



Analyst Name: Mayank Babla – 022-67141212
Associate Name: Tanush Mehta – 022-67141241

Q2FY20 Result Update @ Dalal & Broacha

BUY

Current Price	150
Target Price	253
Upside/Downside	67%
52 Week Range	150/292

Key Share Data

Market Cap (Rs.bn)	19.79
Market Cap (US\$ mn)	280.27
No of o/s shares (mn)	131.95
Face Value	5
Monthly Avg. vol(BSE+NSE) Nos'000	232
BSE Code	538835
NSE Code	INTELLECT
Bloomberg	INDA:IN

Price Performance



% Shareholding	Sep-19	Jun-19
Promoters	31.41	31.47
Institutions	25.41	24.92
Others	42.85	43.61
Total	100	100

Intellect's Q2FY20 results are below our estimates owing to deferring of deals which lead to underperformance in the License business

The Revenue stood at Rs. 3275 mn (below our estimate of INR 3972 Mn), de-growth of 13.9% YoY and de-grew 4.6% QoQ. In dollar terms, the company generated revenue of \$46.57 mn as compared to \$49.4mn in Q1FY20 and \$54.3 mn in Q2FY20.

Segment Wise -

- The license revenue (16.2% of Topline) stood at Rs. 530 mn as against Rs. 1156mn in Q2FY19, de-growth of 54.1% YoY and Rs. 658 mn in Q1FY20, de-growth of 19.45%.
- AMC revenue (19.2% of the Revenue) stood at Rs. 630 mn as against Rs. 540 mn in Q2FY19, growth of 16% YoY and Rs. 597mn in Q1FY20, growth of 7.3%
- Implementation (64.6% of the Topline) stood at Rs. 2,115 mn as against Rs. 2108 mn in Q2FY19, Flat YoY and Rs. 2179 mn in Q1FY20, de-growth of 3%.

Other Financial Highlights -

- Gross Margins - The Gross Margins stood at 45.32% as against 49.69% in Q2FY19.
- The EBITDA loss stood at Rs. (49.3) as against profit of INR 383 mn in Q2FY19 and Rs. 122 mn in Q1FY20.
- The Employee expenses stood at Rs. 2096.65 mn, up by 4% QoQ and Flat YoY. (The employee expenses had one time ESOP expenses of Rs 40.3 mn). The EBTDA was lower on account low topline growth. The R&D expenses during the quarter amounted to Rs. 283.6 mn as against Rs. 295.4 mn in Q2FY19.
- The PAT came at INR (170.15) mn as against Rs. 3.3 mn in Q1FY20 and Rs. 314.6 in Q2FY19. PAT was lower compared to our estimates of Rs. 340 mn.
- The EPS stood at Rs. (1.29) as against Rs. 2.5 in Q2FY19 and Rs. 0.3 in Q1FY20.

Deal wins – The company won 9 deals in Q2FY20 as compared to 11 deals Q2FY19. Further, a double digit \$mn deal in Intellect Global Transaction Banking (iGTB) with a Top 20 Global Bank has been deferred to the subsequent quarters

Order Book - The total license based order book stands at Rs. 11,000 mn as compared to Rs. 11,280 in Q1FY20. The cloud order book stands at Rs. 3750 mn as against Rs. 3000 mn in Q1FY20. The GeM order book stands intact at Rs. 3,000 mn

Management Comments & Conference Call Key Takeaways –

- Out of the 9 deals won, 4 deal are large value deals. Out of the 4 deals won, 3 cloud deal wins have no significant impact on current Quarter revenues, as deals have shifted from license based model to cloud based revenue, resulting into spreading of income over quarters. Under, the cloud based model, the revenue is generated on subscription bases as compared to that license where a one-time fee is booked. Further, the management guided that the total deal value of these 3 deals comes to approx. \$15mn, if accounted under license based model.
- The company shall start monetizing their insurance product by FY21 and Risk and Treasuries product by FY 22-23.
- 2 of their clients have undergone large upgrades in the iGTB segment (which contributes ~40-50% to topline). Out of the above, one upgrade revenue has been booked in the current quarter and the second upgrade shall be booked in Q3FY20.

Financials

In INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY17	9,136	12.7%	-250	-2.7%	-209	-2.3%	-1.7	24%	N.A.	N.A.	N.A.
FY18	10,873	19.0%	787	7.2%	467	4.3%	3.7	N.A.	40.3x	6.7%	6.7%
FY19	14,496	33.3%	1,394	9.6%	1,314	11.2%	10.0	168%	12.2x	17.8%	14.4%
FY20E	15,177	4.7%	1,207	8.0%	709	4.7%	5.4	-46%	27.9x	6.7%	6.7%
FY21E	18,995	25.2%	2,819	14.8%	1,855	9.8%	14.1	162%	10.7x	15.7%	15.7%



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst Name: Mayank Babla – 022-67141212

Associate Name: Tanush Mehta – 022-67141241

Q2FY20 Result Update @ Dalal & Broacha

- The management guided that, a double digit \$mn deal in Intellect Global Transaction Banking (iGTB) with a Top 20 Global Bank has been deferred to the subsequent quarters due to ongoing global issues like BREXIT and China – US trade war. The company expects it to close the said deals over the next 3 quarters.
- The Company targets controlling Rs. 100mn of cost every quarter to improve operational efficiencies.
- Intellect's short term borrowings have gone up to Rs.1482 mn as of Q2FY20, from 371.8 Mn as on Q4FY19, in order to support their working capital requirements.
- The Net Days of Sale of Outstanding is 126 days in Q2FY20 as compared to 131 days in Q2FY19 and 119 days in Q1FY20.

Outlook & Valuation

The entire BFSI sector is under pressure due to global issues like BREXIT and US-CHINA trade war. The effect of the same is seen on their R&D and Tech spends, which have been delayed by 2-3 quarters. Intellect is also witnessing a delay in client decision making and deal closure i.e. time taken from RFP to deal closure, hence various deals are getting deferred. (Example – Their double digit million dollar deal are getting deferred since Q1FY20). Additionally, we have observed a very quick change in adoption of cloud based model as compared to license based model, which will not only impact the revenues but will also impact the cash flows and working capital requirements over the next 2-3 quarters.

We believe the Topline and cash flow shall remain volatile in the coming quarters and owing to the same, we have revised our estimates. On our revised estimates, we arrive at an EPS of Rs. 5.4 in FY20E and Rs. 14.1 in FY21E from our earlier estimated EPS of Rs. 11.1 in FY20E and Rs. 10.4 in FY21E.

The stock is currently trading at P/E of 27.9x FY20E and 10.7x FY21E. We maintain our **BUY** rating on the stock, albeit with a lower **Target Price of INR 253 (versus our earlier TP of INR 308)**.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst Name: Mayank Babla – 022-67141212

Associate Name: Tanush Mehta – 022-67141241

Q2FY20 Result Update @ Dalal & Broacha

Profit & Loss A/c						Cash Flows (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Total Revenue	9,136	10,873	14,496	15,177	18,995	PAT	(209.1)	467.5	1,617.8	708.7	1,855.2
<i>Growth %</i>	13%	19%	33%	5%	25%	Less: Non Operating Inc	(357.6)	(204.3)	(509.0)	(536.9)	(303.9)
Less:						Add: Depreciation	241.4	265.3	415.6	644.8	702.8
Software development	4,633	5,490	7,372	7,487	8,196	Add: Interest Paid	113.0	138.3	114.4	177.5	189.3
SG&A	3,956	3,872	4,727	5,129	6,499	Operating Profit before W	(277.9)	716.2	1,304.3	994.1	2,443.4
R&D	796	724	1,004	1,354	1,482	(Inc)/Dec in Current Ass	(658.2)	(490.1)	(1,862.3)	(832.8)	(1,318.0)
Total Operating Expenditu	9,385	10,087	13,102	13,970	16,177	Inc/(Dec) in Current Lial	365.7	670.0	812.4	686.8	871.9
EBIDTA	-250	787	1,394	1,207	2,819	Net Cash From Operation:	(570.4)	896.1	254.3	848.1	1,997.3
<i>Growth %</i>	-8%	N.A.	77%	-13%	134%	Cash Flow from Investing Activities					
Less: Depreciation & An	241	265	416	645	703	(Inc)/Dec in Fixed Asset	(298.5)	(651.9)	(1,000.6)	(336.8)	(391.5)
EBIT	-491	521	978	562	2,116	(Inc)/Dec in Capital Wo	(727.6)	(579.7)	(314.0)	(878.6)	(400.0)
<i>Growth %</i>	2.4%	N.A.	87.7%	-42.6%	276.5%	(Inc)/Dec in Investment	(72.5)	(88.9)	(52.9)	0.0	0.0
Interest Paid	113	138	114	178	189	(Inc)/Dec in Investment	164.3	(360.5)	(166.3)	(318.3)	(273.6)
Non-operating Income	358	204	509	537	304	Add: Non Operating Inc	357.6	204.3	530.1	613.6	344.5
Extraordinary Income	0	0	304	0	0	Cash From Investing Activ	(571.1)	(1,052.3)	(715.6)	(920.1)	(720.6)
Profit Before tax	-246	587	1,677	921	2,230	Cash Flow from Financing Activities					
Tax	28	70	89	136	335	Inc/(Dec) in Total Loans	2,094.6	(1,036.7)	(279.7)	0.0	0.0
Net Profit before Minority	-275	517	1,587	785	1,896	Inc/(Dec) in Reserves &	2.0	1,568.3	560.4	0.0	0.0
Minority Interest	-66	49	-31	77	41	Less: Interest Paid	(113.0)	(138.3)	(114.4)	(177.5)	(189.3)
Net Profit	-209	467	1,618	709	1,855	Net Cash from Financing /	1,904.0	350.5	(119.0)	(177.5)	(189.3)
Adjusted Profit	-209	467	1,314	709	1,855	Net Inc/Dec in cash equiv	762.5	194.3	(580.3)	(249.5)	1,087.4
<i>Growth %</i>	24%	N.A.	181%	-46%	162%	Opening Balance	552.0	1,314.5	1,508.8	928.5	679.0
Reported Diluted EPS Rs	(1.7)	3.7	12.3	5.4	14.1	Closing Cash and Cash Equ	1,314.5	1,508.8	928.5	679.0	1,766.4
Adjusted Diluted EPS Rs	(1.7)	3.7	10.0	5.4	14.1						

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	509	628	659	659	659
Reserves & Surplus	5,475	7,392	9,538	10,247	12,102
Equity	5,983	8,019	10,197	10,906	12,761
Preference Share Capital					
Net Worth	5,983	8,019	10,197	10,906	12,761
Minority Interest	0	100	90	167	208
Net Deferred tax liabili	-113	-156	-442	-442	-442
Other LT Liabilities	1	1	2	2	2
Total Loans	2,324	1,287	1,007	1,007	1,007
Capital Employed	8,195	9,251	10,855	11,640	13,536
Assets					
Gross Block	4,554	5,206	6,206	6,543	6,935
Less: Depreciation	2,549	2,814	3,230	3,875	4,577
Net Block	2,005	2,391	2,976	2,668	2,357
Intangible Assets	1,383	1,963	2,277	3,155	3,555
Investments	383	472	524	524	524
Goodwill	773	348	364	364	364
LT Loans & Advances	789	1,200	1,366	1,684	1,958
Current Assets					
Sundry Debtors	2,048	2,412	2,027	2,768	3,218
Current Investments	312	207	156	156	156
Cash and Bank Balance	1,315	1,509	929	679	1,766
Loans and Advances	64	53	65	84	98
Other Current Assets	2,658	2,902	5,187	5,260	6,115
Total Current Assets	6,398	7,082	8,364	8,948	11,353
Less:Current Liabilities & Provisions					
Sundry Creditors	994	1,166	1,664	1,830	2,073
Provisions	294	321	427	505	587
Other Current Liabilitie:	2,246	2,717	2,926	3,368	3,915
Total Current Liabilities &	3,535	4,205	5,017	5,704	6,576
Miscellaneous Assets					
Capital Applied	8,195	9,251	10,855	11,640	13,536

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	-2.7%	7.2%	9.6%	8.0%	14.8%
Tax / PBT (%)	-11.5%	12.0%	5.3%	14.8%	15.0%
Net Profit Margin (%)	-2.3%	4.3%	11.2%	4.7%	9.8%
RoE (%)	-3.4%	6.7%	17.8%	6.7%	15.7%
RoCE (%)	-3.4%	6.7%	14.4%	6.7%	15.7%
Current Ratio (x)	1.8x	1.7x	1.7x	1.6x	1.7x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Book Value Per Share (F	47.7	63.9	77.4	82.8	96.8
Financial Leverage Ratios					
Debt/ Equity (x)	0.4x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	-2.2x	5.7x	12.2x	6.8x	14.9x
Growth Indicators %					
Sales Growth (%)	12.7%	19.0%	33.3%	4.7%	25.2%
EBITDA Growth (%)	(8.2%)	N.A.	77.2%	(13.4%)	133.6%
Net Profit Growth (%)	24.4%	N.A.	246.1%	(56.2%)	161.8%
Diluted EPS Growth (%)	24.4%	N.A.	181.1%	(46.1%)	161.8%



Analyst Name: Mayank Babla – 022-67141212
Associate Name: Tanush Mehta – 022-67141241

Q2FY20 Result Update @ Dalal & Broacha

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) 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



Analyst Name: Mayank Babla – 022-67141212

Associate Name: Tanush Mehta – 022-67141241

Q2FY20 Result Update @ Dalal & Broacha

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 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
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT, Media and Internet
Mr. Avinash Tanawade	Avinash.tanawade@dalal-broacha.com	022-67141449	BFSI
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141435	Mid-Caps
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141432	Associate