Newgen Software Technologies Ltd. – Investment BUY Call

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 19 July 2026

CMP -> 548
Buying Range -> 548 to 560
Upside Potential-> 15%
Investment Horizon -> 6 to 9 Months
Target price -> 630

1. Investment Thesis & Financial Performance: - Investment Thesis – Strong Recurring Revenue Model with AI-Led Growth Visibility

We maintain a BUY recommendation on Newgen Software Technologies Ltd. with a medium-term investment horizon of 6–9 months, supported by its robust recurring revenue model, increasing adoption of AI-enabled enterprise software solutions, healthy order pipeline and improving operating leverage. The company reported a resilient performance in Q1FY27, with revenue from operations increasing 11% YoY to INR 357 crore, while PAT grew 26% YoY to INR 63 crore, reflecting disciplined cost management despite temporary implementation delays. Annuity revenue increased 14% YoY to approximately INR 254 crore, while subscription license revenue surged 40% YoY, highlighting the continued transition towards predictable, high-margin recurring revenue streams. Management reiterated confidence in achieving sustainable margin expansion through AI-driven engineering efficiencies while maintaining approximately 20% EBITDA margins over the medium term. Although implementation revenues remained subdued due to delayed project kick-offs, particularly in EMEA, management expects these revenues to recover during Q2FY27 and Q3FY27, supported by a healthy project pipeline and improving execution. The combination of strong profitability, increasing recurring revenues, expanding AI monetisation and improving operational efficiencies strengthens the company's investment case over the coming quarters.

2. Business Overview: - Integrated Low-Code Enterprise Platform with Leadership in Regulated Industries

Newgen Software Technologies is a leading enterprise software company providing a unified low-code digital transformation platform, NewgenONE, enabling enterprises to automate document-intensive and workflow-driven business processes across highly regulated industries. The platform integrates enterprise content management, workflow automation, customer communication management, analytics, machine learning, generative AI and agentic AI within a single governed architecture, allowing customers to build multiple enterprise applications without integrating several standalone software products. Banking and Financial Services remains the company's largest business vertical, contributing nearly 70% of overall revenues, where Newgen provides end-to-end solutions across customer onboarding, loan origination, trade finance, supply chain finance, collections and corporate lending. Insurance and Healthcare together contribute approximately 16% of revenues, while Government contributes around 8%, providing stable long-duration contracts across citizen services and digital governance. The company operates through wholly-owned subsidiaries across the US, UK, Canada, Australia, Singapore, UAE, Saudi Arabia and India, while leveraging strategic partnerships with AWS, Microsoft Azure, Finastra, Mambu, Duck Creek, Guidewire, Temenos and leading Global System Integrators to expand its presence across global enterprise customers.

3. Growth Drivers & Future Opportunities: - Recurring Revenue Expansion, AI Adoption and Global Market Penetration Driving Future Growth

Newgen remains well positioned to deliver sustainable growth over the next 2–4 quarters, supported by multiple structural growth catalysts. The company's annuity revenue has expanded to nearly 62% of FY26 revenues, providing significant earnings visibility while reducing revenue volatility. Subscription revenues continue to grow rapidly across developed markets, particularly the United States, where recurring revenue forms the majority of business. Management expects the US large-account strategy to deliver meaningful growth through multi-million-dollar enterprise contracts while expanding wallet share within existing customers. India continues to witness healthy demand from NBFCs and banks across Loan Origination Systems (LOS), Loan Management Systems (LMS), Trade Finance and AI-enabled automation platforms. Insurance and Healthcare have emerged as the fastest-growing business verticals, supported by increasing digital transformation investments globally. Australia is expected to become a self-sustaining growth geography over the next year, while Saudi Arabia is reopening following the establishment of a wholly-owned subsidiary, providing additional opportunities across the Middle East. Furthermore, increasing adoption of embedded AI solutions within regulated industries provides a significant long-term structural growth opportunity for the company.

4. Business Updates & Strategic Execution: - Leadership Transition, AI Strategy and Strong Execution Continue to Strengthen Competitive Position

The company announced an orderly leadership transition with the appointment of Tarun as Chief Executive Officer effective 1 August 2026, while simultaneously creating the new position of Chief Growth Officer to accelerate product strategy, AI adoption, ecosystem development and global market expansion. Management continues to position Newgen as the unified execution layer for intelligent enterprises by integrating content management, process automation, customer communication, analytics and AI into a single enterprise platform. During Q1FY27, the company secured several strategic enterprise contracts across Kuwait, the Philippines, India and the United Kingdom, demonstrating increasing deal sizes and strengthening customer relationships. Newgen added 10 new customers during the quarter while continuing to deepen engagements with existing clients through its successful "land-and-expand" strategy. Management also indicated that enterprise pipelines remain healthy across India, EMEA and North America, supported by rising demand for AI-enabled digital transformation, enterprise content management, policy administration and trade finance solutions.

5. Capital Expenditure & Capacity Expansion:- Continuous Technology Investments Supporting Long-Term Scalability

Unlike traditional manufacturing businesses, Newgen's capital investments are primarily directed towards platform development, product innovation, research & development, cloud capabilities, AI infrastructure and international market expansion. The company continues to invest heavily in product engineering, with nearly 9% of quarterly revenue allocated towards R&D during Q1FY27. Over the past several quarters, investments have been focused on strengthening NewgenONE through embedded Generative AI, Agentic AI, AI Trust Layer, AI Agent Studio, Marvin 3.0 and other intelligent automation capabilities. Simultaneously, the company has expanded its global presence through dedicated Healthcare Centres of Excellence, Global System Integrator partnerships and new overseas subsidiaries including Saudi Arabia. These strategic investments are expected to enhance customer acquisition, improve platform scalability, support higher subscription revenues and strengthen long-term competitive advantages across global enterprise markets.

6. Balance Sheet & Cash Flow Analysis:- Debt-Free Balance Sheet Provides Financial Flexibility for Sustainable Growth

Newgen continues to maintain a strong balance sheet characterised by healthy liquidity, negligible financial leverage and strong financial flexibility. The company's increasing annuity revenue base and expanding deferred revenue provide stable cash flow visibility while supporting future investments in technology and international expansion. Management acknowledged that receivable collections remained relatively elevated due to delayed customer payments, particularly across EMEA, but highlighted improving collection trends through better invoicing processes, revised contract terms and stronger working capital management. The company continues to evaluate strategic acquisitions that complement its AI and enterprise software capabilities while also considering higher shareholder returns through increased dividends and potential share buybacks. Overall, Newgen's healthy balance sheet allows it to pursue long-term growth opportunities without compromising financial discipline.

7. Operating Leverage & Margin Expansion: - AI-Driven Productivity Gains Expected to Deliver Sustainable Margin Expansion

Newgen possesses significant operating leverage potential owing to its software-led business model and expanding recurring revenue base. Management expects AI-enabled engineering optimisation to reduce service delivery, implementation and product development costs over the next few years while maintaining superior customer outcomes. The company targets 20–30% productivity improvements across engineering, implementation, legal and support functions through wider AI adoption. Since implementation contracts are generally fixed-price engagements, operational efficiencies generated through AI directly benefit company margins rather than being passed to customers. The growing contribution of subscription revenue, higher-value enterprise contracts, increasing insurance and healthcare revenues, deeper cross-selling opportunities and continued migration towards cloud-native deployments are expected to further enhance operating margins over the coming quarters. As implementation revenues recover during Q2FY27 and Q3FY27, operating leverage is expected to become increasingly visible.

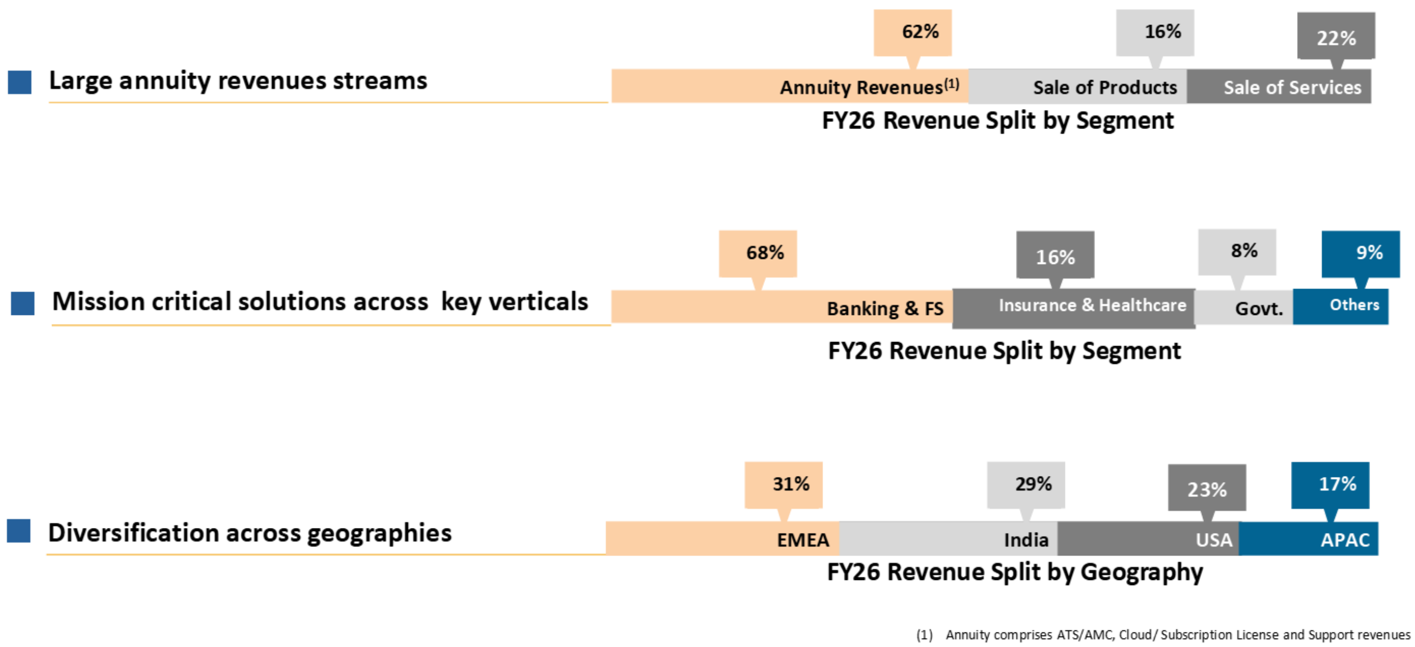
8. Strategic Collaborations & Competitive Positioning: - Global Partnerships and AI Ecosystem Continue to Enhance Market Reach

Newgen has significantly strengthened its competitive positioning through strategic partnerships, technology integrations and ecosystem expansion. The company collaborates with leading global technology platforms including AWS, Microsoft Azure, Finastra, Mambu, Duck Creek, Guidewire, Temenos and several Global System Integrators, enabling seamless integration with customers' existing enterprise technology environments. These collaborations facilitate access to Fortune 2000 enterprises while expanding cross-selling opportunities across banking, insurance and healthcare markets. The acquisition and integration of Number Theory further enhanced Newgen's AI, machine learning and process mining capabilities, which are now embedded within the broader NewgenONE platform. Management also highlighted that AI monetisation has evolved beyond experimentation, with embedded AI capabilities now being sold as part of enterprise solutions across lending, insurance, government and healthcare workflows. These strategic initiatives strengthen switching costs, improve competitive differentiation and support long-term recurring revenue growth.

9. Industry Outlook, Sector Tailwinds & Investment Conclusion: - Favourable Digital Transformation Trends Support Positive Medium-Term Outlook

The enterprise digital transformation industry continues to benefit from increasing investments in workflow automation, cloud migration, AI-enabled enterprise applications and regulatory technology across banking, financial services, insurance, healthcare and government sectors. Rising regulatory acceptance of AI within controlled governance frameworks is encouraging financial institutions to accelerate production-scale AI deployments, creating significant opportunities for Newgen's embedded AI platform. Growing digital lending, trade finance modernisation, enterprise content management and customer communication automation remain key demand drivers across India, North America, Europe and the Middle East. While near-term risks include delays in implementation revenue recognition, elongated customer decision cycles, higher receivable days, macroeconomic uncertainty in certain international markets and execution risks associated with large enterprise projects, management expects project execution to improve over the next two quarters. Considering the company's expanding annuity revenue base, increasing subscription business, healthy order pipeline, AI-led operating leverage, strong balance sheet and favourable industry tailwinds, Newgen Software Technologies appears well positioned to deliver sustainable earnings growth over the next 6–9 months, supporting our BUY recommendation from a medium-term investment perspective.

Revenues Across Verticals and Geographies



Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team