



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

Q3FY20 Result Update @ Dalal & Broacha

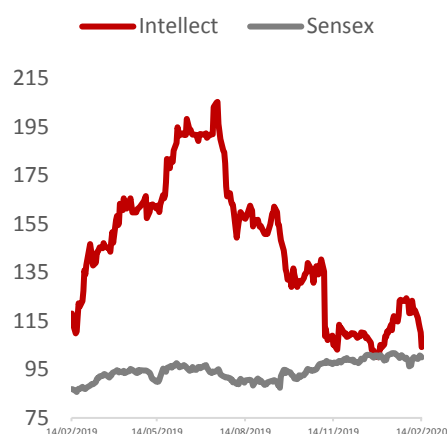
BUY

Current Price	144
Target Price	253
Upside/Downside	76%
52 Week Range	150/292

Key Share Data

Market Cap (Rs.bn)	19.06
Market Cap (US\$ mn)	266.89
No of o/s shares (mn)	131.95
Face Value	5
Monthly Avg. vol(BSE+NSE) Nos'000	253
BSE Code	538835
NSE Code	INTELLECT
Bloomberg	INDA:IN

Price Performance



% Shareholding	Dec-19	Sept-19
Promoters	31.40	31.41
Institutions	25.80	25.41
Others	42.80	42.85
Total	100	100

Intellect's Q3FY20 results are below our estimates owing to deferring of deals which lead to underperformance in the License business followed by sudden shift of clients to cloud based models from license based models

The Revenue stood at Rs. 3203.3 mn (below our estimate of INR 3701 Mn), de-growth of 14.5% YoY and de-grew 2.2% QoQ. In dollar terms, the company generated revenue of \$44.97 mn as compared to \$52.43mn in Q3FY19 and \$46.57 mn in Q2FY20.

Segment Wise -

- The license revenue (15.3% of Topline) stood at Rs. 491 mn as against Rs. 770 mn in Q3FY19, de-growth 36% of % YoY and Rs.530 mn in Q1FY20, de-growth of 8%.
- AMC revenue (19.7% of the Revenue) stood at Rs. 630 mn as against Rs.590mn in Q3FY19, growth of 7% YoY and flat YoY
- Implementation and Saas (65% of the Topline) stood at Rs.2083 mn as against Rs.2279 mn in Q2FY19, de-growth of 9% YoY and Rs. 2115 mn in Q2FY20, de-growth of 1.5%.

Other Financial Highlights -

- Gross Margins - The Gross Margins stood at 46.6% as against 48.5% in Q3FY19.
- The EBITDA stood at Rs.35.8 as against profit of INR 419.1 mn in Q2FY19 and Rs. (49) mn in Q2FY20.
- The Employee expenses stood at Rs. 2100.61 mn, down by 3.6% QoQ and 3.3YoY.
- The PAT came at INR (113.8) mn as against Rs. 133.8 mn in Q3FY19 and Rs. (170) in Q2FY20. PAT was lower compared to our estimates of Rs.108 mn.

Deal wins – The company won 6 deals in Q3FY20 as compared to 12 deals Q3FY19. Additionally, deals worth \$5 Mn in License value have been received by Intellect, but could not be accrued in Q3FY20 pending final documentation. While the deals were won, conclusion of contracts and other documentation that would enable to recognize these revenues is taking a while. Had they been accrued, revenues would have been INR 3559.5 mn (\$49.97 Mn), EBITDA of INR 371.8 mn and Net Profit of INR 222.2 mn. In Q2FY20, a **double digit \$mn deal** in Intellect Global Transaction Banking (iGTB) with a Top 20 Global Bank had been deferred, which was **expected to accrue in Q3FY20**. The deal closure is taking more time than expected, however, the management is confident of closing them soon but they haven't given any time line.

Order Book - The total license based order book stands at Rs. 11,250 mn as compared to Rs. 11,000 in Q2FY20. The cloud order book stands at Rs. 8750 mn as against Rs. 6250mn in Q2FY20. The GeM order book stands intact at Rs. 3,000 mn

Financials

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.	38.7x	6.7%	6.7%
FY19	14,528	33.6%	1,426	9.8%	1,346	11.4%	10.2	174%	11.5x	18.1%	14.8%
FY20E	14,290	(1.6%)	823	5.8%	318	2.2%	2.4	-76%	59.6x	3.1%	3.1%
FY21E	18,491	29.4%	2,848	15.4%	1,858	10.1%	14.1	484%	10.2x	16.2%	16.2%
FY22E	21,836	18.1%	4,658	21.3%	3,396	15.6%	25.8	82.8%	5.59	24.1%	24.1%



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Management Comments & Conference Call Key Takeaways –

- Since last two quarters, several 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). This has impacted Intellect's profitability in the short term; however they will be more profitable in the long term. **The management believes that, LCV of the Cloud deals has an opportunity to become 3x times, over a 7 year period.**
- Intellect launched IDC19, response for which has been good from the customer's end (IDC 19 is seeing good traction from Europe and the Middle East)
- Their iGTB product (~44% of Revenue) is facing price competition from larger players like Temenos and Flexcube in the US. This business grew by 19% YoY and added 3 new customers during the quarter.
- Intellect insurance segment is a 100% Saas driven model. Further, for the cloud model, Intellect hire's private cloud for running cloud.
- Intellect started monetizing iGCB a few quarters back and is on track as per the management. The management also guided that certain cost w.r.t. client acquisition and is being incurred for iGCB, the revenues of which will start flowing from H2FY21.
- The company earns **70% Margins upon delivery of a product** and **30% margins in the initial years of implementation**
- The **GeM business was muted as generally this is a dull quarter** (Q4 i.e January, February and Mid March of every year is better than the rest of months as maximum orders are placed by the government companies). The management expects 50% growth from this business going ahead.
- The management maintains 20% EBITDA Margins going ahead.
- 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 few quarters.
- The Net Days of Sale of Outstanding is 132 days in Q3FY20 as compared to 115 days in Q3FY19 and 119 days in Q1FY20.

Outlook & Valuation

The entire BFSI sector is under pressure due to geopolitical issues. 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. Our estimates remain unchanged as we believe that once big deals kick in, Intellect's Profitability would lift immediately. We arrive at an EPS of Rs. 14.1 in FY21E and Rs. 25.8 in FY22E. The stock is currently trading at P/E of 10.2x FY21E and 5.6x FY22E. We maintain our BUY rating on the stock, albeit with a **Target Price of INR 253**



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INTELLECT DESIGN ARENA					
Particulars	Q3FY20	Q3FY19	Q2FY20	YoY%	QoQ%
Revenue	3203.3	3779.4	3275.1	-15.2%	-2.2%
Software Development Expenses	-1711.09	-1947	-1791	-12.1%	-4.4%
Gross Profit	1492.21	1832.4	1484.4	-18.6%	0.5%
Gross Profit %	46.58%	48.48%	45.32%		
Selling and Marketing Exp	-862.54	-884.8	-904.6	-2.5%	-4.7%
General & Admin Expenses	-259.81	-276.2	-261.7	-5.9%	-0.7%
Research & Engineering Exp	-314.6	-232.7	-333	35.2%	-5.5%
Provisions & Write off	-19.5	-19.5	-34.5	0.0%	-43.5%
EBITDA	35.77	419.13	-49.34	-91.5%	-
EBITDA %	1.12%	11.09%	-1.51%		
Depreciation & Amortization	-170.79	-109.3	-162.1	56.3%	5.4%
Hedge Impact	-8.397	-32.13	-9.373	-73.9%	-10.4%
Finance Charges	-48.252	-22.47	-47.79	114.8%	1.0%
Other income	33.818	48.918	80.023	-30.9%	-57.7%
Profit Before Tax	-157.85	304.17	-188.6	-	-16.3%
Taxes Paid	-28.385	-19.57	-6.895	45.1%	311.7%
Profit After Tax	-186.24	284.61	-195.5	-	-4.7%
Reinstatement of Receivables	50.461	-147.5	34.994	-	44.2%
Minority Interest	21.827	-3.318	-9.674	-	-
Adjusted PAT	-113.95	133.76	-170.2	-	-33.0%

Q3FY20 Active Pursuits	Won	Lost	Added	Q3FY19 Active Pursuits	Q2FY20 Active Pursuits	Q1FY20 Active Pursuits	Remarks
8	0	0	0	7	8	7	>INR 50 Cr each
13	0	1	1	12	13	14	INR 30-50 Cr
20	1	1	2	17	20	20	INR 20-30 Cr



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