

## NEWGEN SOFTWARE TECHNOLOGIES LIMITED

January 12, 2018


**NEWGEN**

### Issue Highlights

Industry	Software
Total Issue (Shares) - Offer for sale	13,453,932
Total Issue (Shares) - Fresh Issue	3,877,551
<b>Net Offer to the Public</b>	<b>17,331,483</b>
Issue Size (Rs. Cr.)	415-424
Price Band (Rs.)	240-245
Offer Date	16-Jan-18
Close Date	18-Jan-18
Face Value	10
Lot Size	61

Issue Composition	In shares
Total Issue for Sale	17,331,483
QIB	8,665,742
NIB	2,599,722
Retail	6,066,019

Shareholding Pattern (%)		
Particulars	Pre-issue	Post-issue
Promoters & promoters group	70.27%	66.34%
QIB	20.59%	12.52%
NIB	0.00%	3.75%
Retail	9.14%	17.39%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

Objects of the Issue
<b>Offer for Sale</b>
<ul style="list-style-type: none"> <li>The Offer includes an Offer for Sale of 13,453,932 Equity Shares by the Selling Shareholders. Company will not receive any proceeds from the Offer for Sale by the Selling Shareholders.</li> </ul>
<b>Fresh Issue</b>
<ul style="list-style-type: none"> <li>The objects for which the Net Proceeds of the Fresh Issue will be utilized are as:</li> <li>Purchase and furnishing of office premises near Noida-Greater Noida Expressway, Uttar Pradesh; and</li> <li>General corporate purposes</li> </ul>

### Book Running Lead Manager

- ICICI Securities Limited
- Jefferies India Private Limited
- IDFC Bank Limited

Name of the registrar      Karvy Computer Share Pvt Ltd

### About the Company

Established in 1992, the company deals in business process management software for banks, business process outsourcing firms, government organisations and sell products across 60 countries. The Company mainly offers products in ECM and BPM space. It sells its products through direct sales and through its 300 strong channel partners globally. The company has four patents registered in India and 28 outstanding patent applications in India and two outstanding patent applications in the USA.

### Strengths

**Industry analyst recognition:** The Company provides 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.

**Diversified business across several verticals:** As of September 30, 2017, applications were built on its platform in 17 different verticals. It had over 450 active customers (invoiced in the last 12 months) in over 60 countries across various sectors including banking, government/PSUs, BPO/IT, insurance and healthcare.

**Diversified revenue streams from multiple geographies with low customer concentration:** The business of the company has diversified revenue streams including from license fees or subscription fees (in case of cloud deployment), implementation and development charges, ATS/AMC and support charges. 24% of the revenues comes from sales of software, approx 50% comes from Annuity based revenue (ATS/AMC-19.53, Support-28.15, SaaS Revenues-1.94). While approx 25% is from Sale of Services. With respect to its geographic operations, India, EMEA and USA have traditionally been the largest contributors to its revenues, contributing 39.62%, 27.28% and 26.05% of its revenue from operations in fiscal 2017.

**Recurring and non-recurring, repeat revenues from long standing customer relationships:** As per the company H1 accounts of approx 40% of revenue while H2 accounts of 60% of the revenue due to year end spending of customers (December for the international customers while March for the domestic customers). The company has long-standing relationships with its customers, which include 17 Global Fortune 500 companies. For the six months ended September 30, 2017 and for fiscals 2017, 2016 and 2015, its revenue from repeat customers was 81.59%, 72.18%, 81.51% and 76.68% of its revenue from operations.

**Focused on driving innovation through in-house R&D:** The Company has increased the headcounts in its R&D team from 197 as of March 31, 2015 to 243 in March 31, 2016 and further to 256 as of March 31, 2017. As of September 30, 2017, its in-house R&D team comprised 260 employees, which was 10.05% of its total employees. For the six months ended September 30, 2017 and for fiscals 2017, 2016 and 2015, it spent Rs. 16.93 Cr., Rs. Rs.31.31Cr, Rs. 25 Cr and Rs. 20.35 Cr respectively, on its research and development activities, representing 8.17%, 7.33%, 7.21% and 6.60% respectively, of its revenue from operations during these periods.

### Strategies

**Expand its business and geographical footprint:** The Company plans to grow through its differentiated 'land and expand' model. As of September 30, 2017, it had over 450 active customers in a wide variety of verticals, including banking, government/PSUs, BPO/IT, insurance and healthcare. The company plans to develop new customer relationships by identifying potential customers that operate within the same verticals and engage in cross-

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selling of its solutions. The company also aims to create thought leadership content through various media including brochures, flyers, white papers, blogs and videos for different verticals on relevant products and solutions, best practices and new initiatives

**Focus on attractive verticals in select mature markets:** The Company has a strong presence across regions in the banking and healthcare verticals and it intends to continue to expand its customer base in these verticals in select mature markets, including USA and UK. Its focus areas in the Caribbean include banking and government/PSUs in partnership with consulting firms. As part of its strategy to increase its customer base in USA, it had made infrastructure and operational investments in USA including hiring of senior-level professional in sales and marketing for the USA market in fiscal 2016.

**Expand its product portfolio through investment in advanced features and technologies:** To address the market opportunities arising from digitisation, the company seeks to continue to expand its product portfolio. Also the company is currently working on several projects including ECM NXT, Virtual Repository Services, Digital Sensing, RPA with BPM, BPM NXT and Corrus.

**Expand and grow its strategic business applications to new verticals:** The Company believes that focusing on the digital transformation needs of organisations within the industry verticals (including banking, government/PSU, BPO/IT, insurance and healthcare) can help drive adoption of its platform. The company also plans to target new verticals including education, telecommunications, oil & gas, retail, manufacturing, infrastructure and logistics. It also intends to continue to build and help partners build BPM-based strategic applications on its platforms. It has CROs to structure its customer relationships for positioning it well for future opportunities.

### Risk Factors

**Intense competition:** The markets for its software products and services are intensely competitive and is subject to rapid technological change.

**Business and results of operations are dependent on the contracts:** The business of the company and results of operations are dependent on the contracts that it enters into with its customers. Any breach of the conditions under these contracts may adversely affect its business and results of operations.

**Failure or delays in obtaining third party certifications and accreditations:** The Company is required to obtain several third party certifications and accreditations such as service operation, capability maturity model integration, International Security Management Association, International Standard on Assurance Engagement, payment card industry and United States Health Insurance Portability and Accountability Act of 1996 in relation to its softwares. Failure or delays in obtaining third party certifications and accreditations may cause delays in its delivery schedules and disruptions in its business which may adversely affect its business, financial condition and results of operations.

### Industry Outlook

Ovum's key indicators of digitalisation reveal that the rapid pace of adoption of digital and enabling technologies is increasing across enterprises and end users globally. Global technology spending is estimated at approximately USD 2,385 billion in 2017. Spending is projected to grow at CAGR 3.36% from 2017 to 2021 and reach USD 2,722 billion by 2021. Digitalisation is driving major changes in the global business software market, with IT leaders looking to adopt new technologies and software platforms to meet critical business needs, including revenue growth driven via new products and services, better customer experience and delivery mechanisms, and growth in top and bottom lines.

### Peer comparison

As per the company, there are no listed entities in India which are similar to its line of business and comparable to its scale of operations.

### Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 245, the stock is priced at pre issue P/E of 137.05x on its projected annualised FY18 EPS of Rs. 1.79. Post issue, the stock is priced

at a P/E of 145.18x on its EPS of Rs. 1.69. Looking at the P/B ratio at Rs.245 the stock is priced at P/B ratio of 5.90x on the pre issue book value of Rs.41.54. and on the post issue book value of Rs. 40.06 the P/B comes out to 6.12x.

On the lower end of the price band of Rs.240 the stock is priced at pre issue P/E of 124.25x upto its projected annualise FY18 EPS of Rs. 1.69.Post issue, the stock is priced at a P/E of 142.22x on its EPS of Rs. 1.69. Looking at the P/B ratio at Rs. 240, the stock is priced at P/B ratio of 5.78x on the pre issue book value of Rs. 41.54 and on the post issue book value of Rs. 40.06, the P/B comes out to 5.99x.

### Outlook

According to management, based on last five fiscal's financial performance pattern, first half always contributes around 40% of revenues and balance comes in the second half with higher margins due to year end spending of customers. However, the revenues of the company are on the declining mode and also the issue looks expensive.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 16, 2018
Bid/Offer Closing Date	January 18, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	January 23, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	January 24, 2018
Credit of Equity Shares to depository accounts of Allotees	January 25, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	January 29, 2018

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	207.25	427.10	346.81
management fees			
Total expenditure	197.63	357.10	307.55
<b>Operating Profit</b>	<b>9.62</b>	<b>70.00</b>	<b>39.26</b>
OPM%	4.64	16.39	11.32
Other Income	2.70	6.67	2.86
<b>PBDIT</b>	<b>12.33</b>	<b>76.67</b>	<b>42.12</b>
Depreciation	2.77	4.84	4.37
<b>PBIT</b>	<b>9.56</b>	<b>71.83</b>	<b>37.75</b>
Interest	1.898	4.26	3.51
<b>PBT</b>	<b>7.66</b>	<b>67.57</b>	<b>34.24</b>
Deferred tax credit	-2.33	-1.58	-2.56
Tax	4.15	16.79	8.98
<b>Profit After Tax</b>	<b>5.84</b>	<b>52.36</b>	<b>27.82</b>

Balance sheet is on next page

**Balance Sheet**

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
<b>Non-current assets</b>			
Property, plant and equipment	53.76	54.24	55.93
Intangible assets	0.54	0.70	1.03
Capital work-in-progress	17.48	11.08	6.05
Deferred tax assets (net)	12.37	10.13	8.55
Long-term loans and advances	22.16	13.12	11.61
Other non-current assets	2.19	1.61	1.63
<b>Total Non- Current Assets</b>	<b>108.50</b>	<b>90.88</b>	<b>84.78</b>
<b>Current assets</b>			
Current investments	49.09	48.24	45.02
Investories	0.00	0.00	0.00
Trade Receivables	203.54	239.36	205.51
Cash and Bank Balance	43.57	34.81	23.58
Short Term loans & Advances	9.74	8.02	5.99
Other current assets	46.19	25.40	24.38
<b>Total current assets</b>	<b>352.12</b>	<b>355.83</b>	<b>304.48</b>
<b>Total Assets</b>	<b>460.62</b>	<b>446.71</b>	<b>389.26</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	0.06	0.15	0.25
Other Long term Liabilities	8.91	10.35	13.36
Long term Provisions	15.97	14.43	11.22
<b>Total non-current liabilities</b>	<b>24.94</b>	<b>24.93</b>	<b>24.82</b>
<b>Current liabilities</b>			
Short term borrowings	66.29	52.26	58.83
Trade Payables	18.74	18.05	14.85
Other Current Liabilities	76.33	73.47	58.91
Short term Provisions	2.82	3.28	2.49
<b>Total current liabilities</b>	<b>164.17</b>	<b>147.06</b>	<b>135.09</b>
<b>Total</b>	<b>189.12</b>	<b>171.99</b>	<b>159.91</b>
<b>NET Worth</b>	<b>271.50</b>	<b>274.72</b>	<b>229.34</b>
Net worth represented by:			
Share capital	63.62	63.38	63.09
Other Equity	207.88	211.34	166.25
<b>Net Worth</b>	<b>271.50</b>	<b>274.72</b>	<b>229.34</b>



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## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★ ★
<b>FAIR</b>	★ ★ ★
<b>GOOD</b>	★ ★ ★ ★
<b>EXCELLENT</b>	★ ★ ★ ★ ★

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