Newgen Software Technologies Limited

April 02, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term - Fund based	70.0	70.0	[ICRA]A2+; reaffirmed
Short Term – Non-fund Based	10.50	25.0	[ICRA]A2+; reaffirmed
Total	**80.50**	**95.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to factor in the established market position of Newgen Software Technologies Limited (NSTL) in a niche market with high entry barriers. The rating further factors in NSTL's ability to cater to a diversified clientele with a wide range of products across geographies. ICRA also notes the company's healthy financial risk profile characterised by a comfortable capital structure and coverage indicators as well as consistent growth in revenues and profits. This apart, the ratings take into account the heathy liquid investments and cash balances, indicating the comfortable liquidity position. The proceeds from the initial public offering (IPO) is partially deployed in the purchase of property under object clause.

However, the rating continues to be constrained by the moderate scale of the company, along with the high seasonality of the business, as a substantial part of the revenues and profits are realised in the second half of the financial year. The ratings are further constrained by the working capital-intensive operations with large receivables, with a considerable amount of receivables beyond six months. Further, the company remains exposed to the risk of attrition (as prevalent in the industry) and foreign currency fluctuations.

Going forward, the rating would remain dependent upon NSTL's ability to maintain growth in revenues and profitability and improve its working capital cycle.

Outlook: Not applicable

Key rating drivers

Credit strengths

Established market position in niche segment with high entry barriers: The company gained the first-mover advantage in providing an all-round service of enterprise content management (ECM), business process management (BPM) and customer communications management (CCM). This is a niche segment and requires a huge amount of research and development (R&D) before rolling out the products. Also, these requirements are not regular and investments by the clients are made after detailed due diligence. Therefore, the clients do not prefer to switch, given the higher switching cost (both monetary and non-monetary) involved. Both these factors have helped NSTL to establish itself in the market.

Ability to cater to a diversified clientele across sectors and geographies: NSTL provides an all-round service of ECM, BPM and CCM, which are provided by very few companies globally. The company's products are used in more than ~60 countries across Europe Middle East and Africa (EMEA), United States of America (USA), Asia-Pacific (APAC). As of December 31, 2018, the company had over 450 active customers (billed in the last 12 months) in over 60 countries across various sectors. The revenue stream remains diversified across digitisation, licensing, implementation, maintenance, and service as a subscription (SaaS). As of 9M FY2019, the banking sector contributes to around 45% of the total share of revenues.

Healthy financial risk profile: The company has consistently posted growth in revenues and profits. The revenues in FY2018 grew by 19.9% to Rs. 459.5 crore from Rs. 383.1 crore in FY2017. The operating profits also grew to Rs. 94.2 crore in FY2018 from Rs. 67 crore in FY2017 on the back of lower provisioning of doubtful assets. The capital structure of the company remained comfortable over the years with improvement in the gearing position to 0.16 times as on March 31, 2018 from 0.29 times as on March 31, 2017. The company's debt coverage indicators also improved, as characterised by interest coverage and NCA/TD of 18.1 times and 101% in FY2018 against 12.7 times and 63.2% in FY2017, respectively on the back of higher profitability.

Comfortable liquidity position: The company's healthy cash accruals and comfortable liquidity position are reflected in the cash reserves of Rs. 135.2 crore as on March 31, 2018, which also included Rs. 95-crore cash generated out of IPO. This apart, the company has invested Rs. 50.2 crore as on March 31, 2018 as current investment in debt liquid mutual funds based in India. The company recorded an average utilisation of around 76%, indicating cushion in sanctioned limits.

Credit challenges

Moderate scale of operations with high seasonality: The company competes with much bigger-sized players in this space, such as IBM. Also, the company has been consistently witnessing the trend of seasonality as approximately 64% of the revenues are realised in the second half of the financial year. The trend in profitability has also shown considerable disparity between the two halves of a year.

Working capital intensive operations with substantial receivables beyond six months: NSTL has high debtor days as the payments are realised in some cases only after the long implementation phase of the projects. Although the company's working capital intensity slightly improved to 37.5% in FY2018 from 38.2% in FY2017 on the back of reduced debtor days to 178 in FY2018 from 202 in FY2017, the receivables pending beyond six months increased considerably.

Risk of employee attrition and forex currency fluctuations: NSTL is a moderate-sized player and hence, its ability to retain talent as well as continue product innovation in the technology space remain critical success factors amid competition from larger players. The company has sizeable exposure in export markets and therefore, any adverse fluctuations in the currency might impact its profitability.

Liquidity position

NSTL has a comfortable liquidity position with healthy cash accruals generated from the business. Further, NSTL has substantial investments in liquid investments and cash reserves, which provide further cushion to liquidity. The free cash of the company stood at Rs. 135.2 crore as on March 31, 2019. The company has healthy current ratio, indicating an overall comfortable liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Methodology on IT (Services) industry
Parent/Group Support	Parent/Group Company: Not applicable
Consolidation / Standalone	Standalone

About the firm

The company was formed by two technocrats – Mr. Diwakar Nigam and Mr. TS Vardarajan – in 1992. It is an Information Technology (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. 69.3 crore on an operating income (OI) of Rs. 459.5 crore compared with a net profit of Rs. 47.6 crore on an OI of Rs. 383.1 crore in the previous year. As per audited Q3 FY2019 results, the company achieved a top line of Rs. 364.1 crore.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	383.1	459.5
PAT (Rs. crore)	47.6	69.3
OPBDIT/ OI (%)	17.48%	20.51%
RoCE (%)	22.86%	25.14%
Total Debt/TNW (times)	0.29	0.16
Total Debt/OPBDIT (times)	1.07	0.7
Interest Coverage (times)	12.74	18.10
NWC/OI (%)	38.2%	37.5%

Status of non-cooperation with previous CRA: Not applicable

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 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 March 2017
1	Packing Credit	Short Term	70.0	70.0	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**
2	Bank Guarantee	Short Term	25.0	25.0	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**	**[ICRA]A2+; Reaffirmed**

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
NA	Packing Credit	NA	NA	NA	70.0	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	25.0	[ICRA]A2+

Source: NSTL

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