

Newgen Software Technologies Ltd

Incorporated in 1992, Newgen Software Technologies Limited (NSTL) is a New Delhi based IT company and a global provider of Business Process Management (BPM), Enterprise Content Management (ECM), Customer Communication Management (CCM), Document Management System (DMS), Workflow and Process Automation. NSTL has 450+ active customers, with clients spread over 60 countries. The company sells its products to banks, insurance firms, BPOs and healthcare organizations. It has offices in the US, Canada, the United Kingdom, Singapore, and Dubai.

Positives: (a) Diversified business across several verticals including Banking, Government/PSUs, BPO/IT, Insurance and Healthcare (b) Diversified revenue streams from multiple geographies with low customer concentration (c) Recurring and non-recurring repeat revenues from long standing customer relationships (d) Focused on driving innovation through in-house R&D.

Investment concerns: (a) NSTL was able to report only single digit bottom-line CAGR of ~8% despite a top-line CAGR ~20% over FY13-17, due to lack of stability in operating margins (b) During 1HFY18, the company has reported very low margin and profitability (c) working capital days are very high

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 274x its 1HFY2018 annualized earnings (at the upper end of the issue price band), which is higher compared to its peers like Intellect Design Arena (trading at PE 143x - 1HFY2018 annualized earnings). Further last four years historical financial records and 1HFY18 doesn't provides confidence. **Hence, we recommend Neutral rating on the issue.**

Key Financials

Y/E March (cr)	FY2015	FY2016	FY2017	1HFY18
Net Sales	308	347	427	207
% chg	24.2	12.4	23.2	-
Net Profit	46	28	52	6
% chg	12.9	(40.0)	88.2	-
OPM (%)	18.7	11.3	16.4	4.6
EPS (Rs)	7.1	4.3	8.0	0.9
P/E (x)	34.5	57.6	30.6	-
P/BV (x)	7.6	7.0	5.8	-
RoE (%)	21.9	12.1	19.1	-
RoCE (%)	20.9	12.1	19.9	-
EV/Sales (x)	5.1	4.6	3.7	-
EV/EBITDA (x)	27.1	40.5	22.4	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Neutral

Issue Open: Jan 16, 2018

Issue Close: Jan 18, 2018

Issue Details

Face Value: ` 10

Present Eq. Paid up Capital: ` 65.4cr

Fresh issue: ` 95cr

Post Eq. Paid up Capital: ` 69.2cr

Issue size (amount): *** 425cr (Include offer for sale - ` 330)

Price Band: ` 240-245

Lot Size: 61 shares and in multiple thereafter

Post-issue implied mkt. cap: ** 1,662cr - *** 1,696cr

Promoters holding Pre-Issue: 70.3%

Promoters holding Post-Issue: 66.3%

* Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	66.3%
Others	33.7%

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Company background

Newgen Software Technologies Limited is an IT company, incorporated in 1992 with head quarter in New Delhi. Newgen Software is a global provider of Business Process Management (BPM), Enterprise Content Management (ECM), Customer Communication Management (CCM), Document Management System (DMS), Workflow and Process Automation. Some of the biggest clients of the company are TCS, HP and HCL.

The firm currently sells its products across 60 countries. The company's clients are spread across banks, insurance firms, BPOs and healthcare organizations. It has offices in the US, Canada, the United Kingdom, Singapore, and Dubai.

Exhibit 1: Diversified Global Customer Base



Source: Company, Angel Research

Issue details

NSTL's IPO is a mix of Offer for sale and fresh issue. The issue would constitute fresh issue worth of ₹95cr and Offer for sale worth of ₹330cr (at upper band). The company will dilute 5.6% of its post-offer paid-up equity share capital.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	45,928,938	70.3%	45,928,938	66.3%
Others	19,429,212	29.7%	23,306,763	33.7%
	65,358,150	100.0%	69,235,701	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the offer:

The objectives of the IPO for the Company are:

- to purchase and furnish office premises near Noida-Greater Noida Expressway, Uttar Pradesh; and
- general corporate purposes

Outlook and Valuation:

In terms of valuations, the pre-issue P/E works out to 274x its 1HFY2018 annualized earnings (at the upper end of the issue price band), which is higher compared to its peers like Intellect Design Arena (trading at PE 143x -1HFY2018 annualized earnings). Further last four years historical financial records and 1HFY18 doesn't provides confidence. **Hence, we recommend Neutral rating on the issue.**

Key Risk

- The company may be subject to intellectual property infringement claims by other companies which could materially increase costs & harm company's ability to generate future revenue & profits.
- Increase in competition from other player can impact the business of company.

Consolidated Income Statement

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Total operating income	248	308	347	427	207
% chg	23.5	24.2	12.4	23.2	-
Total Expenditure	200	251	308	357	198
Raw Material	3	0	-	-	-
Personnel	116	143	183	210	118
Others Expenses	82	107	-124	147	80
EBITDA	48	58	39	70	10
% chg	6.2	20.3	(32.1)	78.3	-
(% of Net Sales)	19.3	18.7	11.3	16.4	4.6
Depreciation& Amortization	4	4	4	5	3
EBIT	44	53	35	65	7
% chg	7.3	20.1	(34.7)	86.8	-
(% of Net Sales)	17.9	17.3	10.1	15.3	3.3
Interest & other Charges	1	2	4	4	2
Other Income	7	8	3	7	3
(% of PBT)	13.5	13.1	8.4	9.9	35.3
Share in profit of Associates	-	-	-	-	-
Recurring PBT	50	59	34	68	8
% chg	11.7	18.8	(42.0)	97.3	-
Tax	9	13	6	15	2
(% of PBT)	17.4	21.5	18.7	22.5	23.7
PAT (reported)	41	46	28	52	6
% chg	11.2	12.9	(40.0)	88.2	-
(% of Net Sales)	16.5	15.0	8.0	12.3	2.8
Basic EPS (`)	6.3	7.1	4.3	8.0	0.9
Fully Diluted EPS (`)	6.3	7.1	4.3	8.0	0.9
% chg	11.2	12.9	(40.0)	88.2	-

Source: RHP, Angel Research

Consolidated Balance Sheet

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
SOURCES OF FUNDS					
Equity Share Capital	10	63	63	63	64
Reserves & Surplus	163	148	166	211	208
Shareholders Funds	174	211	229	275	271
Total Loans	39	45	59	52	66
Deferred Tax Liability	-	0	0	0	0
Total Liabilities	213	256	288	327	338
APPLICATION OF FUNDS					
Net Block	19	23	57	55	54
Capital Work-in-Progress	3	5	6	11	17
Investments	55	60	45	48	49
Current Assets	184	231	273	322	327
Inventories	-	-	-	-	-
Sundry Debtors	131	176	206	239	204
Cash	24	19	24	35	44
Loans & Advances	12	14	18	21	32
Other Assets	17	22	26	27	48
Current liabilities	52	68	101	120	123
Net Current Assets	132	162	172	203	205
Deferred Tax Asset	4	6	9	10	12
Total Assets	213	256	288	327	338

Source: RHP, Angel Research

Consolidated Cash Flow Statement

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Profit before tax	50	59	34	68	8
Depreciation	4	4	4	5	3
Change in Working Capital	(32)	(43)	(20)	(37)	10
Interest / Dividend (Net)	0	(0)	0	0	0
Direct taxes paid	(8)	(13)	(17)	(17)	(11)
Others	4	2	9	14	4
Cash Flow from Operations	17	9	11	33	14
(Inc.)/ Dec. in Fixed Assets	(6)	(10)	(22)	(10)	(8)
(Inc.)/ Dec. in Investments	(53)	1	16	3	1
Cash Flow from Investing	(59)	(9)	(6)	(6)	(7)
Issue of Equity	(1)	0	0	0	0
Inc./(Dec.) in loans	62	6	14	(3)	15
Dividend Paid (Incl. Tax)	(6)	(9)	(12)	(8)	(12)
Interest / Dividend (Net)	(1)	(2)	(3)	(4)	(2)
Cash Flow from Financing	53	(6)	(1)	(15)	1
Inc./(Dec.) in Cash	11	(5)	5	11	8
Effect of exch diff on cash	0	(0)	0	(0)	1
Opening Cash balances	13	24	19	24	35
Closing Cash balances	24	19	24	35	44

Source: Company, Angel Research

Exhibit 3: Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017
Valuation Ratio (x)				
P/E (on FDEPS)	39.0	34.5	57.6	30.6
P/CEPS	35.9	31.6	49.8	28.0
P/BV	9.2	7.6	7.0	5.8
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	6.3	5.1	4.6	3.7
EV/EBITDA	32.5	27.1	40.5	22.4
EV / Total Assets	7.3	6.1	5.5	4.8
Per Share Data (Rs)				
EPS (Basic)	6.3	7.1	4.3	8.0
EPS (fully diluted)	6.3	7.1	4.3	8.0
Cash EPS	6.8	7.8	4.9	8.8
DPS	0.0	0.0	0.0	0.0
Book Value	26.6	32.3	35.1	42.0
Returns (%)				
ROCE	20.9	20.9	12.1	19.9
Angel ROIC (Pre-tax)	33.3	30.1	15.9	26.7
ROE	23.7	21.9	12.1	19.1
Turnover ratios (x)				
Inventory / Sales (days)	-	-	-	-
Receivables (days)	192	208	216	205
Payables (days)	11	17	16	15
Working capital cycle (ex-cash) (days)	182	191	201	189

Source: Company, Angel Research

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