



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

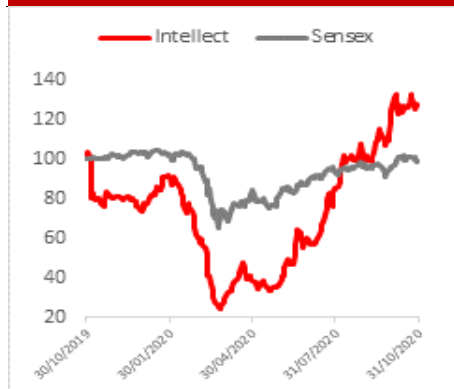
BUY

Current Price	238
Target Price	318
Upside	34%
52 Week Range	44/259

Key Share Data

Market Cap (Rs. Bn)	32
Market Cap (US\$ Million)	425
No of o/s shares (Million)	133
Face Value	5
Monthly Avg. Vol (BSE+NSE) ('000)	321
BSE Code	538835
NSE Code	INTELLECT
Bloomberg	INDA:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	31.33	31.35
Institutions	28.17	26.16
Others	40.50	41.76
Total	100	100

Consolidated Financials (In INR Million)

In INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY18	10,873	19.0%	787	7.2%	467	4.3%	3.7	N.A.	63.9x	6.7%	6.7%
FY19	14,528	33.6%	1,426	9.8%	1,346	11.4%	10.2	174%	19.0x	18.1%	14.8%
FY20	13,507	(7.0%)	746	5.5%	159	1.2%	1.2	-88%	197.2x	1.5%	1.5%
FY21E	15,149	12.2%	3,576	23.6%	2,419	16.0%	18.4	1421%	13.0x	20.7%	20.7%
FY22E	17,795	17.5%	4,950	27.8%	3,493	19.6%	26.5	44.4%	8.98	23.9%	23.9%

Intellect Design Results were above our estimates led by growth in topline and robust margin expansion.

- \$ Revenue was reported at \$50.1 Million, +8.9% QoQ / +7.6% YoY & +5.4% above our estimates.
- INR Revenue was reported at INR 3718.1 Million, +7.5% QoQ / +13.8% YoY & +2.9% above our estimates.
- EBITDA was reported at INR 863.9 Million, +27.2% QoQ & 12.4% above our estimates.
- EBITDA Margin stood at 23.2% vs 19.6% & -1.8% in Q1FY21 & Q2FY20 respectively and 909 basis points above our estimate.
- EBIT was reported at INR 670.1 Million, +36.5% QoQ & 18.2% above our estimates.
- EBIT Margin stood at 18% vs 14.2% & -6.8% in Q1FY21 & Q2FY20 respectively
- PAT was reported at INR 594.1 Million, +39.6% QoQ & 29.3% above our estimates.
- EPS stood at INR 4.40 vs INR 3.22 & INR -1.29 in Q1FY21 & Q2FY20 respectively.

Segment Highlights

1. License Revenue (27% of Revenue) reported at INR 985 Million, registering +63% QoQ & +131% YoY growth.
2. AMC Revenue (20% of Revenue) reported at INR 748 Million, registering +0.9% QoQ & +19% YoY growth.
3. Cloud/SaaS Revenue (9% of Revenue) reported at INR 345 Million, registering -11% QoQ de-growth & 25% YoY growth.

Order Book

- Average deal size in Q2FY21 stands at INR 149 Million (\$2 Million) against INR 168 Million (\$2.4 Million) in Q2 FY20.
- Destiny deals contributes to 53% of total Opportunity funnel in Q2FY21 against 65% in Q2 FY20.
- Order backlog relating to License based (License, AMC and implementation) deals - INR 11940 Million as of Q2FY21 as against INR 11000 Million in Q2 FY20.

Cash & Debt Position

- Effective Operating Cash Flow is INR 385 Million in Q2FY21 and INR 2167 Million in H1FY21.
- Cash and Cash Equivalent is INR 1654 Million.
- Total debt as of Q2 FY21 is at INR 707 Million as against INR 2302 Million in Q2FY20 registering a reduction of INR 1595 Million.

Collections and Investment in Product Development

- Collections for Q2FY21 is INR 3343 Million; up by INR 223 Million as against Q2FY20 and INR 7707 Million for H1FY21.
- The Net Days of Sales Outstanding (DSO) is 127 days in Q2FY21 as against 126 days in Q2FY20.
- Investment in Product Development (Capitalised) is INR 284 Million, same as in Q2FY20.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

Conference Call Key Takeaways

1. **License Revenue has robust growth aspects** in comparison to AMC Revenue and hence the focus is to increase License Revenue.
2. **Intellect's Vision 60:60 that is 60% License Revenue contribution and 60% Gross Margins.** License Revenue has reached ~57% of Revenue over the years and is very close to the company's aspiration.
3. Cloud Revenue consists of two business models: a) **Monthly Subscription Model:** Business is very consistent with constant growth. b) **Consumption-based Model:** Business is based on consumption and keeps fluctuating based on the volumes. There is a small dip in the consumption business during the quarter.
4. Budget Approvals and POC are taking shape as clients are adapting to the WFH business model.
5. **Artificial Intelligence & Machine Learning: Intellect SEEC is being utilized for data in AI and ML activity and has 10 customers who pick up data packets from Intellect Design stations via AWS cloud** at a reasonable price ranging from \$1-2 per 100 data packets. Liberty Insurance is consuming the data for their underwriting Insurance.
6. **Operating Leverage play has helped the EBITDA Margin expansion from 20% to 24%** and EBITDA Margin is set to expand to 30% over the next 4 quarters. EBITDA Margin aspiration of 30% will come from 60% Gross Margin minus 22% from SG&A costs, 6% from ESOPs and 2% from provisioning.
7. **iGTB:** Overall customers count stood at 91 and pipeline looks healthy for H2. The platform has solutions such as 1) **Digital liquidity** with the help of cloud services, 2) **Contextual Banking Experience** - which is the first cloud product is gaining momentum in the market - and 3) **Integrated Payments and Payment Services Hub** during the current quarter.
8. **iGCB:** Intellect closed four deals including a **multi-million Dollar upgrade deal with NABARD** for their core banking and lending transformation. **Positive Outlook in the European region** as the firm has gained few clients from that geography and chasing a destiny deal which will be decided over the upcoming quarters. Quantum Banking which is a Central Banking product is reaching maturity by acquiring clients and critical mass in revenue.
9. **Intellect SEEC:** Intellect SEEC is a cloud-based platform which helps the customers use internal and external data to make decisions and is used in Risk Management, Business Development, etc. **Platform has been expanding in Australia as the firm signed a large insurance client in the region** along with another large client from UK. Business is a subscription-based model.
10. **iRTM, iWealth & iGov:** Wealth & RM has closed 2 deals in Singapore and with a very large account in India. Conversations for these platforms are encouraging and more deal wins are expected going ahead. **iWealth has two ongoing client engagements in India & South East Asia.** iGov Business is on growth trajectory over the next two quarters as business volumes accelerate over GeM portal.
11. Geographically, **America** has been struggling for the past few years **however green shoots are visible and the geography will outperform going ahead.**
12. DSO stood at 127 days as against 126 days in Q2FY20 and the **DSO will improve in upcoming quarters as three new deals go live in the APAC region.**
13. **Debt:** INR 707 Mn of debt on books, **INR 600 Mn consists of Term Loans and INR 100 Mn consists of Short-Term loans in form of Overdrafts.**
14. **Outlook:** i) Technology in Financial Sector is becoming like API economy where solutions are available on the cloud and clients can select and modify their products as per the requirement. ii) **Made an additional R&D Investment where products were launched on the cloud platform and Intellect has 900 APIs available as of today.** iii) iTurmeric has been made available on AWS Cloud. iv) Product & Cloud platform has accelerated Intellect's ability to secure deals with the clients and will contribute towards a healthy deal pipeline going ahead.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

Quarterly Financial Trend

INTELLECT DESIGN ARENA					
Particulars	Q2FY21	Q1FY21	Q2FY20	QoQ%	YoY%
Revenue	3,730	3,492	3,275	7%	14%
Software Development Expenses	-1,635	-1,612	-1,791	1%	-9%
Gross Profit	2,095	1,880	1,484	11%	41%
Gross Profit %	56%	54%	45%		
SGA Expenses	-844	-832	-1,098	1%	-23%
R&D Expenses	-234	-230	-333	2%	-30%
ESOP	-74	-75	-68	-1%	8%
Provisions & Write off	-40	-30	-35	33%	16%
EBITDA	903	713	-49	27%	-
EBITDA %	24%	20%	-2%		
Depreciation & Amortization	-194	-189	-162	3%	20%
Hedge Impact	-12	-33	-9	-64%	29%
Finance Charges	-25	-39	-48	-36%	-48%
Other income	22	29	80	-24%	-73%
Profit Before Tax	694	481	-189	44%	-468%
Taxes Paid	-70	-45	-7	56%	915%
Profit After Tax	624	436	-195	43%	-419%
Reinstatement of Receivables	-28	48	35	-158%	-180%
Minority Interest	-4	-58	-10	-93%	-59%
Adjusted PAT	592	426	-170	39%	-448%

Active Pursuits

Q2FY21 Active Pursuits	Won	Lost	Added	Q1FY21 Active Pursuits	Q4FY20 Active Pursuits	Q3FY20 Active Pursuits
9	0	0	1	8	7	8
12	2	1	3	12	12	13
20	2	3	5	20	20	20

Valuation & Outlook

Intellect Design has outperformed vs our estimates for the 2nd straight quarter on the revenue as well as profitability front. At the current run-rate, management's aspiration of 60% Licensing and Related revenues at 60% Gross Margins and 30% EBITDA margin seems to be achievable in the next 3-4 quarters. We believe that BFSI spend in financial products space should remain healthy as digitization and modernization in BFSI have largely become a non-discretionary phenomenon in order to survive in the pandemic era.

Intellect is currently trading at 13x / 9x FY21e / FY22e EPS. In light of the stellar performance and strong commentary for H2FY21 as well as strong margin trajectory by H1FY22e, we upgrade our target price from INR 240 to INR 318 and maintain our BUY rating on the stock.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E	YE March(Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Total Revenue	10,873	14,528	13,507	15,149	17,795	Liabilities					
Growth %	19%	34%	-7%	12%	17%	Equity Capital	628	659	662	662	662
Less:						Reserves & Surplus	7,392	9,538	9,788	12,208	15,701
Software development expenses (SDE)	5,490	7,372	6,987	6,755	7,649	Equity	8,019	10,197	10,450	12,869	16,363
SG&A	3,872	4,727	4,555	3,868	4,139	Preference Share Capital					
R&D	724	1,004	1,219	950	1,057	Net Worth	8,019	10,197	10,450	12,869	16,363
Total Operating Expenditure	10,087	13,102	12,760	11,573	12,845	Minority Interest	100	90	118	214	223
EBIDTA	787	1,426	746	3,576	4,950	Net Deferred tax liability/(Asset)	-156	-442	-447	-447	-447
Growth %	N.A.	81%	-48%	379%	38%	Other LT Liabilities	1	2	2	2	2
Less: Depreciation & Amortization	265	416	690	786	1,156	Total Loans	1,287	1,007	2,206	1,556	1,206
EBIT	521	1,010	57	2,790	3,794	Capital Employed	9,251	10,855	12,329	14,195	17,347
Growth %	N.A.	94%	-94%	4832%	36%	Assets					
Interest Paid	138	114	174	202	258	Gross Block	5,206	6,206	6,874	7,374	8,124
Non-operating Income	204	509	405	185	356	Less: Depreciation	2,814	3,230	3,919	4,706	5,861
Extraordinary Income	0	304	0	0	0	Net Block	2,391	2,976	2,955	2,668	2,263
Profit Before tax	587	1,709	287	2,772	3,892	Intangible Assets	1,963	2,277	3,115	3,235	3,435
Tax	70	89	51	257	389	Investments	472	524	603	603	603
Net Profit before Minority	517	1,619	237	2,515	3,502	Goodwill	348	364	304	304	304
Minority Interest	49	-31	78	96	9	LT Loans & Advances	1,200	1,366	1,337	1,666	2,082
Net Profit	467	1,650	159	2,419	3,493	Current Assets					
Adjusted Profit	467	1,346	159	2,419	3,493	Sundry Debtors	2,412	2,027	2,847	3,113	3,656
Growth %	N.A.	188%	-88%	1421%	44%	Current Investments	207	156	166	166	166
Reported Diluted EPS Rs	3.7	12.5	1.2	18.4	26.5	Cash and Bank Balance	1,509	929	946	2,586	4,942
Adjusted Diluted EPS Rs	3.7	10.2	1.2	18.4	26.5	Loans and Advances	53	65	66	91	107
Key Ratios						Total Current Assets	7,082	8,364	9,466	11,351	15,209
EBIDTA (%)	7.2%	9.8%	5.5%	23.6%	27.8%	Less:Current Liabilities & Provisions					
NPM (%)	4.3%	11.4%	1.2%	16.0%	19.6%	Sundry Creditors	1,166	1,664	2,080	2,073	2,100
RoE (%)	6.7%	18.1%	1.5%	20.7%	23.9%	Provisions	321	427	427	454	534
RoCE (%)	6.7%	14.8%	1.5%	20.7%	23.9%	Other Current Liabilities	2,717	2,926	2,944	3,106	3,915
Tax Rate %	12.0%	5.2%	17.7%	9.3%	10.0%	Total Current Liabilities & Provisions	4,205	5,017	5,450	5,633	6,549
Book Value Per share (Rs.)	63.9	77.4	79.3	97.7	124.2	Miscellaneous Assets					
Valuation Ratios						Capital Applied	9,251	10,855	12,329	14,195	17,347
P/E (x)	63.9x	19.0x	197.2x	13.0x	9.0x	Cash Flows (Consolidated)					
EV/EBITDA	37.7x	22.1x	43.7x	8.5x	5.6x	YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
P/BV (x)	3.7x	3.1x	3.0x	2.4x	1.9x	PAT	467.5	1,649.9	159.0	2,419.3	3,493.4
Market Cap. / Sales (x)	2.7x	2.2x	2.3x	2.1x	1.8x	Less: Non Operating Income	(204.3)	(509.0)	(404.6)	(184.5)	(355.9)
Key Ratios (Consolidated)						Add: Depreciation	265.3	415.6	689.6	786.2	1,155.9
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E	Add: Interest Paid	138.3	114.4	173.7	202.3	258.2
Key Operating Ratios						Operating Profit before WC Changes	716.2	1,336.4	617.7	3,223.2	4,551.6
EBITDA Margin (%)	7.2%	9.8%	5.5%	23.6%	27.8%	(Inc)/Dec in Current Assets	(490.1)	(1,862.3)	(1,083.9)	(245.5)	(1,501.5)
Tax / PBT (%)	12.0%	5.2%	17.7%	9.3%	10.0%	Inc/(Dec) in Current Liabilities	670.0	812.4	433.2	182.9	915.4
Net Profit Margin (%)	4.3%	11.4%	1.2%	16.0%	19.6%	Net Cash From Operations	896.1	286.5	(33.1)	3,160.6	3,965.6
RoE (%)	6.7%	18.1%	1.5%	20.7%	23.9%	Cash Flow from Investing Activities					
RoCE (%)	6.7%	14.8%	1.5%	20.7%	23.9%	(Inc)/Dec in Fixed Assets	(651.9)	(1,000.6)	(667.8)	(500.0)	(750.0)
Current Ratio (x)	1.7x	1.7x	1.7x	2.0x	2.3x	(Inc)/Dec in Capital Work In Progress	(579.7)	(314.0)	(838.9)	(120.0)	(200.0)
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	(Inc)/Dec in Investment (Strategic)	(88.9)	(52.9)	(78.2)	0.0	0.0
Book Value Per Share (Rs.)	63.9	77.4	79.3	97.7	124.2	(Inc)/Dec in Investment (Others)	(360.5)	(166.3)	29.0	(329.7)	(415.5)
Financial Leverage Ratios						Add: Non Operating Income Income	204.3	530.1	481.3	225.1	432.6
Debt/ Equity (x)	0.2x	0.1x	0.2x	0.1x	0.1x	Cash From Investing Activities	(1,052.3)	(715.6)	(1,014.1)	(724.5)	(932.9)
Interest Coverage (x)	5.7x	12.5x	4.3x	17.7x	19.2x	Cash Flow from Financing Activities					
Interest / Debt (%)	0.1x	0.1x	0.1x	0.1x	0.2x	Inc/(Dec) in Total Loans	(1,036.7)	(279.7)	1,198.3	(650.0)	(350.0)
						Inc/(Dec) in Reserves & Surplus	1,568.3	528.2	93.8	0.0	0.0
						Less: Interest Paid	(138.3)	(114.4)	(173.7)	(202.3)	(258.2)
						Net Cash from Financing Activities	350.5	(151.1)	1,114.1	(852.3)	(608.2)
						Net Inc/Dec in cash equivalents	194.3	(580.3)	66.9	1,583.8	2,424.5
						Opening Balance	1,314.5	1,508.8	928.5	946.3	2,585.6
						Closing Cash and Cash Equivalents	1,508.8	928.5	995.4	2,530.1	5,010.1



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

to any other party, without the prior express written permission of D&B . All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babladalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021. Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com