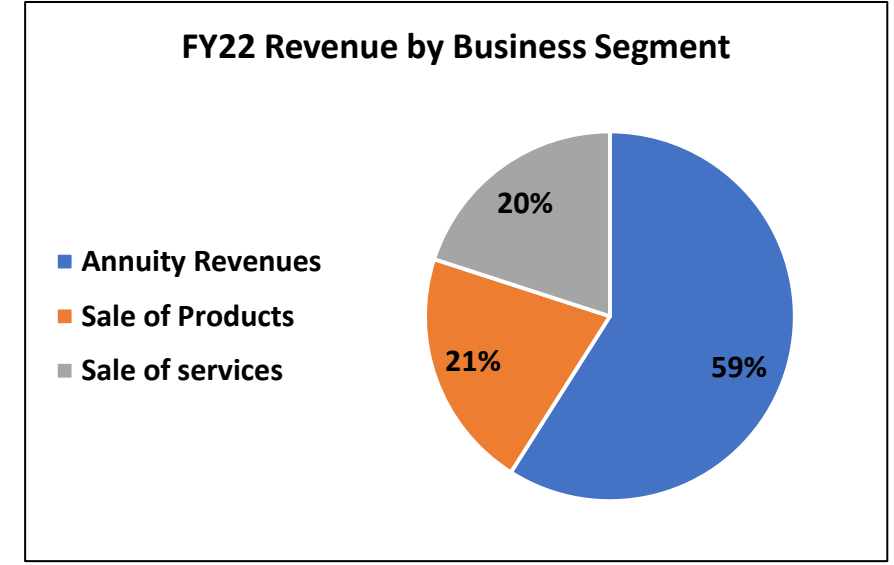
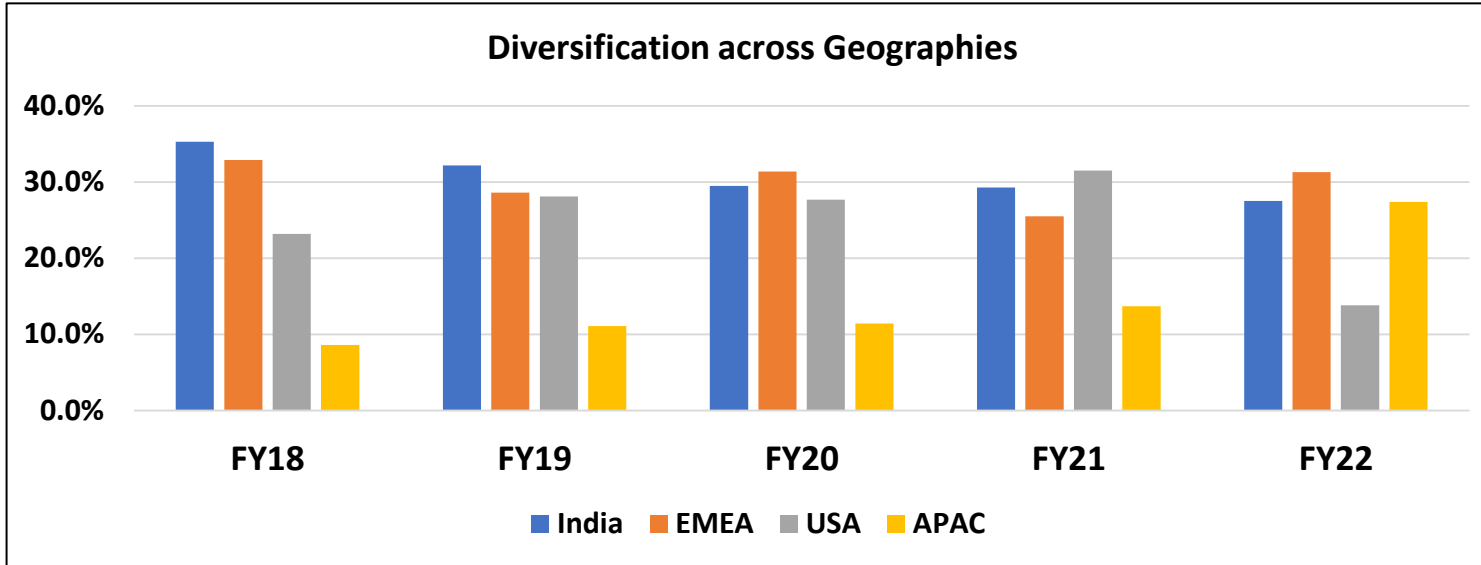
The addressable market for Newgen stands at US\$22bn for ECM, US\$8bn for BPM and US\$2bn for CCM.

Multiple transition driving growth

Changing the sales model to include GSIs, transitioning from a licence sales model towards subscription/annuity model reducing volatility in revenues, shifting its geographic focus towards developed markets. Revenues from the EMEA have already surpassed those from India and streamlining the organisational structure with continued high investment in R&D to drive exponential growth.

Consistently Recognized by Industry Analysts like Gartner and Forrester.

Resilient Business Model in Place



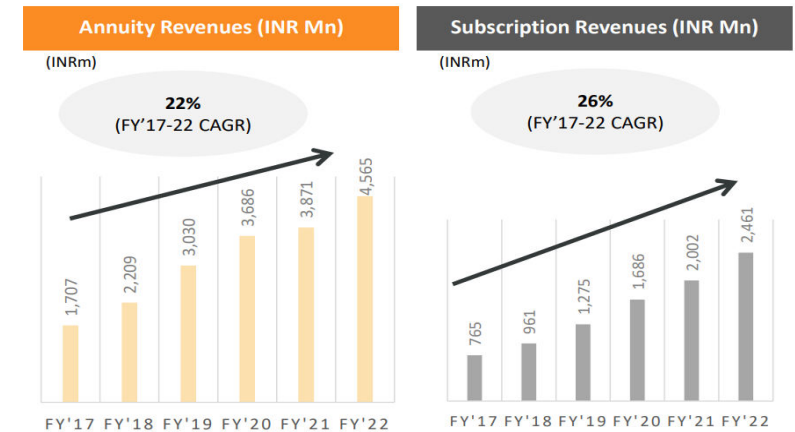
Multiple Transitions Driving Growth (1/2)

To ensure sustainable growth, the company is re-orienting itself through multiple transitions. Potential growth accelerators include:

A) Transitioning to subscription-based revenue model:

- ❑ Going ahead, Newgen is expected to record high growth. To achieve and sustain the growth momentum, the company is pursuing a strategy centering on shift in the revenue model towards SaaS/subscription.
- ❑ Shifting from license to subscription model is expected to have positive impact on the annual revenues. Many software companies have shifted from product pricing model to subscription pricing model which has had positive impact on their financial statements. (includes large companies like Microsoft and Adobe) Customers generally end up paying more for subscription than they were previously for perpetual licenses or there is an increase in new customers when subscription cost are low. Newgen is expected to experience similar increase in revenue.
- ❑ Further, transitioning from a license sales model towards subscription/annuity model is expected to reduce seasonality (There is natural lop-sidedness in revenues which gets aligned to the financial year either of customer or of own financial year. That makes Q4 and Q3 larger quarters for the company and it has historically been for several previous years).
- ❑ The model will also improve predictivity of revenues and enable better cash flow management. It is also expected to reduce DOS.
- ❑ They could roll out upgrades faster, see how customers used each product and make improvements in a shorter time frame.
- ❑ Thus, the subscription model will enable a better business model by reducing the risk of the product being used for longer time period than expected in case of one-time sale. Management expects that it will take about 2-3 years for subscription model to have about 90% revenue share.
- ❑ The new NewgenONE platform is what makes it cheaper and easier for customers to rent a more comprehensive product portfolio. This can lead to more customers adopting it, thereby boosting top-line and bottom-line.
- ❑ There has been an increasing adoption of subscription pricing model across geographies with large orders in India, EMEA, APAC as well as Australia. Over the long term, improvement in SaaS/subscription revenues, coupled with scaling up in developed markets, would reduce the quarterly and yearly volatility in growth.

Strong Acceleration in Annuity and Subscription Revenues



(Annuity revenue accounts for 59% of revenue from operations, while subscription accounts for 34.59%.)

Multiple Transitions Driving Growth (2/2)

B) Global partnerships and Sales model transitioning involving global System Integrators (GSI):

- ❑ Newgen set up the GSI sales channel in FY21. Company has developed the internal GSI & enterprise team – Senior sales leader brought on board. The idea of building relationships with the Global System Integrators (GSI) for making in-roads into the ‘Fortune 2000’ customers in mature markets and continued recognition by industry leading analysts will enable the company to improve revenues and expand their margin profiles. Over the next few years, sales through GSIs may surpass direct sales.
- ❑ Newgen entered into a global strategic alliance with Coforge to accelerate digital transformation for organizations worldwide and with Anabatic Digital, a leading IT solutions provider in Indonesia, for delivering high-value solutions to financial institutions across Indonesia and Asia-Pacific region

GSI partner list



C) Shift in geographic focus towards developed markets:

- ❑ Developed markets account for the bulk of the opportunity; this also holds true for client quality. Various geographies like USA and EMEA have surpassed India’s revenues. Emboldened, the company is now trying to replicate this success in the UK and Australia.

❑ Geography-wise revenue contribution

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
India	32.7%	39.6%	35.3%	32.2%	29.5%	29.3%	27.5%
EMEA	33.3%	27.3%	32.9%	28.6%	31.4%	25.5%	31.3%
USA	27.2%	26.1%	23.2%	28.1%	27.7%	31.5%	13.8%
APAC	6.8%	7.0%	8.6%	11.1%	11.4%	13.7%	27.4%

❑ Growth rate in each geography

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
India	10.0%	49.0%	7.0%	11.0%	-3.0%	1.0%	8.7%
EMEA	16.0%	1.0%	45.0%	5.0%	17.0%	-17.0%	42.1%
USA	6.0%	18.0%	7.0%	46.0%	5.0%	16.0%	16.7%
APAC	49.0%	28.0%	47.0%	55.0%	10.0%	22.0%	0.7%

D) Simplifying management structure:

- ❑ Mr. Virender Jeet was promoted as Chief executive Officer (CEO), effective 1 September 2021 and Mr. Tarun Nandwani was promoted as Chief Operating Officer (COO), effective 1 September 2021. The changes are aimed at simplifying Newgen’s organisational structure and addressing some of the ‘key man risks’ around its Founder, Chairman and Managing Director, Mr Diwakar Nigam.

- ❑ The Company's core addressable market can be broadly classified across low code, hyperautomation, global ECM, BPM and CCM market. The company's products have significant leverage across revenue enhancement as well as cost optimization.
- ❑ Newgen has further expanded its addressable market by developing solution frameworks in key verticals including banking, government/PSU, BPO/IT, healthcare and insurance (addressed as the Application PaaS market).
- ❑ cloud services and the Subscription pricing models have been increasingly adopted globally, with significant orders coming from Australia, EMEA, and India among other regions.
- ❑ The Covid-19 pandemic over the past two years has raised the importance of digital transformation initiatives all across the world. They are driving investments in front-end transformations, customer experience, personalization, and back-end operations to run smoothly, streamline and digitise procedures, shorten response times for service requests, and improve the entire customer journey.
- ❑ According to Gartner Market Estimates,
 - the global content services platform market is estimated at \$7.4 billion in 2021.
 - The business process management suits market is estimated at \$2.6 billion in 2021.
 - The all-encompassing Hyperautomation market is estimated at \$ 25.1 billion in 2021.It forecasts that.
 - Content services platform market will be \$9.3 billion by 2026.
 - The business process management suits market is estimated to reach \$3.1 billion by 2026.
 - The all-encompassing Hyperautomation market is estimated to be \$46.3 billion by 2025.
- ❑ Newgen commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Newgen Software. Aggregating the interviewees' experiences and combined the results into a single composite organization, the study reports that Newgen Software delivered various risk-adjusted present value (PV) quantified benefits to the composite enterprise using Newgen platform: \$5.3 million worth of value accrued over three years by digitizing manual data entry, \$11.3 million in savings over three years through workflow digitization in the call center, \$20.1 million over a three-year horizon by automating the accounts payable process for faster revenue recognition and \$303K operational cost savings. Furthermore, decommissioning unnecessary IT systems led to the cost savings. The composite enterprise achieved several unquantified benefits too, including enhanced employee and customer experiences, better adherence to regulatory compliance, improved innovation and agility with low code, and more.

SWOT Analysis (1/2)

STRENGTHS



▪ **Well-established customer base:** The group has long-standing relations with more than 530 customers in over 69 countries across various sectors. Some of its customers include well-established players in various industries such as banks, insurance firms, business process outsourcing and healthcare organisations.



▪ **Geographical diversification in revenue:** The group has diversified geographical reach with strong presence in more than 69 countries in fiscal 2022. The top 10 customers generated revenue of 29% for fiscal 2022 and exports accounted for 72% of the topline. Diversity in geographic reach and clientele should continue to support the business.



▪ **Improving operating efficiencies driven by constant investment in R&D and healthy product mix:** The group has a diversified product basket mitigating the risk of technological obsolescence in any particular segment. The group, in operation for over three decades, is an established player in the market. The return on capital employed levels remained healthy at 25% in fiscal 2022.

WEAKNESSES



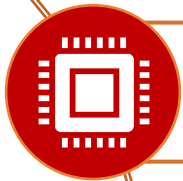
▪ **High fixed cost base and susceptibility to employee attrition:** The group has a high proportion of fixed overheads in its overall cost portfolio (employee costs and rentals and variation in operating margin to a large extent depends on the duration, ticket size and nature of contracts awarded. Operations are also susceptible to employee attrition which is a key issue in the technological domain.



▪ **Working capital intensive operations:** With considerable number of debtors outstanding for more than six months, company has high receivables owing to long implementation phase and delayed payments from customers. However, the collection cycles has steadily been improving from 151 debtor days in FY20 to 97 debtor days in FY22 and is expected to improve further with better pricing policies.

SWOT Analysis (2/2)

OPPORTUNITIES



▪The Company is likely to benefit from the **emerging trends in digitalization**. Content management is at the core of digital transformation.



▪The Company is well positioned to take advantage of the market opportunity with its strong product portfolio which endeavors to enable organisations to **leverage the innovations in mobile, analytics, social and cloud technologies**.

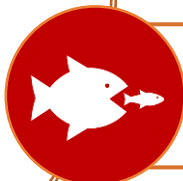


▪Relevance of Digital transformation initiatives have increased further in these uncertain times and the Company has **strategized new offerings** pertaining to this.

THREATS



▪**Uncertain global economic conditions** and changes in fiscal, economic or political conditions in India and the currency risks.



▪**Increasing competition**; changing technologies and regulatory changes in the industry the company operates in.

Magic Quadrant for content Services Platform



Source: Gartner (October 2021)

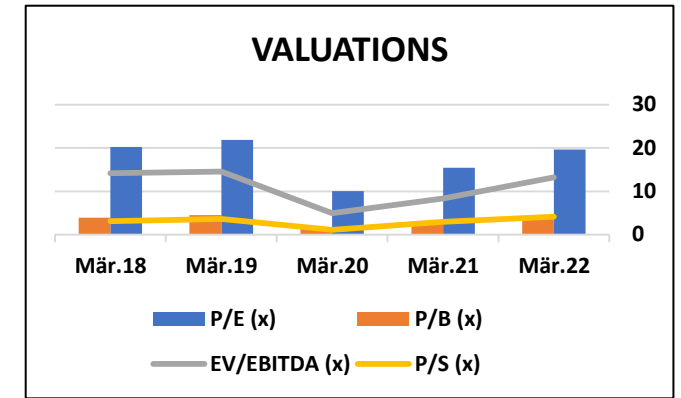
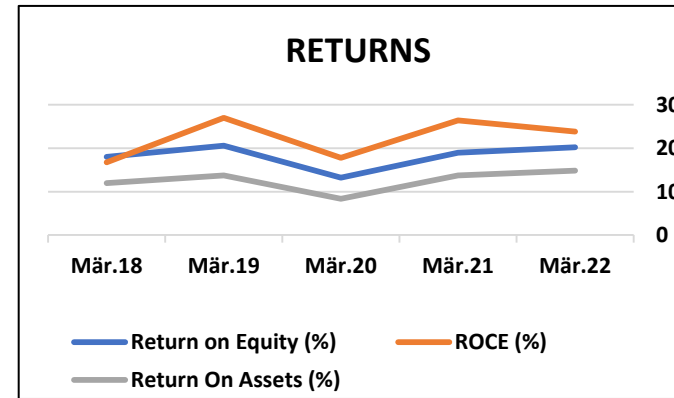
Financial Analysis (1/2)

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue (INR Cr.)	308	347	427	512	621	661	673	779
Operating Profit (INR Cr.)	58	39	70	98	128	105	192	195
Operating Margin (%)	18.83%	11.24%	16.39%	19.14%	20.61%	15.89%	28.53%	25.03%
Net Profit (INR Cr.)	46	28	51	73	102	73	126	164
Net Profit Margin (%)	14.94%	8.07%	11.94%	14.26%	16.43%	11.04%	18.72%	21.05%
EPS	8.59	5.15	7.98	10.53	14.69	10.4	18.07	23.47
Cash flow from Operating (INR Cr.)	9	11	36	60	102	90	216	143

- ❑ In FY 2021-22, Revenue from operations witnessed a growth of 16% YoY and Profit after tax was up by 30% YoY with enhanced business from existing customer and addition of 53 new logos. EBIDTA is stable on account of normalization of cost base and increased remuneration to manage attrition
- ❑ The company is **focusing on a smooth transition from license to cloud and subscription revenues**, that are more long-term and multi-year in nature, along with accomplishing growth.
- ❑ The cloud and subscription revenues, continue to grow at a faster rate and witnessed a growth of 23% during the year. The Company has a **resilient business model in place** with large annuity revenue streams and diversification across customers and geographies. Moreover, the Company's solutions are claimed to be of mission critical nature for the long-term customers which serve as the backbone to their operations.
- ❑ There is **natural lop-sidedness in revenues** which gets aligned to the financial year either of customer or of own financial year. That makes Q4 and Q3 larger quarters for the company and it has historically been for last several years. Currently, R&D expenses comprises about 10% of Revenues and Sales and Marketing expenses comprised 20% of revenues.
- ❑ With continued **focus on expanding in the mature markets** of US, Europe and Australia along with getting deeper into the emerging markets, especially on the back of subscription-based model, building relationships with the Global System Integrators (GSI) in mature markets and continued recognition by industry leading analysts, the company can surely improve revenues and expand their margin profiles.

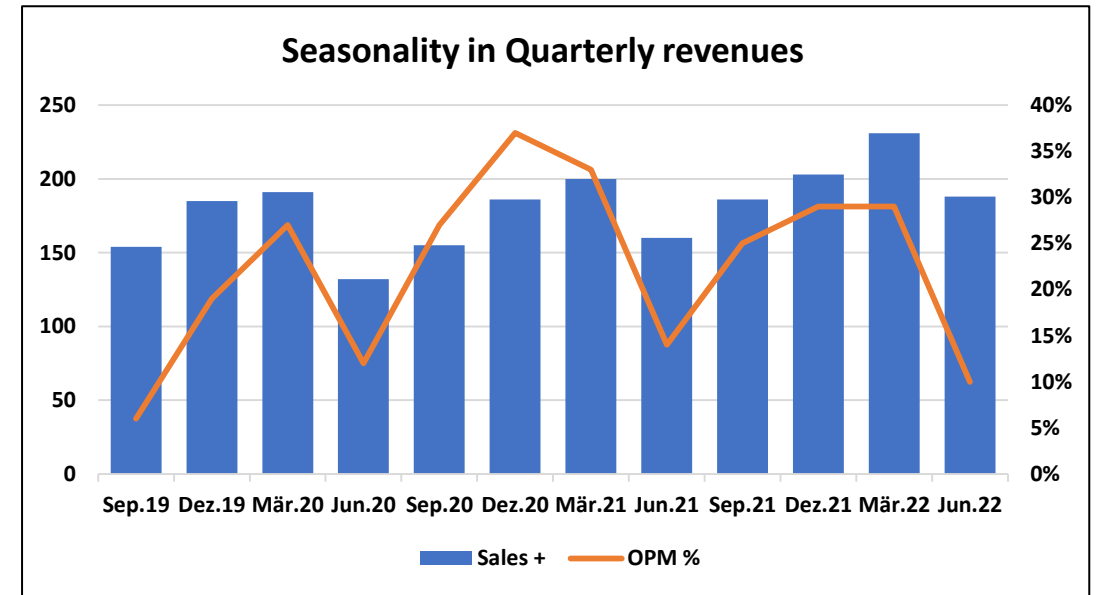
Financial Analysis (2/2)

Key Ratios	FY20	FY21	FY22
Debtor Days	151	105	97
Cash Conversion Cycle	151	105	97
Working Capital Days	114	69	74
Current ratio	2.7	2.7	2.9
Debt/Equity	0.1	0	0.03
OPM %	16%	29%	26%
EPS in Rs	9.42	16.8	22.29



- ❑ **Newgen is a net debt-free company.** Company has a Debt-to-equity ratio 0.03. Debt comprises of borrowings and lease liabilities. Company has a long-term borrowing of Rs. 4.30 Crores and lease liabilities of Rs. 17.25 Crores. The Group does not face a significant liquidity risk with regard to its lease liabilities as the current assets are sufficient to meet the obligations related to lease liabilities as and when they fall due. Interest is also well covered with interest coverage ratio of 61.1.
- ❑ The principal sources of liquidity are cash and cash equivalents and the cash flow that they generate from operations. The Company follows a conservative investment policy and invests in high-quality debt instruments and bonds. As of 31st March 2022, on a consolidated basis, cash and cash equivalents were Rs. 10,363.99 Lakh and in addition to that Rs. 9,237.76 Lakh was invested in mutual funds & bonds and Rs. 27,675.32 Lakh in current and non-current fixed deposits with Banks and NBFC.
- ❑ The net cash generated from operating activities were at Rs. 137 Crores during the year ended 31st March 2022 compared to Rs. 215 Crores during the year ended 31st March 2021 on account of increase in debtors, tax payout and operating expenses. There is negative cash flows from investing and financing activities on account of investment expenses and dividend payout. Company paid Rs. 24.45 Crores as dividend for FY22. Going ahead, cash flows are expected to be strong and pave the way for a healthy cash reserve and stable pay-out ratio.
- ❑ **Debt Level:** The company has more cash than its total debt.
- ❑ **Reducing Debt:** Debt to equity ratio has reduced from 20.9% to 0.8% over the past 5 years.
- ❑ **Debt Coverage:** Debt is well covered by operating cash flow (2307.5%).
- ❑ **Interest Coverage:** It earns more interest than it pays, so coverage of interest payments is not a concern.

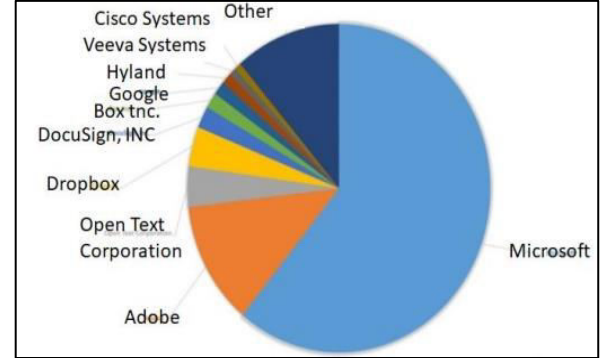
- ❑ **The backdrop of seasonality should be considered while analyzing Q1 figures.** The company's reported revenue increased by 17.8% Y-o-Y. Annuity revenue (ATS/AMC, SaaS & Support), which accounts for 70% of the mix, recorded a gain of 25% YoY. The business's quarterly lumpiness will be lessened as a result of the company's future emphasis on annuity arrangements.
- ❑ The company reported an **EBITDA margin of 10.3%**, down 400 basis points Y-o-Y due to seasonal impact on revenues, rising manpower costs, increase of travel expenses, and investments in sales channels. Travel expenses, which were moderated during lean times, are anticipated to return to normal in the future.
- ❑ According to Newgen, **the company has 3350 employees** as of Q1FY23. It will take some time for attrition to level out as it has been at an elevated level.
- ❑ The government/PSU, insurance, and healthcare sectors all recorded growth of 51.4%, 57%, and 34.6% YoY, respectively, although starting from a lower base, while banking, which accounts for 62 % of the mix, posted 10.6 basis points YoY increase. A YoY fall of 5.8 % was reported for the BPO/IT vertical.
- ❑ Looking at a map, EMEA (31.7 %of the mix), APAC (10.8% of the mix), and India, (33% of the mix), posted growths of 22.9%, 12.5% YoY and 63.7% respectively. Revenue in the US area fell by 17.8% year over year owing to client selection based on deal size. However, US region's sales will continue to expand in the upcoming years.
- ❑ In **this quarter, Newgen added 6 new logos**, of which 2 are for the US region. One contract is a license-based deal, and the other five are subscription-based. These six transactions have an average deal value of \$400–500K USD. Despite a modest increase in logos in Q1, it is optimistic about adding 50–60 logos in FY23.The company stated that the GSI funnel is robust and that it expects to close 15 GSI deals in FY23, up from 5 the year before.
- ❑ The company has **announced partnerships** with Coforge, based in India, and Anabatic Digital, based in Indonesia. A solid funnel will result in an increase in revenue starting in Q2.
- ❑ **The company is expected to maintain its guidance for FY23 of 20%+ revenue growth and 20%-25% EBITDA Margin.**



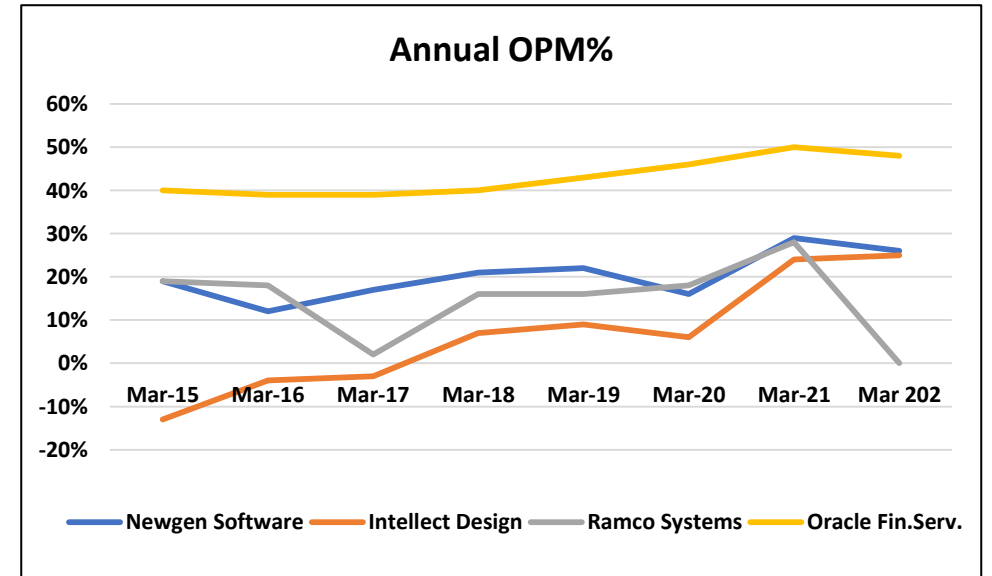
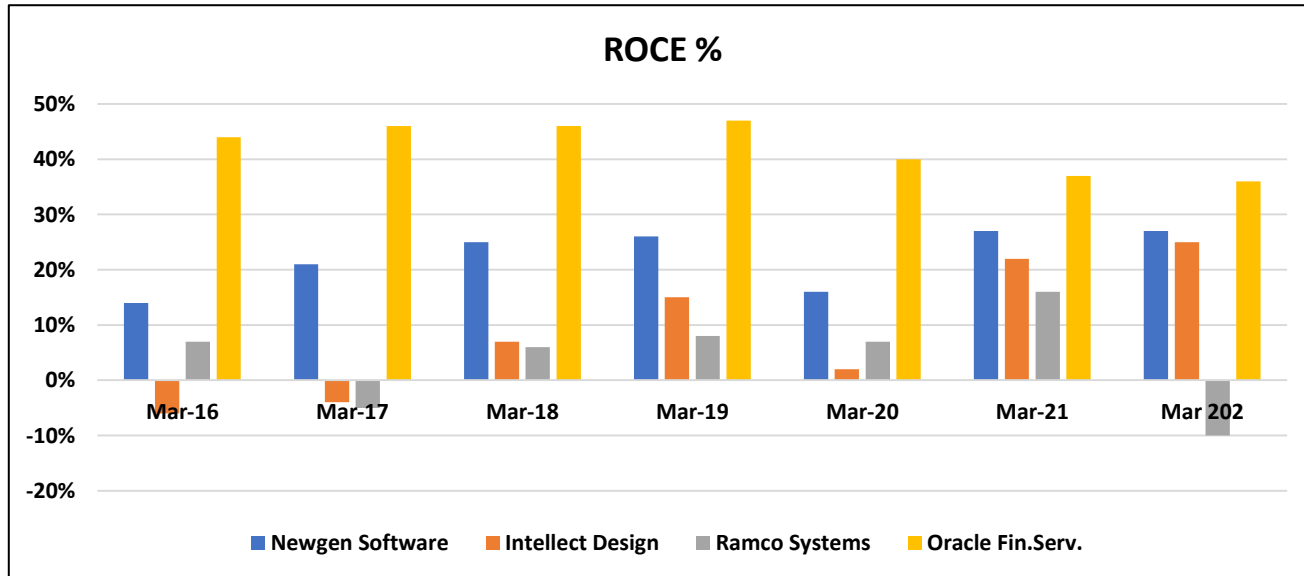
Competition

- ❑ The Company's core addressable market can be broadly classified across low code, hyper-automation, global ECM, BPM and CCM market. Newgen has further expanded its addressable market by developing solution frameworks in key verticals including banking, government/PSU, BPO/IT, healthcare and insurance.
- ❑ There is high entry barrier owing to time required to build similar product portfolio.
- ❑ The global low code competition includes companies like Appian, Pega, ServiceNow, OutSystems, Mendix, etc.
- ❑ The content management market is highly competitive, dominated by Microsoft. However, going ahead, product enhancements are certain to improve Newgen's standing further.
- ❑ **Despite the market's intense competition, Newgen has strengthened its position by putting an emphasis on service delivery and R&D spending. API development, market expansion, and new product development are ongoing initiatives for the company.**

Content management application market share



Source: Edelweiss Wealth Research



Management Overview



Mr. Diwakar Nigam (Chairman and Managing Director)

- ❑ Master's degree in science (mathematics) from the IIT Delhi and a master's degree in technology (computer science) from the IIT Madras.
- ❑ Founding member of National Association of Software and Services Company ("NASSCOM")
- ❑ He promoted a company, Softek Private Limited (a product development company specializing in Compilers, Operating System, Office Productivity tools, etc) and had been associated with the company for a period of 12 years.
- ❑ Has been on Board since April 1, 1993, and has more than 35 years of experience in the IT industry



Virender Jeet (CEO)

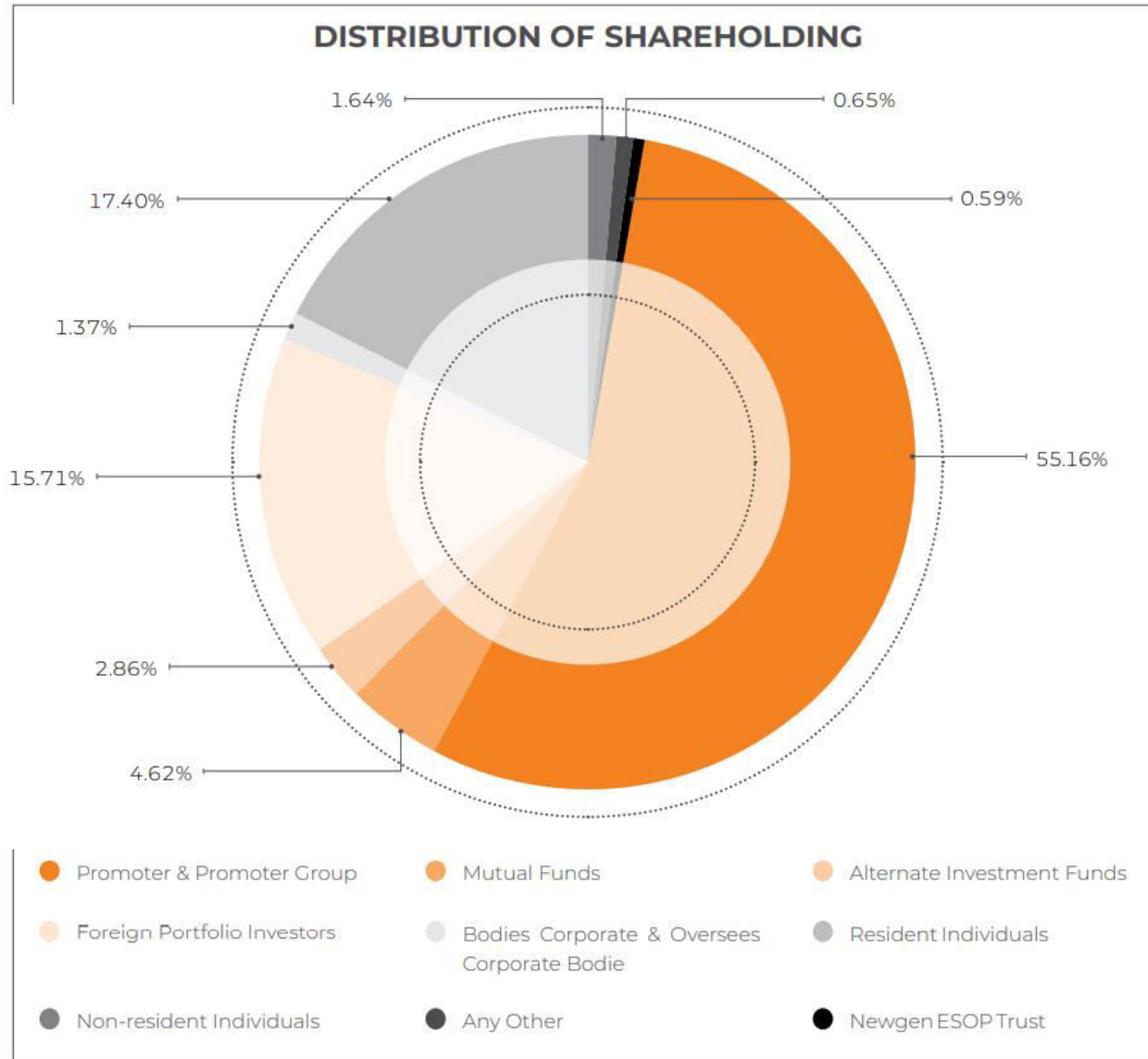
- ❑ Holds a bachelor's degree in engineering from the Savitribai Phule Pune University. He was appointed as a software engineer in the Company with effect from November 7, 1992.
- ❑ Has led the filing of more than 25 patents in India on behalf of Company, of which four have been granted.
- ❑ He has more than 20 years of experience in the field of technology development.
- ❑ Manages the overall strategic and operational responsibility for the entire portfolio of offerings. He oversees the key functions of product development, global sales and marketing and business enabling functions.
- ❑ In fiscal 2022, he received a gross remuneration of ₹ 2.91 Crores.



Surender Jeet Raj (SVP, HR and Operations)

- ❑ Holds a bachelor's degree and a master's degree in arts with specialization in social works from the Jamia Millia Islamia University, New Delhi.
- ❑ He was appointed as the manager, human resources department and administration with effect from June 7, 1993 and as the senior vice-president (human resources operations) with effect from April 1, 2006.
- ❑ Previously also worked with Eicher Goodearth Limited, SRF Nippondenso Limited, PCS Data Products Limited and Semiconductor Complex Limited.
- ❑ He has more than 30 years of experience in the field of human resources development. He is responsible for our human resources strategy, global operations and programs aligned human resource strategy.
- ❑ In fiscal 2017, he received a gross remuneration of ₹ 3.05 Crores.

Shareholding Information



Tabled below is the shareholding distribution of Equity shares of the Company as on 31st March 2022:

Categories	Number of Shares	Percentage
Promoter & Promoter Group	3,85,86,300	55.16
Mutual Funds	32,34,393	4.62
Alternate Investment Funds	19,97,963	2.86
Foreign Portfolio Investors	1,09,91,359	15.71
Bodies Corporate & Oversees Corporate Bodies	9,57,449	1.37
Resident Individuals	1,21,73,639	17.40
Non-resident Indians	11,47,610	1.64
Any Other	4,51,478	0.65
Newgen ESOP Trust	4,15,510	0.59
Total	6,99,55,701	100

- Company has a low promoter holding and Promoter holding has decreased over last few years from 65.73% in March '20 to 55.12% in March '22.
- Renowned investor Mukul Mahavir Agrawal holds 1.57% stake in this company.
- In last 3 months, foreign institutional holding of the company has decreased by 1.77%. Pledged promoter holding is insignificant.

Currency Risk	The Company derives about 70% of its revenues from international markets and thus is always exposed to unforeseen exchange rate fluctuations that can potentially impact the revenues and profits of the Company.
Market-specific risk	The Company can be impacted by intense competition in the market. To deal with such market-specific risks, the Company endeavors to de-risk the geographical dependence and expand its clientele across geographies continuously. From about 48 countries in FY2013, the Company increased its presence across 73 countries in FY2022. Similarly, the Company now has close to 530 active clients in FY2022, adding 53 new clients during the year
Attrition Risk	The Company's business depends largely upon its highly skilled technology professionals and its ability to hire, attract, motivate, retain and train these personnel. Any inability to maintain a skilled and motivated team of professionals can affect the business.
Working capital intensive operations	With considerable number of debtors outstanding for more than six months, company has high receivables. Long implementation phase and delayed payments from customers are key reasons for large outstanding receivables. However, the collection cycles has been steadily improving from 151 debtor days in FY20 to 97 debtor days in FY22. The collection cycle is expected to improve further as payment in this model is received in advance.
Acquisition related risks	As part of the inorganic growth strategy, the Company may acquire other Companies, businesses or products from time to time and the success of these acquisitions depends upon the effective integration of acquired employees with the rest of the company and the optimum realization of synergies between acquired business and the company. High acquisition costs are also largely responsible for straining the cash flows of the company.

Future Outlook

- ❑ With major transitions underway, the company is also undertaking many strategies for the sustainable development over the medium and long term.
- ❑ Company plans to expand their geographical footprint through the 'land and expand' model. Newgen has been operating in 73 countries and believes that it has a significant opportunity to grow its international footprint.
- ❑ Anticipating strong free cash flow generation, steady revenue growth across segments, improving margins on the back of operation leverage and value-added products, we expect the company to come out stronger than ever before.
- ❑ Newgen plans to expand the product portfolio through investments in advanced features and technologies and the Company may also explore, with extreme care, the inorganic route for expansion of product capabilities or market presence from time to time.
- ❑ Newgen has won **16 new logo wins in Q4 FY22 and 6 new logo wins in Q1FY23** across geographies. Substantial portion of these new deal wins have come from mature markets, in line with the management's strategy of higher exposure to US, Europe, Australia etc. Going forward, this shall lead to a higher contribution to revenue from these geographies.
- ❑ The Company has been focusing on increasing the share of its stable revenue streams which would help in reducing the seasonality in business. Currently annuity revenues comprise 59% of revenues. Also, Newgen plans to scale up branding and promotional activities.
- ❑ Owing to the significant increase in demand for digital transformation and the company's transition-related initiatives, including diversifying the sales channel and pricing model (towards Saas/subscription) and entering developed markets (the US, the UK, and Australia), the company is anticipated to record a 22 percent CAGR in revenues and 24 percent in earnings over the course of FY22–24E, with EBITDA margins expected to stay within the guidance range of 23.5–25 percent.
- ❑ Given Newgen's growth potential, we believe the company is becoming a strong tech story in the making.



SEBI Research Analyst Registration No. INH200006451

1. At the time of writing this article, **the analyst has no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.