

Revenue growth guidance of 20% for FY23...

About the stock: Intellect Design Arena (Intellect) provides software products to retail, corporate banking, insurance & treasury.

- The company is a transition from a product company to a platform company
- Intellect generates 55% of revenues from developed markets and rest from emerging markets
- Recently, it saw a turnaround in margins (from 5% in FY20 to 25.1% in FY22)

Q4FY22 Results: Intellect reported muted Q4FY22 results.

- US\$ revenues were flattish QoQ to US\$67.7 mn
- EBITDA margins declined 250 bps QoQ due to lower topline
- License linked revenue was at 57% of overall revenues

What should investors do? Intellect's share price has grown by ~5.6x over the past five years (from ~₹ 120 in May 2017 to ~₹ 680 levels in May 2022)

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Intellect at ₹ 810 i.e. 20x P/E on FY24E.

Key triggers for future price performance:

- Transition from product to platform, which is likely to enhance margins
- Improving deal wins, deal pipeline (₹ 5,455 crore in FY22), increased penetration in US & Europe, improving quality of revenues (licence + AMC + Cloud from 46% in FY20 to 57% in FY22) bode well for long term revenue growth
- The company aspires to achieve 20% revenue growth in FY23. The funnel continued to be strong
- Margins are likely to improve 190 bps to 27% over FY22-24E

Alternate Stock Idea: Apart from Intellect, in our IT coverage we also like LTI.

- LTI expected to register industry leading growth
- HOLD with a target price of ₹ 6,000



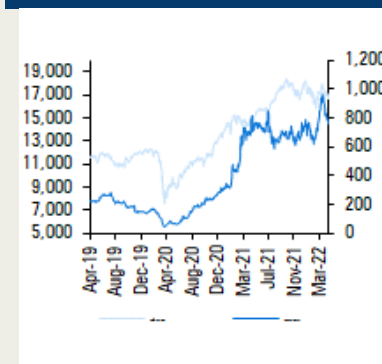
Particulars

Particular	Amount
Market Cap (₹ Crore)	9,043
Total Debt	0.8
CC&E (₹ Crore)	558.9
EV (₹ Crore)	8,485
52 week H/L	986/578
Equity capital	67.3
Face value	5.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	31	31	31	31
FII	27	27	26	25
DII	3	2	2	3
Public	39	40	41	41

Price Chart



Recent event & key risks

- Won a large deal from RBI
- Key Risk:** (i) Deceleration in deal pipeline, (ii) Lower than expected margins

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	1,347	1,497	1,878	15.5%	2,218	2,652	18.8%
EBITDA	71	355	472	NA	588	716	23.2%
EBITDA Margins (%)	5.3	23.7	25.1		26.5	27.0	
Net Profit	16	263	349	NA	458	563	27.0%
EPS (₹)	1.2	19.6	25.1		33.0	40.5	
P/E	571.4	34.8	27.0		20.6	16.8	
RoNW (%)	1.0	18.9	19.3		20.2	19.9	
RoCE (%)	2.1	20.2	22.7		23.4	23.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter was flat QoQ to ₹ 509.4 crore while in US\$ terms revenue declined 0.1% QoQ to US\$67.7 mn. SAAS revenues grew 34% QoQ to ₹ 119 crore while license revenues declined 28% QoQ to ₹ 81 crore. AMC revenues grew by 5% QoQ to ₹ 87 crore. The company reported 25% revenue growth in FY22 (vs guided 20% growth)
- The company mentioned that it lost two deals during the quarter, which it was about to sign. It cited current geopolitical tensions as a reason for the loss of those deals. The company indicated that there was a loss of US\$4-5 mn due to this. The company also indicated that it is unlikely to chase those deals again
- EBITDA for the quarter declined 9.3% QoQ to ₹ 120 crore while margins for the quarter were down 250 bps QoQ to 23.7% due to 7.6% QoQ increase in employee expenses for the quarter. EBITDA excluding Esop was at ₹ 129.8 crore and EBITDA margins were at 25% for Q4. For FY22, the company reported 25% EBITDA margin (against guidance of 30%). The company indicated that adjusted to loss of those two deals for the quarter, margins for FY22 would have been around 27%. The company indicated that ESOP costs would continue in FY23, it was ~₹ 40 crore in FY22
- License linked revenues (License+ SAAS+AMC) are now at 57% of revenues as on FY22 vs. 54% in FY20 and 46% in FY19
- The company indicated that it is expected to reach US\$75 mn quarterly run rate in two quarters i.e. Q2FY23 and US\$100 mn in two years from now. The company indicated that demand environment continue to be strong which is a reflection of the continued growing funnel. Funnel for the company is at US\$725 mn, which is up by 26.5% YoY
- The company indicated that in their continued momentum of product to platform journey, they launched one more platform in Q4FY22 for which additional investment of ₹50mn is made. Now the company has 12 products, five platforms etc
- The company indicated that there are favourable developments happening at the competition level. i.e. couple of leaders in the product space like Teminos and Finistra are being in active discussion with P/E players for sale of their business. As per management, R&D spending is likely to come down, if the deal goes through which is expected to players who are continuously investing which is a critical for a product company
- The company indicated the number of destiny deals for the company is at 61, which was up from 43 deals in Q4FY21. Average deal size also continue to grow as it was around US\$6 mn (+7% YoY). The winning rate also improved from 53% in Q4FY21 to 64% in Q4FY22
- On the EBITDA margins front, the company refrained from any making guidance for FY23. However, it maintained that long term steady state EBITDA margin for this business can be around 30%. The company indicated that R&D budget is expected to go up in FY23 by 15-20% while travel /sales & marketing costs are also likely to go up since it is critical to have face to face meeting for deal wins. The company do not expect addition of more than 100 people addition in FY23. The company indicated that for top 500 employees in the company, which is critical talent pool for the company, attrition is <10% at that level
- The company is seeing healthy traction on SAAS side, which is a reflection of 108% YoY revenue growth for FY22. The company expects licenses linked revenues (which is license+ SAAS+AMC) to be 60-65% in the medium term
- Other income for the quarter was higher due to i) strong income from subsidiaries ii) reversal of few provisions made earlier which are no longer required iii) treasury income

- **Collections and DSO:** Collections for Q4FY22 were at ₹ 476 crore. Net days of sales outstanding have gone down from 129 days in Q3FY22 to 115 days in Q4FY22. Investment in product development (capitalised) is ₹ 29.7 crore for the quarter
- **Cash position:** Cash & cash equivalent was ₹ 558 crore at the end of the of FY22.

Exhibit 1: P&L

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue (USD mn)	68	54	25.1	68	-0.1	Revenue were flattish QoQ, due to loss of couple of deals due to geopolitical risks, US\$4-5 mn loss due to both deals
Revenue	509.4	397.6	28.1	508.3	0.2	
Employee expenses	250.0	195.0	28.2	232.5	7.6	
Gross Margin	259.4	202.6	28.0	275.8	-6.0	
Gross margin (%)	50.9	51.0	-3 bps	54.3	-335 bps	
Other expenses	138.8	102.6	35.2	142.8	-2.8	
EBITDA	120.6	99.9	20.7	133.0	-9.3	
EBITDA Margin (%)	23.7	25.1	-146 bps	26.2	-249 bps	EBITDA was impacted due to muted top line, margins would have been 27-28%, if the two deals comes through
Depreciation & amortisation	26.5	19.6	35.5	24.7	7.3	
EBIT	94.1	80.4	17.1	108.3	-13.1	
EBIT Margin (%)	18.5	20.2	-174 bps	21.3	-284 bps	
Other income	13.3	2.8	372.6	10.8		
PBT	107.4	83.2	29.1	119.1	-9.8	
Tax paid	24.1	7.9	203.8	13.8	75.4	Tax was higher due to accumulated losses
PAT	95.3	80.6	18.2	100.9	-5.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	2,219	2,218	0.0	2,585	2,652	2.6	Numbers re- aligned as per healthy pipeline
EBITDA	614	588	-4.3	745	716	-3.9	
EBITDA Margin (%)	27.7	26.5	-117 bps	28.8	27.0	-182 bps	Numbers trimmed down due to elevated employee expenses going forward
PAT	494	458	-7.2	601	563	-6.3	
EPS (₹) -Basic	36.8	34.5	-7.2	44.7	42.3	-6.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,497	1,878	2,218	2,652
Growth (%)	11.2	25.4	18.1	19.6
COGS (employee expenses)	808	919	1,164	1,379
Other expenses	335	487	466	557
Total Operating Expenditure	1,143	1,406	1,630	1,936
EBITDA	355	472	588	716
Growth (%)	400.9	33.0	24.5	21.8
Depreciation	77	98	102	108
Other income (net)	4	36	46	46
PBT	282	411	531	654
Total Tax	25	63	81	100
PAT after minority	263	349	458	563
Growth (%)	1,543.2	32.8	31.3	22.8
Diluted EPS (₹)	19.6	25.1	33.0	40.5
Growth (%)	1,542.9	28.6	31.3	22.8

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit	290	413	541	664
Add: Depreciation	77	98	102	108
Others	71	52	(47)	(47)
Inc/(dec) in working capital	78	(94)	101	(57)
Taxes paid	(53)	(15)	(81)	(100)
CF from operating activities	463	453	616	568
(Inc)/dec in Fixed Assets	(114)	(129)	(212)	(254)
Others	(77)	(270)	(250)	(250)
CF from investing activities	(190)	(399)	(462)	(504)
Borrowings	(204)	(41)	-	-
Others	(22)	(11)	(3)	(3)
CF from financing activities	(225)	(52)	(3)	(3)
Net Cash flow	48	2	151	61
Exchange difference	(2)	(0)	-	-
Opening Cash	100	145	146	297
Closing cash balance	145	146	297	358

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	66	67	67	67
Reserve and Surplus	1,338	1,754	2,214	2,779
Total Shareholders funds	1,405	1,822	2,282	2,846
Total Debt	17	1	1	1
Lease liability	18	7	7	7
Derivative Instruments	-	-	-	-
Other non current liabilities	3	2	2	2
Total Liabilities	1,442	1,831	2,291	2,856
Assets				
Property, plant and equipment	159	153	133	127
Investment in Property	-	2	2	2
Goodwill	29	30	30	30
Intangibles	522	570	692	844
Right-of-use assets	36	23	23	23
Other non current assets	253	247	350	389
Cash & bank balance	153	159	310	371
Current Investments	96	364	664	964
Trade receivables	187	189	277	331
Loans and deposits	5	3	7	8
Other financial assets	491	726	510	610
Other current assets	114	127	168	201
Total Current Assets	1,045	1,567	1,936	2,486
Trade payables	169	257	250	298
Lease liability	13	12	12	12
OCL & provisions	420	493	622	744
Total Current Liabilities	602	762	884	1,055
Net Current Assets	443	805	1,052	1,431
Application of Funds	1,442	1,831	2,291	2,856

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios ₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Diluted EPS	19.6	25.1	33.0	40.5
Cash EPS	25.6	33.6	42.2	50.4
BV	104	130	163	204
DPS	(0.1)	(0.1)	-	-
Cash Per Share	11	11	22	27
Operating Ratios (%)				
EBITDA margin	23.7	25.1	26.5	27.0
PBT Margin	19.4	22.0	24.4	25.0
PAT Margin	17.5	18.6	20.7	21.2
Debtor days (billed + unbilled)	165	135	130	130
Creditor days	41	50	41	41
Return Ratios (%)				
RoE	18.9	19.3	20.2	19.9
RoCE	20.2	22.7	23.4	23.1
RoIC	33.4	40.8	59.0	67.8
Valuation Ratios (x)				
P/E	34.8	27.0	20.6	16.8
EV / EBITDA	24.8	18.0	13.7	10.7
EV / Net Sales	5.9	4.5	3.6	2.9
Market Cap / Sales	6.0	4.8	4.1	3.4
Price to Book Value	6.5	5.0	4.0	3.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.4	1.1	1.1
Quick Ratio	1.3	1.4	1.1	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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