Newgen Software Technologies Limited

April 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based	60.0	70.0	[ICRA]A2+; reaffirmed
Short Term – Non-fund Based	10.5	10.5	[ICRA]A2+; reaffirmed
Total	**70.5**	**80.5**	

Rating action:

ICRA has reaffirmed the short-term rating at [ICRA]A2+ (pronounced ICRA A two plus) for Rs. 80.5 crore (enhanced from Rs. 70.5 crore) the bank 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 healthy networth supported by IPO proceeds and comfortable liquidity position supported by a liquid investment portfolio and free cash balances.

The ratings, though, are constrained by the moderate operating scale of the company and the high seasonality of business; with the second half of the financial year being higher margin accretive. The ratings are also constrained by the high working capital intensity of business primarily led by long receivable period. ICRA also notes that the company is undertaking capex towards office space, the returns for which are expected to be realised gradually. The company remains exposed to attrition and competitive risks, as is prevalent in this industry.

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.

Outlook: No Outlook

Key rating drivers:

Credit strengths

Established market position with a diversified clientele: NSTL provides an all-round service of ECM (Enterprise Content Management), BPM (Business Process Management) and CCM (Customer Communications Management) which are provided by very few companies globally. NSTL's products are used in ~60 countries across Europe Middle East and Africa (EMEA), United States of America (USA), Asia-Pacific (APAC). As of September 30, 2017, the company had over 450 active customers (billed in last 12 months) in over 60 countries across various sectors. The revenue stream remains diversified across digitization, licensing, implementation and maintenance. Banking sector contributes to around 60% of the total share while approximately 40% of the revenue was achieved from the domestic segment.

Healthy revenue growth in FY2017; improvement in profitability visible in FY2017: The standalone revenue for FY2017 increased by 22% as compared to FY2016 on the back of improved order flow from India and USA. The company initially had presence across foreign markets, however improved presence has been visible in the domestic market which has supported the healthy revenue growth in FY2017. The operating margin declined in FY2016 to 12.5% on the back of weaker profitability from orders from EMEA, however an improvement was visible in FY2017 to 17.2%. Overall the profitability has remained healthy.

Presence in niche segment with high-entry barriers: The company had gained a first mover advantage in providing an all-round service of ECM, BPM and CCM, the same help as customers acquired by NSTL become dependent on the provider for the product/service since all their processes get integrated. Thus switching cost (both monetary and non-monetary) are very high for the customer which makes it difficult for competition to wean away their customers.

Comfortable capital structure and coverage indicators: The capital structure of the company has remained comfortable over the years with gearing position improving to 0.24 times as on March 31, 2017 from 0.32 times as on March 31, 2016. The debt profile is primarily skewed towards export credit limits. The company's interest coverage and NCA/TD improved to 12.6 times and 69% in FY2017 from 8.4 times and 30% respectively on the back of improved profitability. As of H1FY2018, NSTL had ~Rs 49.1 crore (Rs 48.2 crore for FY2017) of current investment in debt liquid mutual funds based in India. Apart from this, NSTL also had a free cash balance of ~Rs 25.5 crore for H1FY2018 (~Rs 20.2 crore for FY2017) in addition to pledged FDs (for margin money) of ~Rs 8.0 crore. The utilization remained comfortable with an average utilization of around 90% along with the enhancement in place.

Credit challenges

Long working capital cycle, inherent to the business, though receivable position has improved over the last one year: NSTL has high debtor days due to payments being realized only after long implementation phase of projects. The company's performance has high element of seasonality with large portion of profits being recognized in second half of the financial year. The company's working capital intensity stood at 46.8% in FY2017, improved from 50.2%, owing to reduction in receivable days (228 days to 215 days over the said period). The company has also been able to recover its sticky receivables from the EMEA which has improved in FY2018 against FY2017.

Ability to generate commensurate and timely returns on capex remains to be seen: The company proposes to utilize the Rs 85.0 crore from the IPO towards setting up office space in the National Capital Region which would aid its plan towards increasing the employee base. However, the timeliness of the capex and the ability to increase employee base and generate commensurate returns on the same would be critical going forward.

Moderate scale of operations; stiff competition from established players: NSTL continues to be a moderate sized player and remains exposed to stiff competition from various established players in foreign markets as well as domestic markets. The ability to retain talent as well as continue product innovation in the technology space also remain critical success factors.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

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 went public on January 29, 2018 and the IPO resulted in an exit of Unit Trust of India Investment Advisory Services Ltd A/C Ascent India Fund (Ascent), IDG Venture India Ltd (IDGVI), SAPV(Mauritius), Pandara Trust Scheme 1.

In FY2017, the company reported a standalone net profit of Rs. 48.0 crore on an operating income (OI) of Rs. 383.1 crore compared with a net profit of Rs. 28.6 crore on an OI of Rs. 312.8 crore in the previous year. As per audited H1FY2018 results, the company achieved a top line of Rs. 182.78 crore.

The company on a consolidated basis reported a net profit of Rs. 52.4 crore on an operating income of Rs. 427.1 crore in FY2017.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	312.8	383.1
PAT (Rs. crore)	28.6	48.0
OPBDIT/OI (%)	12.5%	17.2%
RoCE (%)	14.2%	22.0%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	1.8	1.0
Interest Coverage (times)	8.4	14.3
NWC/OI (%)	50.2%	46.8%

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2018	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016 Mar 2016
1	Packing Credit	Short Term	70.0	55.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
2	Bank Guarantee	Short Term	10.5	7.5	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Packing Credit	NA	-	NA	70.0	[ICRA]A2+
	Bank Guarantee	NA	-	NA	10.5	[ICRA]A2+

Source: NSTL

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About ICRA Limited:

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