Newgen Software Technologies Limited

January 30, 2018

Summary of Rated Instrument:

Instrument	Rated Amount(Rs. crore)	Rating Outstanding
Fund-based	60.00	[ICRA]A2+
Non-fund based	10.50	[ICRA]A2+
Total	70.50	

Material Event

Newgen Software Technologies Limited (NSTL) has issued an initial public offer (IPO) between January 16 2018 to January 18, 2018. The share issued had a price range of Rs. 240-245 with a bid lot of 61 equity shares with a minimum order quantity of 69. The subscription got oversubscribed by 8.25 times with a total of 1,34,53,932 shares being offered for sale. The fresh issue of Rs. 95.0 crore will be used to purchase and furnish of office premises near Noida-Greater Noida Expressway, Uttar Pradesh (Rs. 85-90 crore); and other general corporate purposes

Impact of the Material Event

The ratings remain unchanged at the earlier rating of ICRA]A2+ as the results are broadly in line with expectations .

The rating continues 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 positive IPO subscription with an inflow of Rs. 95.0 crore expected further comforting the liquid position of the company. This apart, the investment portfolio and the free cash balances, should continue to support its liquidity profile.

The ratings, though, constrained by the pressure on the company's revenues given the weak market scenario in the EMEA segment; a marginal improvement in terms of better recovery from the geographic segment provides comfort to an extent. Also, the company has been able to revive its performance in FY2017 with operating margin improving to 15.2% in FY2017 from 2.5% in FY2016 backed by improved margins from domestic and US based orders, though H1FY2018 remains weak. ICRA also notes that the company is undertaking capex towards office space, the returns for which are expected to be realised gradually; although the outflow for the same will be supported through fresh issue of shares.

The previous detailed rating rationale is available on the following link: Click here

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About ICRA Limited:

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