

Monetization phase to drive robust margin expansion



Intellect Design's Q3FY21 results were a mixed bag with revenue marginally below our estimates and profitability above our estimates

- **\$ Revenue was reported at \$51.8 Million, +3.4% QoQ / +15% YoY & -3% below our estimates.**
- **INR Revenue was reported at INR 3,823 Million, +2.5% QoQ / +19% YoY & -2% above our estimates.**
- **EBITDA was reported at INR 975 Million, +8% QoQ & 5% above our estimates.**
- **EBITDA Margin stood at 25.5% vs 24.2% & 1.1% in Q2FY21 & Q3FY20 respectively and 170 basis points above our estimate.**
- **EBIT was reported at INR 786 Million, +10.8% QoQ & 8% above our estimates.**
- **EBIT Margin stood at 20.6% vs 19% & -4.2% in Q2FY21 & Q3FY20 respectively and 190 bps above our expectations**
- **PAT was reported at INR 804 Million, +36% QoQ & 25% above our estimates.**
- **EPS stood at INR 6.1 vs INR 4.5 & INR -0.8 in Q2FY21 & Q3FY20 respectively.**

Segmental Highlights

- **License Revenue (24% of Revenue) reported at INR 910 Mn, registering a decline of -7.6% QoQ & 85% YoY growth**
- **AMC Revenue (19% of Revenue) reported at INR 745 Mn, registering a minor decline -0.4% QoQ & +18% YoY growth**
- **Cloud/SaaS Revenue (11% of Revenue) reported at INR 418 Mn, registering 21% QoQ & 28% YoY growth**

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	14,528	13,507	14,971	16,780	18,814
EBIT	1,010	57	2,838	3,704	4,758
Adjusted net profit	1,346	159	2,611	3,515	4,407
EPS (Rs)	10.2	1.2	19.8	26.7	33.4
growth (%)	174%	-88%	1542%	35%	25%
P/E (x)	28.8	299.1	18.2	13.5	10.8
P/B (x)	4.7	4.6	3.6	2.9	2.3
EV/EBITDA (x)	33.4	65.4	12.8	9.4	7.2
D/E	0.1	0.2	0.0	0.0	0.0
ROCE (%)	14.8	1.5	22.2	23.7	23.5
RoE (%)	18.1	1.5	22.2	23.7	23.5

Source: Company

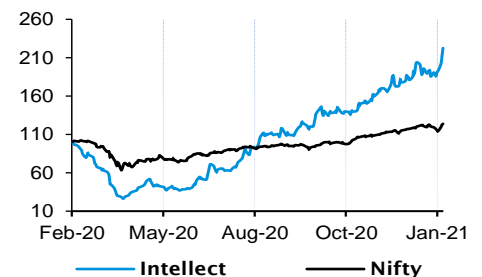
Rating	TP (Rs)	Up/Dn (%)
BUY	502	39

Market data

Current price	Rs	361
Market Cap (Rs.Bn)	(Rs Bn)	50
Market Cap (US\$ Mn)	(US\$ Mn)	692
Face Value	Rs	5
52 Weeks High/Low	Rs	379/44
Average Daily Volume	('000)	767
BSE Code		538835
Bloomberg		INDA:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	31.30	31.33
Public	67.98	67.95
Others	0.72	0.72
Total	100	100

Source: BSE

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Order Book

- **Average deal size in Q3FY21 stands at INR 450 Mn** as against INR 446 Mn in Q2FY21 and INR 390 Mn in Q3FY20.
- **Destiny Deals stood at 42 in Q3FY21** as against 41 in Q3FY20.
- **Order backlog relating to License based (License, AMC and implementation) deals - INR 12030 Million as of Q3FY21** as against INR 11940 Million in Q2FY21 & INR 11250 Million in Q3FY20.

Destiny deals contributes to 53% of total Opportunity funnel in Q3FY21 against 64% in Q3FY20.

Cash Position

- **Effective Operating Cash Flow is INR 335 Mn** vs INR 385 Mn in Q2FY21.
- **Cash and Cash Equivalent is INR 1837 Mn** Vs INR 1212 Mn in Q3FY20.

Net cash as of Q3 FY21 is at INR 1242 Mn as against negative INR 1015 Mn in Q3 FY20.

Collections & Investment in Product Development

- **Collections for Q3 FY21 is INR 3483 Mn;** up by INR 138 Mn as against 3345 Mn in Q3 FY20.
- **Investment in Product Development (Capitalized) is INR 283 Mn,** against INR 287 Mn in Q3 FY20.

The Net Days of Sales Outstanding (DSO) is 124 days in Q3 FY21 as against as against 132 days in Q3 FY20.

Conference Call Key Takeaways

- **Product Monetization:** Currently only 2-3 products in monetization stage which is driving financial performance.
- **Intellect 2.0:** Intellect 2.0 will get over in March 2021 and Intellect 3.0 from Q1FY22 which will involve more products getting into “Aggressive Selling and Premium Pricing” stage.
- **License Revenue:** License-linked revenue crossed 53% mark and management targets to increase contribution of this segment to 60% which is important because it is 70-75% gross margin and therefore aids in achieving 30% EBITDA aspiration.
- **iGTB:** 4 out of the 5 platforms under iGTB performed well during the quarter. Digital Transaction Banking, Supply Chain Finance and Trade SWIFT saw traction during the quarter | A top 10 US bank went live with Liquidity Management solution within 8 months in the lockdown - which shows the capability of execution | Launched 3 different upgrades across 3 sub-platforms in the iGTB space which saw strong traction
- **iGCB:** won mega destiny deal in Germany with 2nd largest e-commerce retailer - OTTO. Intellect went through a comprehensive selection process wherein OTTO considered build vs. buy as well as RFPs from several other FinTech providers and Intellect emerged as leader | Won 1st cloud subscription deal in mid-tier bank in North America in Canada which had 20 competitors bidding for it | Ready to launch IDC 21 microservices version which is an open API and Cloud native platform | Management sees good traction in the Lending Product and Central Banking product in the upcoming year
- **Intellect SEEC:** is a product pertaining to insurance business which is 100% cloud and 100% subscription. Data platform is at the heart of the business | Won 10th customer in this segment | “Magic Submission” module which was launched in November as an AI powered hyper automation tool is gaining immense traction.
- **GEM portal has crossed INR 10,000 Cr of GMV in Q3FY21.**
- **Strategic Growth Outlook:** Management indicated that one can expect 30% EPS growth CAGR and low double digits to mid-teen top-line growth between FY21e and FY23e.

Expansion of EBITDA margins to 26% in Q3 FY 21 vs 1% in Q3 FY20 and 24% in Q2 FY 21. Management indicated it is on track to achieve EBITDA margin target of 30% over the next 2 quarters

License linked revenue (License + Saas/ Subscription + AMO) is at 53% of total YTD FY21 revenues vs 42% of total YTD FY20 revenues

Destiny Deals Continue to be well positioned in 3 Destiny deals. Europe momentum continues.

Management indicated that one can expect EPS to grow at a CAGR of 30% and top-line to grow at low double to mid-teens over next 2 fiscal years

Quarterly Performance Analysis

Exhibit 1

Particulars (INR Mn)	Quarterly Deviation Analysis				
	Q3FY21	Q2FY21	Q3FY20	YoY%	QoQ%
Revenue (US\$ Mn)	51.8	50.1	45.0	3%	15%
Revenue (INR Mn)	3,823.0	3,730.0	3,203.3	2%	19%
Software Development Expenses	1,682.0	1,635.0	1,711.1	3%	-2%
Gross Profit	2,141.0	2,095.0	1,492.2	2%	43%
Gross Profit %	0.6	0.6	0.5		
SGA Expenses	936.0	958.0	1,141.8	-2%	-18%
R&D Expenses	230.0	234.0	314.6	-2%	-27%
EBITDA	975.0	903.0	35.8	8%	N.A.
EBITDA %	25.5%	24.2%	1.1%	129	2,439
Depreciation & Amortization	189	194	171	-3%	11%
EBIT	786	709	-135	11%	N.A.
EBIT (%)	20.6%	19.0%	-4.2%	155	N.A.
Finance Charges	13	25	48	-48%	-73%
Other income	29	-18	76	N.A.	-62%
Profit Before Tax	802	666	-107	20%	N.A.
Taxes Paid	60	70	28	-14%	111%
Profit After Tax	742	596	-136	24%	N.A.
Minority Interest	-61	4	-22	N.A.	N.A.
Adjusted PAT	803	592	-114	36%	N.A.
EPS	6.1	4.5	-0.9	36%	N.A.

Margins expanded sequentially by 129 bps on the back of lower Software Development Expenses (-2% qoq) and lower SG&A (-18% qoq) and R&D (-27% qoq) expenses

Tax Loss credit to the tune of INR 3000-4000 Mn is available as per management

Source: Dalal & Broacha Research, Company

Exhibit 2 – Quarterly Trend of Active Deal Pursuits

Q3FY20 Active Pursuits	Q2FY21 Active Pursuits	Won	Lost	Added	Q3FY21 Active Pursuits	Remarks
41	41	6	1	8	42	Total
8	9	2	0	1	8	>INR 50 Cr each
13	12	0	0	3	15	INR 30-50 Cr
20	20	4	1	4	19	INR 20-30 Cr

Active pursuits in the order range of INR 300-500 Mn had maximum traction

Order backlog stood at INR 12,030 Mn vs INR 11,940 Mn qoq and 11,250 Mn yoy

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Intellect reported a solid performance in Q3FY21 which was largely in line with our estimates. Having sown the seeds of through its investment phase between FY18-FY20, the company is now reaping its benefits through the monetization phase from FY21 beginning – which is fueling the growth and margin expansion of the company. Currently, only 2-3 products are in monetization phase, with the beginning of Intellect 3.0 phase from Q1 FY22, more products are expected to enter the monetization phase and enable margin expansion towards 30% EBITDA margins. Margin expansion is in line with Management's guidance on EPS CAGR of ~30% over FY21e-FY23e. **We conservatively bake in topline growth of 12.1% over the same period and margin expansion from 25.5% in Q3FY21 to ~30% by end of FY23e and arrive at an upgraded TP of INR 502 (earlier TP was INR 318), which is 15x FY23e EPS.**

Financial

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	14,528	13,507	14,971	16,780	18,814	Liabilities					
<i>Growth %</i>	34%	-7%	11%	12%	12%	Equity Capital	659	662	662	662	662
Less:						Reserves & Surplus	9,538	9,788	12,400	15,915	20,322
Software development expenses (SDE)	7,372	6,987	6,640	7,141	7,750	Equity	10,197	10,450	13,061	16,576	20,983
SG&A	4,727	4,555	3,786	4,027	4,298	Net Worth	10,197	10,450	13,061	16,576	20,983
R&D	1,004	1,219	936	1,031	1,132	Total Loans	1,007	2,206	359	359	359
Total Operating Expenditure	13,102	12,760	11,362	12,199	13,180	Capital Employed	10,855	12,329	13,098	16,622	21,038
EBIDTA	1,426	746	3,609	4,581	5,635	Assets					
<i>Growth %</i>	81%	-48%	384%	27%	23%	Gross Block	6,206	6,874	7,274	7,524	8,224
Less: Depreciation & Amortization	416	690	772	877	877	Less: Depreciation	3,230	3,919	4,691	5,568	6,445
EBIT	1,010	57	2,838	3,704	4,758	Net Block	2,976	2,955	2,583	1,956	1,779
<i>Growth %</i>	94%	-94%	4916%	31%	28%	Intangible Assets	2,277	3,115	3,235	3,435	3,635
Interest Paid	114	174	88	40	40	Investments	524	603	603	603	603
Non-operating Income	509	405	118	252	301	Goodwill	364	304	304	304	304
Extraordinary Income	304	0	0	0	0	LT Loans & Advances	1,366	1,337	1,647	1,963	2,258
Profit Before tax	1,709	287	2,868	3,916	5,019	Current Assets					
Tax	89	51	253	392	602	Sundry Debtors	2,027	2,847	3,076	3,448	4,639
Net Profit before Minority	1,619	237	2,614	3,524	4,416	Cash and Bank Balance	929	946	1,653	4,964	7,569
Minority Interest	-31	78	3	9	10	Total Current Assets	8,364	9,466	10,317	14,655	19,263
Net Profit	1,650	159	2,611	3,515	4,407	Less: Current Liabilities & Provisions					
Adjusted Profit	1,346	159	2,611	3,515	4,407	Sundry Creditors	1,664	2,080	2,073	2,100	2,100
<i>Growth %</i>	188%	-88%	1542%	35%	25%	Total Current Liabilities & Provisions	5,017	5,450	5,591	6,295	6,804
Reported Diluted EPS Rs	12.5	1.2	19.8	26.7	33.4	Miscellaneous Assets					
Adjusted Diluted EPS Rs	10.2	1.2	19.8	26.7	33.4	Capital Applied	10,855	12,329	13,098	16,622	21,038
Key Ratios						Cash Flows (Consolidated)					
EBIDTA (%)	9.8%	5.5%	24.1%	27.3%	29.9%	YE March (Rs. mn)	FY19	FY20E	FY21E	FY22E	FY23E
NPM (%)	11.4%	1.2%	17.4%	20.9%	23.4%	PAT	1,649.9	159.0	2,611.1	3,515.2	4,406.9
RoE (%)	18.1%	1.5%	22.2%	23.7%	23.5%	Less: Non Operating Income	(509.0)	(404.6)	(117.8)	(251.7)	(301.0)
RoCE (%)	14.8%	1.5%	22.2%	23.7%	23.5%	Add: Depreciation	415.6	689.6	771.7	876.8	876.8
Tax Rate %	5.2%	17.7%	8.8%	10.0%	12.0%	Add: Interest Paid	114.4	173.7	87.8	40.3	40.3
Book Value Per share (Rs.)	77.4	79.3	99.1	125.8	159.2	Operating Profit before WC	1,336.4	617.7	3,352.8	4,180.5	5,022.9
Valuation Ratios						(Inc)/Dec in Current Assets	(1,862.3)	(1,083.9)	(144.1)	(1,026.9)	(2,003.2)
P/E (x)	28.8x	299.1x	18.2x	13.5x	10.8x	Inc/(Dec) in Current Liabilities	812.4	433.2	141.0	703.7	508.6
EV/EBITDA	33.4x	65.4x	12.8x	9.4x	7.2x	Net Cash From Operations	286.5	(33.1)	3,349.6	3,857.3	3,528.3
P/BV (x)	4.7x	4.6x	3.6x	2.9x	2.3x	Cash Flow from Investing					
Market Cap. / Sales (x)	3.3x	3.5x	3.2x	2.8x	2.5x	(Inc)/Dec in Fixed Assets	(1,000.6)	(667.8)	(400.0)	(250.0)	(700.0)
Key Ratios (Consolidated)						Add: Non Operating Income	530.1	481.3	158.4	328.4	377.7
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash From Investing	(715.6)	(1,014.1)	(671.6)	(438.1)	(816.7)
Key Operating Ratios						Cash Flow from Financing					
EBITDA Margin (%)	9.8%	5.5%	24.1%	27.3%	29.9%	Less: Interest Paid	(114.4)	(173.7)	(87.8)	(40.3)	(40.3)
Tax / PBT (%)	5.2%	17.7%	8.8%	10.0%	12.0%	Net Cash from Financing	(151.1)	1,114.1	(1,933.8)	(40.3)	(40.3)
Net Profit Margin (%)	11.4%	1.2%	17.4%	20.9%	23.4%	Net Inc/Dec in cash	(580.3)	66.9	744.2	3,379.0	2,671.3
RoE (%)	18.1%	1.5%	22.2%	23.7%	23.5%	Opening Balance	1,508.8	928.5	946.3	1,653.1	4,964.5
RoCE (%)	14.8%	1.5%	22.2%	23.7%	23.5%	Closing Cash	928.5	995.4	1,690.5	5,032.1	7,635.8
Current Ratio (x)	1.7x	1.7x	1.8x	2.3x	2.8x						
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%						
Book Value Per Share (Rs.)	77.4	79.3	99.1	125.8	159.2						
Financial Leverage Ratios											
Debt/ Equity (x)	0.1x	0.2x	0.0x	0.0x	0.0x						
Interest Coverage (x)	12.5x	4.3x	41.1x	113.8x	139.9x						
Interest / Debt (%)	0.1x	0.1x	0.1x	0.1x	0.1x						

Source: Dalal & Broacha Research, Company

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