March 06, 2017

Newgen Software Technologies Limited

Instrument*	Rated Amount (in crore)	Rating Action
Short-term Fund-based	60.00	[ICRA]A2+; reaffirmed
Short-term Non Fund-based	10.50	[ICRA]A2+; reaffirmed
Total	**70.50**	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed its [ICRA] A2+ (pronounced ICRA A two plus) rating on the Rs. 70.50-crore non-fund based facilities of Newgen Software Technologies Limited (NSTL).

Rationale

ICRA's ratings continue to factor in NSTL's strong market position in a niche industry with high-entry barriers, bolstered by the high switching costs of its customers due to the nature of the products. . The ratings also factor in the company's comfortable capital structure, debt coverage indicators and healthy order book position. This apart, the ratings take into account the company's liquid investment portfolio and the free cash balances, which continue to support its liquidity profile.

The ratings are, however, constrained by the pressure on the company's revenues given the weak market scenario in the EMEA segment. Consequently, in addition to profitability, the company's already long working capital cycle was impacted in FY2016 and the current year. However, the company has been able to revive its performance in the current year through increased focus in domestic segment and other geographies. ICRA also notes that the company is undertaking capex towards office space, the returns for which are expected to be realised gradually.

The ability of the company to maintain growth while improving profitability, timely recover its receivables as well as achieve the desired returns over the significant capex, would be the key rating sensitivity. ICRA will closely monitor the company's receivable and liquidity position.

Key rating drivers

Credit Strengths

- Established market position in a niche segment with an established clientele
- Comfortable capital structure and coverage indicators
- Liquidity support through investment portfolio

Credit Weakness

- Weaker-than-anticipated revenues and margins owing to pressures in EMEA; focus on domestic business has led to some revival in the current year
- Elongation of working capital cycle on account weak operating environment in EMEA
- Ability to generate commensurate and timely returns on capex remains to be seen

Description of key rating drivers highlighted above:

NSTL registered a moderate growth of 12% in FY2016, which was weaker than the 26% CAGR experienced during FY2012 to FY2015. Although NSTL's revenues have remained diversified across customers and geographies, weak market in Middle Eastern countries and currency-related issues in Nigeria resulted in higher-than-expected pressure on NSTL's revenues in FY2016 and the current fiscal. About Rs 104.7 crore of NSTL's revenues came from this area in FY2015, which rose only to Rs 107.1 crore in FY2016 and stood at Rs. 62.9 crore in 9m FY2017. However, in the current year, the company was able to register an 8% growth in 9M FY2017, led by better share of revenue from the domestic market. The company also has a healthy order book as on December 2016.

NSTL's margins were also impacted because of weaker absorption of employee costs. Further, the company has been in an expansion mode and is adding office space to cater to its growth plans in the medium to long term. At the net level, NSTL reported a decline in FY2016 as compared to the previous years. The net cash accruals also saw a significant decline led by higher interest charges (interest towards leasehold land) as well as lower operating level profit.

The capital structure of the company stood at a comfortable position with satisfactory coverage indicators (NCA/TD of 37% and interest coverage of 8.4 times in FY2016) given the healthy net worth and limited debt obligations. Though the working capital position has remained stretched because of elongated receivables period, the liquidity position of the company remains comfortable. Apart from maintaining moderate levels of cash, the company also has a liquid investment portfolio of Rs. 46.5 crore as on December 31, 2016.

NSTL's receivable period remains long at year end due to significant revenue booking in the last quarter apart from the fact that payments remain slow during the implementation phase of projects. The receivables (more than 365 days) have been majorly towards the EMEA market, followed by the domestic market. The company also incurred a significant capex of Rs. 37.40 crore in FY2016, returns from which would be generated over a period of time.

Analytical approach: Standalone

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company:
Two technocrats – Mr. Diwakar Nigam and Mr. TS Vardarajan founded NST in 1992. It is an IT product company, which provide solutions in ECM, BPM and CCM platforms. These platforms help clients to digitise and manage content and document flow process. NSTL caters to BFSI, retail, energy and telecom sectors. About 85% of the common equity is with the promoters and their relatives and ~9% is held by employees and employee trust funds. The remaining is owned by three private equity players – Unit Trust of India Investment Advisory Services Ltd A/C Ascent India Fund (Ascent), IDG Venture India Ltd (IDGVI) and Pandara Trust Scheme 1. These parties also hold ~79% of Compulsory Converted Preference Shares (CCPS), while the remaining CCPS are held by another private equity player, SAPV (Mauritius). The promoters have ~71% of the voting rights and hold three positions; the private equity players hold two positions, along with two independent members.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in 2016	Month-year & Rating in 2015	Month-year & Rating in 2014
				March 2017	March 2016	January 2015	NA
1	Short Term - Fund Based	Long Term	60.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	NA
2	Short Term - Non Fund Based	Short Term	10.50	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	NA

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity Date**	**Size of the issue (Rs. Cr)**	**Current Rating and Outlook**
Short Term - Fund Based	-	-	-	60.00	[ICRA]A2+
Short Term - Non Fund Based	-	-	-	10.50	[ICRA]A2+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

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