



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Intellect Design Arena Ltd Q2FY22 consolidated revenues came in at ₹452.14 Cr, up 21.6% YoY and up 10.7% QoQ.
- EBITDA for Q2FY22 stood at ₹118.2 Cr, up 36.8% YoY and up 17.9% QoQ.
- EBITDA margins for Q2FY22 came at 26.1% as compared to 24.5% in Q1FY22 and 23.2% in Q2FY21.
- PAT for Q2FY22 stood at ₹82.5 Cr, up 38.5% YoY and up 4.9% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Management is confident to deliver 20% YoY revenue growth in FY22 majorly led by strong deal momentum and healthy deal pipeline.
- Management also mentioned that we are gradually transitioning into an open fintech platform company.
- Management also aims to achieve 30% EBITDA margin over next 2 quarters.
- Revenue growth and EPS guidance of 22% and 30% remains intact over FY21-FY24.

### 3. SEGMENTAL ANALYSIS:

- Q2FY22 Revenue Breakup: License (20%), AMC (18%), Implementation & Customisation (43%), Cloud/SaaS (20%).

### 4. CONCALL SUMMARY

- Company achieved its earlier stated quarterly revenue benchmark of \$60 Mn and now they are aiming to achieve benchmark of \$75 Mn over next 4-6 quarters.
- Gross margins have improved 170 bps QoQ to 57.9%.
- Recently developed Cash Power 22 platform has helped the company in expanding its TAM to 1000 banks from 300 banks.
- IGTB has 5 product lines of business and launched IGTB Cloud Platform during the last quarter. Company has also launched IKREDIT360 platform during the last quarter.
- Strong acceleration witnessed in Cloud/SaaS business and License linked revenues with 130% YoY and 30% YoY growth respectively in H1FY22.
- The company's deal pipeline remains healthy with a growth of 20% YoY at \$649 Mn. Company won 9 digital deals which includes 6 platform deals.
- During last quarter, company went live in 26 financial institutions.
- Management also mentioned that company would invest ~ Rs 100 Cr in a privately pooled investment vehicle.

### 5. OTHER DEVELOPMENTS:

- SBI had chosen Intellect Wealth Cube – Digital Wealth Management Suite for its digital wealth management transformation.
- Kuwait headquartered Boubyan Bank has signed a major transformative deal with IGTB.

### 6. VALUATION AND OUTLOOK:

Intellect Design Arena reported very strong numbers and beaten all the street estimates led by rapid acceleration in Cloud/SaaS revenues, expansion in margins and robust deal wins. We believe company will continue to perform well over next few quarters due to robust demand environment. Also the confident commentary from management, revenue growth guidance of 20% YoY and aim to achieve 30% Operating margins are other positive triggers for stock.

We initiate a "BUY" rating on the stock and value the stock at 24.5x FY23E earnings to arrive at the target of ₹813.

## RECOMMENDATION - BUY

CMP – 682

TARGET – 813 (19%)

Industry	IT - Software
NSE CODE	INTELLECT
BSE CODE	538835
Market Cap (₹ Cr)	9001.99
Shares Outstanding (in Cr)	13.41
52 wk High/Low (₹)	892 / 303.9
P/E	28.88
P/BV	5.72
Face Value (₹)	5.00
Book Value (₹)	117.97
EPS (FY21) (₹)	19.76
Dividend Yield (%)	0.00
Debt / Equity	0.04
Interest Coverage	22.69

## SHAREHOLDING PATTERN

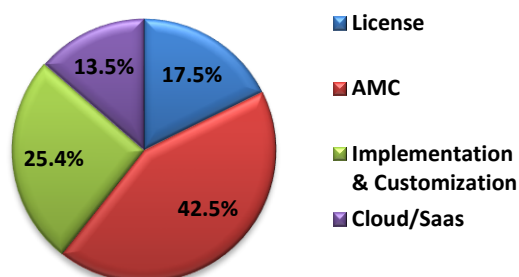
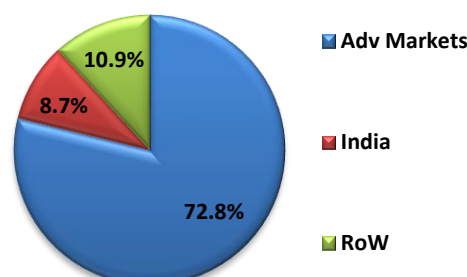
	Sep 21	Jun 21	Mar 21
Promoters	30.96	31.05	31.23
MF/ DII	1.54	1.60	1.63
FII/FPI	26.83	27.33	27.21
Retail & Others	39.88	39.28	38.56
Promoter Pledging	0.00	0.00	0.00

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
<b>Crore</b>			
Sales	1497.4	1826.90	2265.36
Sales Gr. (%)	11.1	22.0	24.0
EBITDA	358.6	474.9	634.3
EBITDA %	24.8	26.0	28.0
PAT	262.7	331.2	444.4
EPS (₹)	19.7	24.7	33.2
EPS Gr. (%)	1535.3	25.4	35.1
BV/Sh. (₹)	100.0	128.9	162.1
<b>Ratios</b>			
RoE (%)	21.97	22.4	23.5
RoCE (%)	21.46	22.8	23.6
Payout (%)	0.00	0.00	0.00
<b>Valuation</b>			
P/E (x)	37.43	28.4	24.5
P/BV (x)	7.39	5.3	4.2
EV/EBITDA	26.21	18.5	14.4

## Historical & Industrial Val Ratios

Historical P/E	36.86
Industry P/E	40.23
Historical P/B	3.11
Industry P/B	11.16

**REVENUE SPLIT (Q2 FY22)**
**Vertical Mix (Q2 FY22)**

**Geography Mix (FY 21)**

**QUARTERLY PERFORMANCE (CONSOLIDATED)**

(₹ Cr)

Y/E March	FY20		FY21			FY22			FY21	FY22E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
<b>Net sales</b>	<b>358</b>	<b>346</b>	<b>372</b>	<b>382</b>	<b>398</b>	<b>408</b>	<b>452</b>	<b>458</b>	<b>1497</b>	<b>1827</b>
YoY change (%)	-9%	1%	14%	20%	11%	18%	22%	20%	11%	22%
<b>Total Expenditures</b>	<b>302</b>	<b>284</b>	<b>286</b>	<b>286</b>	<b>298</b>	<b>313</b>	<b>337</b>	<b>339</b>	<b>1138</b>	<b>1352</b>
<b>EBITDA</b>	<b>56</b>	<b>62</b>	<b>86</b>	<b>96</b>	<b>100</b>	<b>95</b>	<b>115</b>	<b>119</b>	<b>360</b>	<b>475</b>
Margins (%)	16%	18%	23%	25%	25%	23%	26%	26%	24%	26%
Depreciation	19	19	19	19	20	23	24	24	77	85
Interest	4	4	3	1	1	1	1	1	13	13
Other income	9	8	2	10	11	16	0	0	20	13
<b>PBT</b>	<b>42</b>	<b>47</b>	<b>66</b>	<b>86</b>	<b>90</b>	<b>88</b>	<b>91</b>	<b>94</b>	<b>290</b>	<b>390</b>
Rate (%)	3%	10%	11%	7%	9%	16%	12%	15%	9%	15%
<b>Adjusted PAT</b>	<b>41</b>	<b>43</b>	<b>59</b>	<b>80</b>	<b>81</b>	<b>74</b>	<b>79</b>	<b>80</b>	<b>263</b>	<b>331</b>
<b>EPS in Rs</b>	<b>3.1</b>	<b>3.22</b>	<b>4.47</b>	<b>6.06</b>	<b>6.06</b>	<b>5.51</b>	<b>5.91</b>	<b>5.98</b>	<b>19.76</b>	<b>24.78</b>

**Key Performance Indicators**

<b>Current Funnel (\$ Mn)</b>	512	530	540	564	573	628	649		
<b>Deal Wins</b>	7	4	6	10	12	10	9		
<b>Large Deal Wins</b>	3	1	4	6	4	5	0		
<b>Implementation Go Lives</b>	5	12	19	9	13	26	26		
<b>Avg Destiny Deal Size (\$ Mn)</b>	5.0	5.7	6.0	6.1	5.6	5.6	5.6		
<b>Inv in Prod Dev (Rs Mn)</b>	240	269	284	283	284	287	290		

Source: Company, Hem Securities Research.

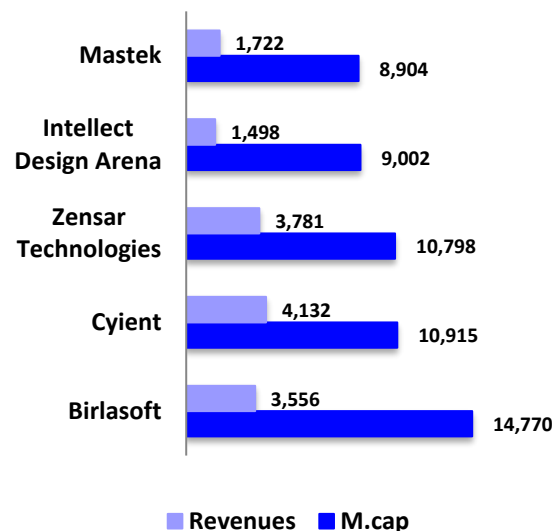
**\*Insights into the assumptions:**

- We expect revenues to increase by at least 20% YoY in Q3FY22 due to robust deal wins and management's 20% growth guidance in FY22.
- We also believe that operating margins would sustain at these levels and might also improve due to management's aim to achieve 30% margins over next 2 quarters.

## INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- The IT sector is the largest employer within the private sector.
- The Indian IT industry accounted for 18.5% of the total global IT spend in FY20.
- Indian technology industry contributes ~8% share to the national GDP, with a 52% share of services exports, and a 50% share in total FDI.
- The priority tech spending areas are expected to be augmented reality and virtual reality (AR/VR), mixed reality, Internet of Things (IoT), artificial intelligence (AI), robotics and cloud.
- This push towards cloud services has boosted hyper-scale data centre investments, with global investments estimated to exceed ~US\$ 200 billion annually by 2025.
- The digital transformation deals have seen a 30% jump since the pandemic.
- In Budget 2021, the government has allocated Rs. 53,108 crore (US\$ 7.31 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry (Small Cap Space ) includes Mastek, Happiest Minds, Cyient, Intellect Design Arena, Birlasoft, Zensar Technologies etc.

## KEY PLAYERS in SmallCap IT



## PEER PERFORMANCE

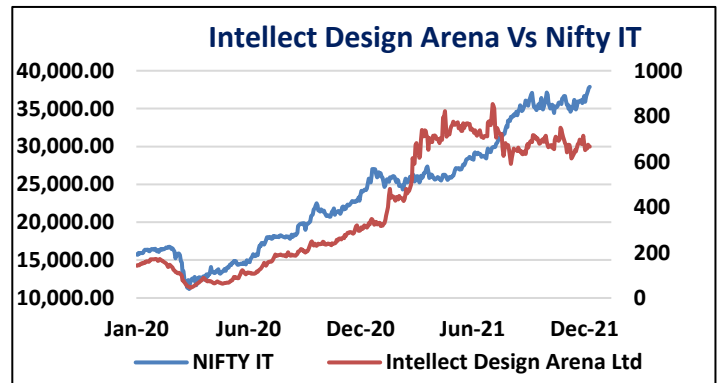
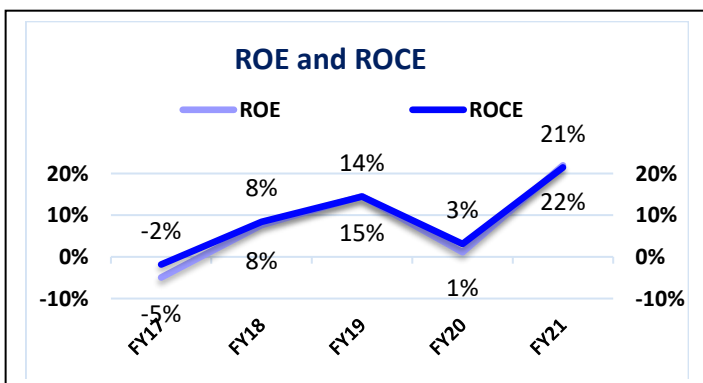
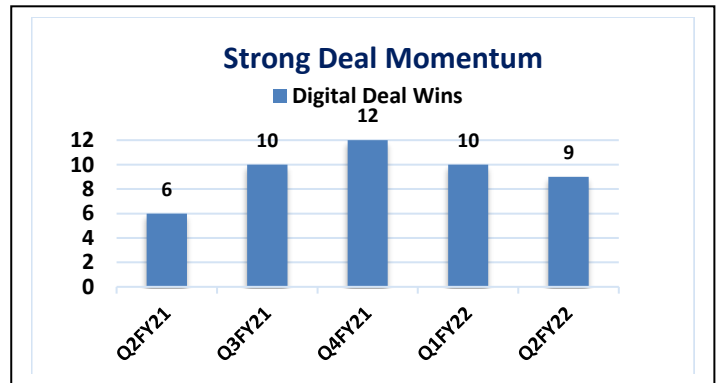
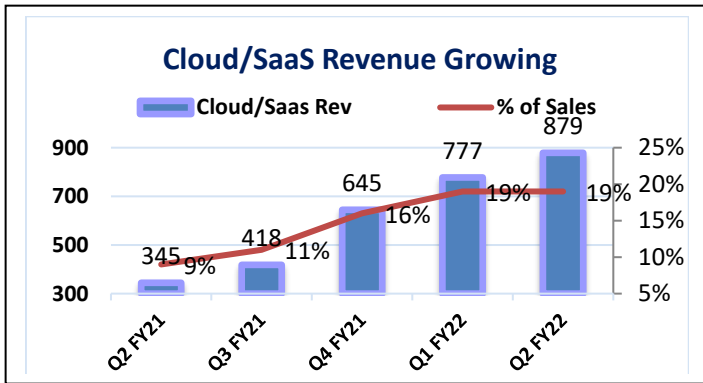
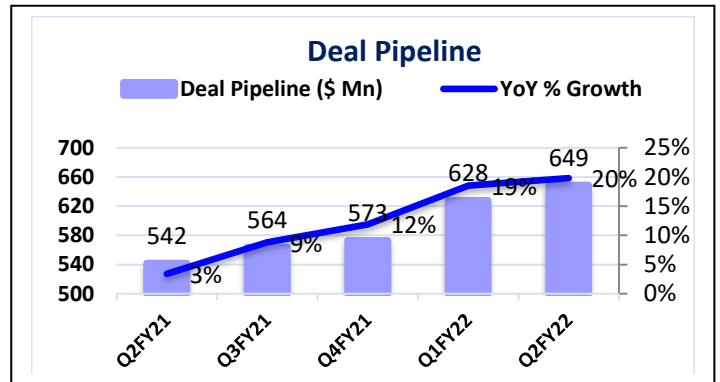
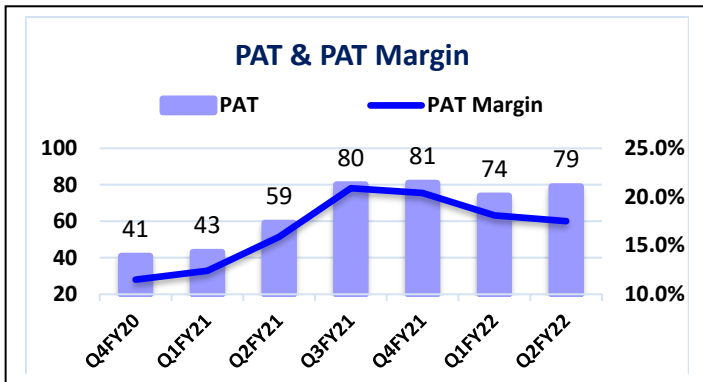
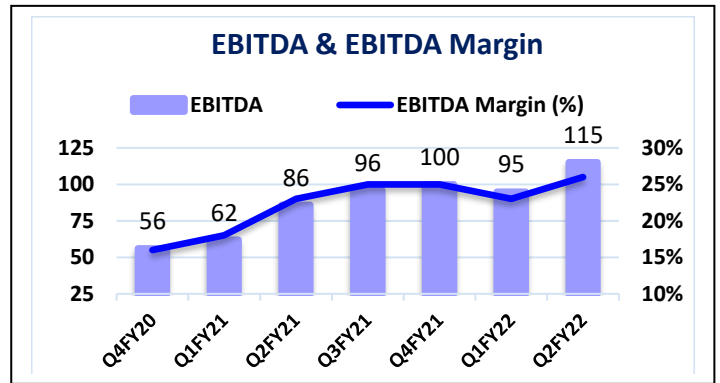
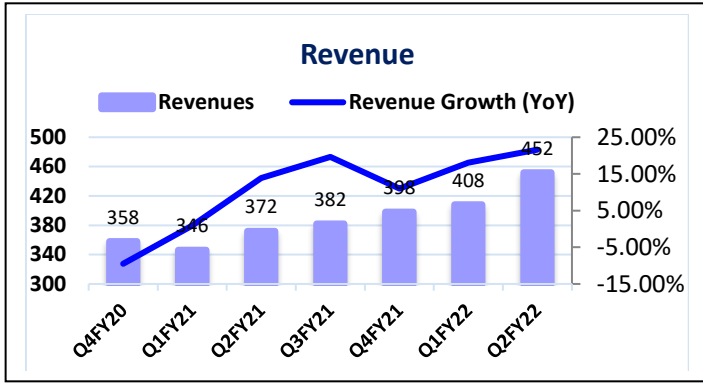
(₹ Cr)

Particulars	Intellect Design Arena Ltd.	Zensar Technologies Ltd.	Cyient Ltd.	Mastek Ltd.	Birlasoft Ltd.
Market Cap	9,002.0	10,798.3	10,915.5	8,904.4	14,770.4
Net Sales	1,497.5	3,781.4	4,132.4	1,721.9	3,555.7
EBITDA	358.6	592.2	548.4	361.0	518.2
PAT	262.8	300.0	363.8	209.4	320.8
EPS(₹)	19.8	13.3	33.1	82.9	11.6
EBITDA MARGIN %	24.8	18.8	17.3	22.8	15.4
PAT MARGIN %	17.1	8.1	8.8	14.6	9.0
ROCE %	21.5	20.4	16.6	31.0	23.0
ROE %	22.0	14.0	13.3	31.4	15.8
P/E TTM	28.9	25.7	25.1	34.4	36.1
P/B TTM	5.7	4.4	3.7	10.5	6.4
EV/EBITDA	20.6	14.0	12.3	18.4	22.0
Dividend Yield %	0.0	0.8	1.7	0.5	0.7
MCap/ Sales TTM	5.5	2.8	2.5	4.5	3.9

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Strong Q2FY22 numbers beating all the street estimates on both the topline and margins front.
- Revenue in US Dollar terms grew 22% YoY driven by 155% YoY growth in Cloud/SaaS Revenues and 9% YoY growth in AMC revenues. EBITDA Margin grew nearly 300 bps YoY to 26.1%.
- Management is quite confident of delivering 20% YoY growth in FY22 and aims to achieve 30% EBITDA Margin in next 304 quarters.
- Company has a very healthy deal pipeline at \$ 649 Mn at the end of Q2FY22 with the help of robust deal wins, steady destiny deals and continued growth in European Region.
- Company has 260+ clients and in last 8 quarters 15 out of 20 large deal wins come from existing customers.
- Management expects to achieve quarterly revenue run rate of \$75 Mn over next 5-5 quarters.
- Management also mentioned that the company is gradually transitioning into a fintech platform company from a stable product company.
- Company's serviceable market size is \$10.8 bn and is expected to grow at 10% CAGR to ~\$15.8 bn by 2025.

## RISK / NEGATIVE FACTORS:

- License Revenue declined 12% YoY in Q2FY22.
- Net Days sales outstanding is 141 days at end of Q2FY22 which is on a higher side can negatively impact the working cycle.
- Promoter holding is low at ~31%.
- Foreign exchange risk is also involved with the company as a major part of their revenues comes from outside India.
- Introduction of superior products by their peers or some technology disruption in fintech space may be negative for stock.

## COMPANY RECAP

- Intellect Design Arena Ltd. is one of the fastest growing banking software company in the world with wide IP offering across spectrum of banking financial services and insurance sub segments.
- Intellect Design Arena Limited (INDA) de-merged from the BFSI product business unit of Polaris Consulting Services and was listed in India in December 2014.
- Company has 22 (12 direct and 10 step down) Subsidiary Companies and 2 associates as on March 31, 2021.
- Company has a comprehensive portfolio of products across Global Consumer Banking, Central Banking, Risk & Treasury Management, Global Transaction Banking and Insurance and is engaged in the business of software development.
- The four main verticals of the company are : Consumer banking (iGCB), Central Banking, Risk & Treasury (iRTB) Transactional Banking (iGTB) Insurance (SEEC)
- In FY21, company won 32 deals including 15 large deal wins. 55% of revenues comes from advanced markets while 45% of revenues comes from growth markets.
- Company has more than 260 customers and serves around 97 countries.
- Company has very experienced and skilled leadership team including Arun Jain (Chairman & MD), Manish Maakan (CEO, Global Transaction Banking), Rajesh Saxena (CEO, Retail & Central Banking), Banesh Prabhu (CEO, Intellect SEEC), TV Sinha (Head, Treasury & Capital Markets) etc.

## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	<b>913.58</b>	<b>1,087.29</b>	<b>1,449.57</b>	<b>1,346.88</b>	<b>1,497.46</b>	<b>1,826.90</b>	<b>2,265.36</b>
Growth YoY (%)	12.70	19.01	33.32	-7.08	11.18	22	24
<b>Total Expenditure</b>	<b>936.98</b>	<b>1,012.18</b>	<b>1,317.48</b>	<b>1,271.42</b>	<b>1,138.84</b>	<b>1351.91</b>	<b>1631.06</b>
(%) of sales	102.56	93.09	90.89	94.40	76.05	74%	72%
<b>EBITDA</b>	<b>-23.41</b>	<b>75.11</b>	<b>132.09</b>	<b>75.46</b>	<b>358.62</b>	<b>474.99</b>	<b>634.30</b>
EBITDA Growth (%)	201.80	849.54	91.40	-47.68	264.27	32.45	33.54
EBITDA Margin (%)	1.17	9.36	13.44	7.57	24.80	26	28
Depreciation	24.14	26.53	41.56	68.96	76.71	85	92
<b>EBIT</b>	<b>-13.42</b>	<b>75.26</b>	<b>153.27</b>	<b>38.52</b>	<b>294.59</b>	<b>389.99</b>	<b>542.30</b>
EBIT Growth (%)	56.96	660.78	103.67	-74.87	664.79	32.39	39.05
Net Interest Expenses	12.69	16.56	16.03	21.99	12.98	12.98	12.98
Other Income	34.13	26.68	62.74	26.47	12.68	12.68	12.68
<b>Earnings before Taxes</b>	<b>-26.11</b>	<b>58.70</b>	<b>137.24</b>	<b>16.53</b>	<b>281.61</b>	<b>389.69</b>	<b>542.00</b>
EBT Margin (%)	-2.86	5.40	9.47	1.23	18.81	21.33	23.93
Tax-Total	2.84	7.03	8.95	5.09	25.45	58.45	97.56
Rate of tax (%)	-10.86	11.98	6.52	30.80	9.04	15	18
<b>Net Profit</b>	<b>-28.95</b>	<b>51.67</b>	<b>128.30</b>	<b>11.44</b>	<b>256.16</b>	<b>331.24</b>	<b>444.44</b>
PAT Growth (%)	-19.24	278.49	148.30	-91.09	2,140.11	29.31	34.17
PAT Margin (%)	-3.17	4.75	8.85	0.85	17.11	18.13	19.62
Minority Interest	0.00	-9.98	0.00	-1.66	-1.87	0	0
<b>Adjusted PAT</b>	<b>-22.39</b>	<b>46.73</b>	<b>131.26</b>	<b>15.99</b>	<b>262.77</b>	<b>331.24</b>	<b>444.44</b>
<b>EPS</b>	<b>-2.06</b>	<b>3.72</b>	<b>9.96</b>	<b>1.21</b>	<b>19.76</b>	<b>24.78</b>	<b>33.25</b>
EPS Growth (%)	5.44	280.55	167.61	-87.87	1,535.36	25.14	34.17

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	51	63	66	66	66
Reserves	547	739	954	979	1,326
<b>Net Worth</b>	<b>598</b>	<b>802</b>	<b>1020</b>	<b>1045</b>	<b>1392</b>
Borrowings	232	159	133	300	82
Other Liabilities	353	400	478	525	567
<b>Total Liabilities &amp; Equity</b>	<b>1,184</b>	<b>1,361</b>	<b>1,631</b>	<b>1,869</b>	<b>2,042</b>
Fixed Assets	278	274	334	368	397
Investments	138	196	228	312	349
Other Assets	66	69	68	77	146
<b>Total Assets</b>	<b>1,184</b>	<b>1,361</b>	<b>1,631</b>	<b>1,869</b>	<b>2,042</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	-3.17	4.75	8.85	0.85	17.11
EBITDA margin (%)	1.17	9.36	13.44	7.57	24.80
EBIT margin (%)	-1.47	6.92	10.57	2.86	19.67
ROE (%)	-4.95	7.66	14.53	1.15	21.97
ROCE (%)	-1.83	8.40	14.50	3.14	21.46
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	49.06	47.21	0.00	73.30	75.52
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	71.10	74.86	55.89	66.05	57.46
Current Ratio (x)	1.18	1.52	1.54	1.30	1.71
<b>Valuations Ratios</b>					
EV/sales (x)	1.41	1.92	1.89	0.65	6.50
EV/EBITDA (x)	119.98	20.52	14.03	8.57	26.21
P/E (x)	0.00	44.29	20.44	45.27	37.43
P/BV (x)	2.03	2.68	2.70	0.72	7.39
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.40	0.21	0.13	0.26	0.04

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>CF from Operating activities (A)</b>	<b>-65</b>	<b>49</b>	<b>-50</b>	<b>44</b>	<b>463</b>
<b>CF from Investing Activities (B)</b>	<b>-103</b>	<b>-154</b>	<b>1</b>	<b>-99</b>	<b>-193</b>
<b>CF from Financing Activities (C)</b>	<b>146</b>	<b>143</b>	<b>63</b>	<b>80</b>	<b>-225</b>
Net Cash Flow	-27.85	42.481	13.73	23.79	48
Add: Opening Bal.	45	23	61	75	100
<b>Closing Balance</b>	<b>23</b>	<b>61</b>	<b>75</b>	<b>100</b>	<b>145</b>

Source: Company, Hem Securities Research.





## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
27 Dec 2021	Buy	813

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