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Newgen Software Technologies

CM Rating 40/100

Software product maker

While revenues have grown consistently, the margins and profit have fluctuated

Newgen Software Technologies offers a platform to enable organizations to drive digital transformation of business processes such as automation of routine business functions, making them faster, easier and more accurate and increasing the channels or devices through which these functions can be performed.

The platform comprises enterprise content management (ECM) allowing digitization of enterprise content and information. The platform provides tools for enterprises to capture and extract information from various sources, classify, store, archive or retrieve as well as dispose of any content and documents required in day-to-day business operations. There is flexibility to access or deliver content over mobile and cloud creating a highly connected and digital workplace. The records management system ensures compliance with regulatory requirements in relation to management of records.

Business process management (BPM) allows enterprises to manage a complete range of business processes including designing and modeling flow of work, executing the flow of work through the workflow engine and monitoring the flow of work for future improvement. The dynamic case management capabilities allow decision-makers to respond to real time opportunities, challenges and other unanticipated situations while maintaining a high level of collaboration.

Customer communication management (CCM) offers a unified communication platform that allows enterprises to improve communication with their customers by delivering a personalized, targeted and consistent communication through various channels.

The business has multiple revenue streams including from one-time upfront license fees in relation to the platform deployed on-premise, recurring fees and charges, subscription fees for licenses to deploy platform on cloud, charges for annual technical support and maintenance including updates of licences and installation,

ISSUE HIGHLIGHTS

Fresh shares offer size (in Rs crore)	95
Price Band (Rs)	240-245
No. of fresh shares on offer at Rs 240 per share (crore)	0.40
No. of fresh shares on offer at Rs 245 per share (crore)	0.39
Offer for share sales (Number of shares)	13453,932
Offer for share sales size at Rs 240 per share (in Rs crore)	322.89
Offer for share sales size at Rs 245 per share (in Rs crore)	329.62
Total issue size (Rs crore)	417-424.62
Minimum Bid Lot (in number of shares)	61
Post issue equity at Rs 245 per share (Rs crore)	69.24
Post-issue promoter and promoter group stake at Rs 245 per share (%)	66.26%
Issue open date	16-01-2018
Issue close date	18-01-2018
Listing	NSE & BSE

charges for support and development services, and milestone-based charges for implementation and development, and charges for scanning services.

There were over 450 active customers invoiced in the last 12 months in over 60 countries end September 2017. Some of the key active customers include Trust Company of America, Mercantil Bank, ICICI Bank, Trafigura, Bajaj Electricals, United Arab Bank, National Commercial Bank Jamaica, Axis Bank, Yes Bank, Kotak Mahindra Bank, Bank Islam Brunei Darussalam, Philippines Resource Saving Bank, ICICI Prudential Life Insurance, Reliance General Insurance, Max Life Insurance, Strides Shasun and Shriram Transport Finance. Enterprise-wide, mission-critical solutions have been used by some of the leading global businesses in various sectors including banking, government, BPO and IT, insurance and healthcare.

Strengths

Recognized by Gartner, the information technology research and advisory company, as the only vendor positioned in all four magic quadrants for case management and CCM.

The three spaces of the technology market of enterprise content management, business process management and customer communication management are growing globally at a rate of 7%-10%, while the rest of the technology space is growing at a much slower rate of around 3%. Within India, these three areas are expected to grow at more than double the global growth expectation. Nearly 40% of the business comes from India.

Digitization is gaining momentum and providing growth opportunities.

Four patents have been registered in India and there are 27 outstanding patent applications in India and one in the US. A total of 10 trademarks have been registered in India.

Weaknesses

The development of products is a costly, complex and time-consuming process. The investment often involves a long wait for return. Thus, the product business has long gestation and leads to volatility in earnings.

The market for software products and services is competitive and subject to rapid technological change. There is competition from single-product large vendors as well as vendors present across more than one product suite.

The cloud strategy including software as a service offerings might impact revenues and profit from existing and future on-premise enterprise software offerings

Valuations

Net sales increased 22% to Rs 383.12 crore and the operating profit margins (OPM) were up 510 basis points to 17.4% in the fiscal ended March 2017 (FY 2017). Profit after tax (Pat) jumped 81% to Rs 50.16 crore. However, Pat declined 35% from Rs 42.80 crore to Rs 27.65 crore in FY 2016. The OPM, too, slipped from 23.2% in FY2013 to 12.3% in FY 2016 but recovered to 17.4% in FY 2017.

Net sales stood at Rs 182.78 crore and the OPM at 4.9% in the six months ended September 2017. Pat was Rs 5.65 crore. Due to seasonality in business, profit cannot be annualized.

At the upper band of Rs 245, P/E works out to 33.9 times EPS of Rs 7.2 (on post-IPO equity) for FY 2017. There are no listed entities in India that are in a similar line of business and comparable on scale of operations.