

### Demand to drive top-line but talent crunch to restrict margins



### Intellect Design's Q1FY22 results were a mixed bag with revenue in-line with our estimates while profitability was marginally below our estimates

- INR Revenue was reported at INR 4,083.5 Million, +3.5% QoQ / +16.9% YoY & -0.2% below our estimates.
- EBITDA was reported at INR 1,002.3 Million, +1.9% QoQ / +40.6 YoY & -5.9% below our estimates.
- EBITDA Margin stood at 24.5% vs 24.9% & 20.4% in Q4FY21 & Q1FY21 respectively and 100 basis points below our estimate.
- EBIT was reported at INR 775.4 Million, -1.6% QoQ & 48% YoY and 6.7% below our estimates.
- EBIT Margin stood at 19% vs 20% & 15% in Q4FY21 & Q1FY21 respectively and 130 bps below our expectations
- PAT was reported at INR 737.3 Million, -8.5% QoQ +73.1% YoY & 7.8% below our estimates.
- EPS stood at INR 5.5 vs INR 6.1 & INR 3.2 in Q4FY21 & Q1FY21 respectively.

### Segmental Highlights

- **License Revenue (19.4% of Revenue) at INR 792 Mn**, registering a decline of -7% QoQ & +30.9% YoY growth
- **AMC Revenue (19.4% of Revenue) at INR 792 Mn**, registered a growth +5% QoQ & +6.9% YoY
- **Implementation (42.2% of revenue) at INR 1,722 Mn** reported +1% QoQ / -2% YoY
- **Cloud/SaaS Revenue (19% of Revenue) at INR 777 Mn**, continued registering a robust growth at 21% QoQ & 100% YoY

### Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	14,528	13,507	14,991	17,499	20,308
EBIT	1,010	57	2,807	3,697	5,155
Adjusted net profit	1,346	159	2,627	3,308	4,470
EPS (Rs)	10.2	1.2	19.9	25.1	33.9
growth (%)	174%	-88%	1552%	26%	35%
P/E (x)	59.3	615.7	37.3	29.6	21.9
P/B (x)	9.6	9.4	7.0	5.7	4.5
EV/EBITDA (x)	68.8	132.8	27.0	20.8	15.4
D/E	0.1	0.2	0.0	0.0	0.0
ROCE (%)	14.8	1.5	21.5	21.2	23.0
RoE (%)	18.1	1.5	21.5	21.2	23.0

Source: Company

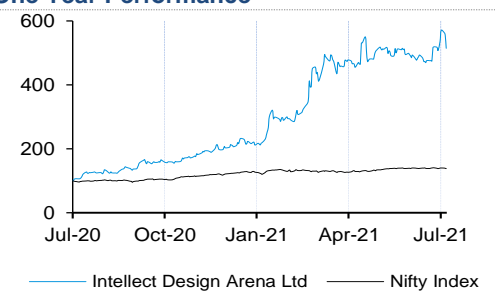
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>678</b>	<b>-12</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>757</b>
Market Cap (Rs.Bn)	(Rs Bn)	103
Market Cap (US\$ Mn)	(US\$ Mn)	1383
Face Value	Rs	5
52 Weeks High/Low	Rs	892/136
Average Daily Volume	('000)	516
BSE Code		538835
Bloomberg		INDA:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	31.05	31.23
Public	68.24	68.06
Others	0.71	0.71
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Mayank Babla**

(022) 67141412

[mayank.babla@dalal-broacha.com](mailto:mayank.babla@dalal-broacha.com)

## Order Book

- Average deal size in Q1FY22 stands at INR 412 Mn as against INR 408 Mn in Q4FY21 and INR 380 Mn in Q1FY21.
- Destiny Deals stood at 50 in Q1FY22 as against 43 in Q4FY21.
- Pipeline is INR 46,302 Mn as of Q1FY22 as against INR 41,777 Mn in Q4FY21 & INR 40,200 Mn in Q1FY21.

## Cash Position

- Gross Cash stood at INR 2,522 Mn and Net Cash stood at INR 2,182 Mn
- Debt stood at INR 340 Mn in Q1FY22 vs INR 510 Mn / INR 1,348 Mn in Q4FY21 / Q1FY21

## Collections & Investment in Product Development

- Collections for Q1FY22 is INR 3099 Mn vs by INR 3777 Mn in Q4FY20. DSOs stood at 131 Days in Q1FY22 vs 114 / 126 in Q4FY21 / Q1FY21

# Quarterly Performance Analysis

## Exhibit 1

Particulars (INR Mn)	Quarterly Deviation Analysis				
	Q1FY22	Q4FY21	Q1FY21	QoQ%	YoY%
Revenue (US\$ Mn)	55.4	54.1	46.0	2%	20%
Revenue (INR Mn)	4,083.5	3,946.0	3,492.0	3%	17%
Software Development Expenses	1,788.0	1,717.0	1,612.0	4%	11%
Gross Profit	2,295.5	2,229.0	1,880.0	3%	22%
Gross Profit %	0.6	0.6	0.5		
SGA Expenses	1,051.0	1,006.0	937.0	4%	12%
R&D Expenses	242.0	239.0	230.0	1%	5%
EBITDA	1,002.5	984.0	713.0	2%	41%
EBITDA %	24.5%	24.9%	20.4%	-39%	413
Depreciation & Amortization	227	196	189	16%	20%
EBIT	775	788	524	-2%	48%
EBIT (%)	19.0%	20.0%	15.0%	-9%	399
Finance Charges	12	0	39		
Other income	114	96	44	19%	159%
Profit Before Tax	877	884	529	-1%	66%
Taxes Paid	140	79	45	77%	211%
Profit After Tax	737	805	484	-8%	52%
Minority Interest	2	-1	58		
Adjusted PAT	735	806	426	-9%	73%
EPS	5.6	6.1	3.2	-9%	73%

Revenue was in-line with our estimates however, EBITDA was a slight miss vs our estimates mainly due to heightened employee expenses due to the on-going talent crunch in the industry

Expect EBITDA margins to be in the range of 25-30% in FY22e

Source: Dalal & Broacha Research, Company

## Conference Call Key Highlights

- Implementation reduced from 12-16 months to 6 months odd which is helping in competitive edge vs rivals
- Buy now pay later strategy working much better in Europe. Very few companies which have the capabilities and API in Core Banking, Lending and Credit Card. Working on 3 POCs with customers for iKredit360
- Looking to replace legacy platforms in APAC. Deal won in the past is working as a model for new clients
- iGCB products, namely IDC and Lending, has 300 APIs and has a very healthy pipeline
- iGTB has liquidity management system - which has a solid pipeline - and CBX - which was launched in America and won 1 large customer. With need for liquidity management growing - iGTB has seen good growth. Middle East (Top 8 out of 9 banks with Intellect) closed very large deal in existing client to migrate them to Cloud which is a large global rollout. Canada: 9 accounts and Malaysia: 10<sup>th</sup> deal signed during the quarter
- Go lives: US: 2<sup>nd</sup> US bank in last 2 quarters went live (implemented in 7 months). ROI starts kicking in usually 12 months after implementation as bank also scales up
- Insurance has big opportunity in underwriting space in North America
- Wealth and Treasury are mature products now and will be in monetization phase in FY22. Management expects to close 2 deals in each segment through the year.
- Next trigger for growth will be leveraging IP already owned by the company to launch new Modules and extensions. CBOS, Paycorp, Islamic Banking, etc. are extensions of IPs already own by the company. One new platform under Trade and Supply Chain is doing one of the largest transformations in Asia.
- Tax Rate is estimated at 16-18% for FY22e
- Revenue growth guidance is mid to high teens for FY22e
- 30% EBITDA target may be pushed to FY23e due to heightened costs as a result of Talent Crunch
- EBITDA margins in FY22e should be in the range of 25-30%
- Debt is 34 Cr as of now
- 44 destiny deals grew to 50 destiny deals in this quarter - if these deals are implemented in FY22 then 30% EBITDA margin is achievable but if pushed to next year then will be achieved next year

**Expect topline to grow at mid to high teens in FY22.**

**In light of talent crunch expect EBITDA margins to be in the range of 25-30% vs earlier guidance of 30%**

**Debt reduced to INR 340 Mn in Q1FY22 from INR 1,348 Mn in Q1FY21**

**Tax rate to be in the range of 16-18% for FY22**

**Destiny deals stood at 50 Q1FY22 vs 44 in Q4FY21**

**Next trigger for growth would be leveraging current IPs to launch new modules and extensions**

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## Valuation & Outlook

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Intellect Design reported a mixed bag in Q1FY22. The stock has been one of our top performers as far as our recommendations are concerned. This was mainly due to the company entering its monetization phase in FY21 coupled with strong demand in the BFSI space by virtue of the pandemic and the entailing rush by Banks and Financial Services companies towards digitization.

Although the stock has achieved all our targets, we remain extremely positive on the company given the management's proactiveness in modules and product launches, aggression on monetization of products, healthy pipeline and strong execution and implementation capabilities.

**The stock is currently trading at 29.6x / 21.9x FY22e / FY23e EPS. Given that the stock has rallied 3.9x from our initiating recommendation of INR 227 coupled with tapering down of margin expansion we recommend investors to either book profits at current levels at re-enter at lower levels or HOLD the stock and ADD at lower levels. Given that the 30% EBITDA margin target may be a miss by FY22e due to the talent crunch we tone down our EPS estimates marginally from INR 26.7 / 34.6 earlier to INR 25.1 / 33.9. Therefore our target price reduces to INR 678 (earlier INR 691).**

# Financials

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Total Revenue</b>	14,528	13,507	14,991	17,499	20,308	<b>Liabilities</b>					
<i>Growth %</i>	34%	-7%	11%	17%	16%	Equity Capital	659	662	665	665	665
<b>Less:</b>						Reserves & Surplus	9,538	9,788	13,264	16,572	21,042
Software development expenses (SDE)	7,372	6,987	6,646	7,480	8,214	<b>Equity</b>	10,197	10,450	13,928	17,237	21,707
SG&A	4,727	4,555	3,837	4,441	4,973	<b>Net Worth</b>	10,197	10,450	13,928	17,237	21,707
R&D	1,004	1,219	933	1,012	1,112	<b>Total Loans</b>	1,007	2,206	166	166	166
<b>Total Operating Expenditure</b>	13,102	12,760	11,416	12,934	14,299	<b>Capital Employed</b>	10,855	12,329	13,428	16,745	21,225
<b>EBIDTA</b>	1,426	746	3,575	4,565	6,009	<b>Assets</b>					
<i>Growth %</i>	81%	-48%	379%	28%	32%	Gross Block	3,444	3,234	3,979	4,229	4,929
<b>Less: Depreciation &amp; Amortization</b>	416	690	768	868	854	Less: Depreciation	1,589	1,665	2,433	3,301	4,156
<b>EBIT</b>	1,010	57	2,807	3,697	5,155	<b>Net Block</b>	1,854	1,569	1,546	928	773
<i>Growth %</i>	94%	-94%	4862%	32%	39%	Intangible Assets	43	43	43	43	43
Interest Paid	114	174	77	27	17	<b>Investments</b>	524	603	499	499	499
Non-operating Income	509	405	151	315	325	Goodwill	364	304	294	294	294
Extraordinary Income	304	0	0	0	0	LT Loans & Advances	1,366	1,337	1,226	2,047	2,437
<b>Profit Before tax</b>	1,709	287	2,881	3,986	5,463	<b>Current Assets</b>					
Tax	89	51	254	668	983	Sundry Debtors	2,027	2,847	1,868	3,596	5,008
<b>Net Profit before Minority</b>	1,619	237	2,627	3,317	4,480	Cash and Bank Balance	874	1,019	1,697	3,053	5,289
Minority Interest	-31	78	0	9	9	<b>Total Current Assets</b>	8,310	9,539	10,621	13,949	18,696
<b>Net Profit</b>	1,650	159	2,627	3,308	4,470	<b>Less: Current Liabilities &amp; Provisions</b>					
<b>Adjusted Profit</b>	1,346	159	2,627	3,308	4,470	Sundry Creditors	1,664	2,080	1,685	2,100	2,100
<i>Growth %</i>	188%	-88%	1552%	26%	35%	<b>Total Current Liabilities &amp; Provision</b>	5,017	5,450	6,017	6,475	7,177
<b>Reported Diluted EPS Rs</b>	12.5	1.2	19.9	25.1	33.9	Miscellaneous Assets					
<b>Adjusted Diluted EPS Rs</b>	10.2	1.2	19.9	25.1	33.9	<b>Capital Applied</b>	7,445	7,944	8,212	11,286	15,566

Key Ratios					
<b>EBIDTA (%)</b>	9.8%	5.5%	23.8%	26.1%	29.6%
<b>NPM (%)</b>	11.4%	1.2%	17.5%	18.9%	22.0%
<b>RoE (%)</b>	18.1%	1.5%	21.5%	21.2%	23.0%
<b>RoCE (%)</b>	14.8%	1.5%	21.5%	21.2%	23.0%
<b>Tax Rate %</b>	5.2%	17.7%	8.8%	16.8%	18.0%
<b>Book Value Per share (Rs.)</b>	77.4	79.3	105.7	130.8	164.7

Valuation Ratios					
<b>P/E (x)</b>	59.3x	615.7x	37.3x	29.6x	21.9x
<b>EV/EBITDA</b>	68.8x	132.8x	27.0x	20.8x	15.4x
<b>P/BV (x)</b>	9.6x	9.4x	7.0x	5.7x	4.5x
<b>Market Cap. / Sales (x)</b>	6.7x	7.2x	6.5x	5.6x	4.8x

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	9.8%	5.5%	23.8%	26.1%	29.6%
Tax / PBT (%)	5.2%	17.7%	8.8%	16.8%	18.0%
Net Profit Margin (%)	11.4%	1.2%	17.5%	18.9%	22.0%
RoE (%)	18.1%	1.5%	21.5%	21.2%	23.0%
RoCE (%)	14.8%	1.5%	21.5%	21.2%	23.0%
Current Ratio (x)	1.7x	1.8x	1.8x	2.2x	2.6x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Book Value Per Share (Rs.)	77.4	79.3	105.7	130.8	164.7
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.1x	0.2x	0.0x	0.0x	0.0x
Interest Coverage (x)	12.5x	4.3x	46.4x	169.5x	362.2x
Interest / Debt (%)	0.1x	0.1x	0.1x	0.2x	0.1x

Growth Indicators %					
Sales Growth (%)	33.6%	(7.0%)	11.0%	16.7%	16.1%
EBITDA Growth (%)	81.3%	(47.7%)	379.1%	27.7%	31.6%
Net Profit Growth (%)	253.0%	(90.4%)	1551.7%	26.0%	35.1%
Diluted EPS Growth (%)	187.9%	(88.2%)	1551.7%	26.0%	35.1%

Cash Flows (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>PAT</b>	1,649.9	159.0	2,626.7	3,308.4	4,470.3
<b>Less: Non Operating Income</b>	(509.0)	(404.6)	(151.0)	(315.2)	(324.9)
Add: Depreciation	415.6	689.6	768.0	867.8	854.5
Add: Interest Paid	114.4	173.7	77.0	26.9	16.6
<b>Operating Profit before WC</b>	1,271.9	(344.4)	3,320.7	3,887.9	5,016.4
(Inc)/Dec in Current Assets	(2,416.1)	27.8	(404.2)	(1,972.2)	(2,510.5)
Inc/(Dec) in Current Liabilities	640.7	752.2	567.2	457.3	702.3
<b>Net Cash From Operations</b>	(503.4)	435.7	3,483.7	2,373.0	3,208.2
<b>Cash Flow from Investing</b>					
(Inc)/Dec in Fixed Assets	121.4	(404.0)	(745.0)	(250.0)	(700.0)
Add: Non Operating Income	530.1	481.3	191.6	391.9	401.6
<b>Cash From Investing</b>	720.3	88.1	(329.5)	(679.0)	(688.0)
<b>Cash Flow from Financing</b>					
Less: Interest Paid	(114.4)	(173.7)	(77.0)	(26.9)	(16.6)
<b>Net Cash from Financing</b>	(151.1)	1,114.1	(1,606.7)	(26.9)	(16.6)
<b>Net Inc/Dec in cash</b>	65.7	1,637.9	1,547.5	1,667.1	2,503.7
<b>Opening Balance</b>	971.8	873.9	1,019.0	1,696.8	3,052.8
<b>Closing Cash</b>	752.9	997.2	1,447.4	3,363.9	5,556.4

Source: Dalal &amp; Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	Head of Research	<a href="mailto:kunal.bhatia@dalal-broacha.com">kunal.bhatia@dalal-broacha.com</a>	022 67141442	Auto   Auto Ancillary   FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	<a href="mailto:charulata.gaidhani@dalal-broacha.com">charulata.gaidhani@dalal-broacha.com</a>	022 67141446	Pharma   Healthcare
Mr. Mayank Babla	Sr. Analyst	<a href="mailto:mayank.babla@dalal-broacha.com">mayank.babla@dalal-broacha.com</a>	022 67141412	IT   Telecom   Media
Mr. Avinash Tanawade	Sr. Analyst	<a href="mailto:avinash.tanawade@dalal-broacha.com">avinash.tanawade@dalal-broacha.com</a>	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	<a href="mailto:akshay.ashok@dalal-broacha.com">akshay.ashok@dalal-broacha.com</a>	022 67141486	BFSI
Ms. Timshar Dhamodiwala	Associate	<a href="mailto:timshar.dhamodiwala@dalal-broacha.com">timshar.dhamodiwala@dalal-broacha.com</a>	022 67141441	IT   Telecom   Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)