

Intellect Design Arena (INTDES)

CMP: ₹ 750

Target: ₹ 900(20%)

Target Period: 12 months

January 31, 2022

Healthy funnel provides visibility...

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 23% in FY21)

Q3FY22 Results: Intellect reported robust Q3FY22 results.

- US\$ revenues increased 12.4% QoQ to US\$67.8 mn
- EBITDA margins were flat QoQ to 26.2% due to increase in other expenses
- License linked revenue was at 57% of overall revenues

What should investors do? Intellect's share price has grown by ~7x over the past five years (from ~₹ 109 in January 2017 to ~₹ 750 levels in January 2022)

- We revise our rating on the stock from HOLD to BUY

Target Price and Valuation: We value Intellect at ₹ 900 i.e. 20x P/E on FY24E.

Key triggers for future price performance:

- Transition from product to platform, which is likely to enhance the margin profile
- Improving deal wins, deal pipeline (₹ 4,808 crore), increased penetration in US & Europe, improving quality of revenues (licence + AMC + Cloud from 46% in FY20 to 54% in FY21) bode well for long term revenue growth
- The company aspires to achieve 20% revenue growth in FY22. The funnel continued to be strong
- Margins are likely to improve by 510 bps to 28.8% in FY21-24E

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

- LTI expected to register industry leading growth
- BUY with a target price of ₹ 8,050

Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net Sales	1,450	1,347	1,497	13.0%	1,926	2,210	2,585	20.0%
EBITDA	128	71	355	NA	491	614	745	28.0%
EBITDA Margins (%)	8.8	5.3	23.7		25.5	27.8	28.8	
Net Profit	131	16	263	NA	380	494	601	31.8%
EPS (₹)	10.0	1.2	19.6		28.3	36.8	44.7	
P/E	75.4	630.3	38.4		26.5	20.4	16.8	
RoNW (%)	12.9	1.0	18.9		21.4	21.8	21.0	
RoCE (%)	12.8	2.1	20.2		23.9	25.0	24.1	

Source: Company, ICICI Direct Research

BUY



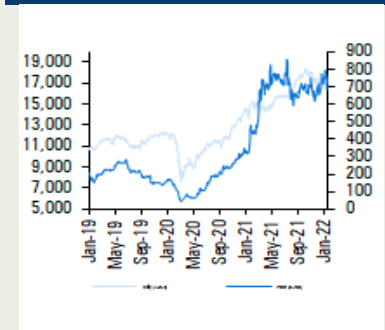
Particulars

Particular	Amount
Market Cap (₹ Crore)	9,912
Total Debt	17
CC&E (₹ Crore)	262
EV (₹ Crore)	9,667
52 week H/L	892 / 313
Equity capital	1,393
Face value	5.0

Shareholding pattern

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

Price Chart



Recent event & key risks

- Funnel continue to be strong
- Key Risk:** (i) Deceleration in deal pipeline, (ii) Lower than expected margins.

Research Analyst

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Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter improved 12.4% QoQ to ₹ 508.3 crore while in US\$ terms revenue grew 11.1% QoQ to US\$67.8 mn. The revenue growth was aided by license revenue, which grew 29.1% QoQ to ₹ 112 crore while implementation revenues grew 14.6% QoQ to ₹ 225 crore. SAAS revenues grew 1.3% QoQ, 103% YoY to ₹ 89 crore
- EBITDA for the quarter grew 12.5% QoQ to ₹ 133 crores while margins for the quarter were flat at 26.2% due to 33% QoQ increase in other expenses to ₹ 143 crore for the quarter
- License linked revenues (License+ SAAS+AMC) are now at 57% of revenues as on 9MFY22 vs. 54% in FY20 and 46% in FY19
- The company constituted its Strategic Advisory Board and held its first session in Q3FY22. Their strategic advisors bring a rich and diverse mix of expertise in banking/ insurance domains, technology/ operations, public administration, business development and strategy/ finance. Intellect will continue to engage with this Board to identify and pursue growth opportunities
- The company has earlier guided for mid-teens to high teen growth in revenues in FY22. It revised upwards to 20% revenue growth in FY22 as digital acceleration is providing further opportunities as reflected in the increased funnel. The funnel for Q3FY22 is at US\$675 mn, up 4% QoQ. The company indicated that they are winning almost four out of five deals they pursue. However, on a long term basis, they would like to see their winning rate stabilise around 60%
- The company indicated that it won 29 deals in Q3FY22, which includes 10 platform deals and 11 digital transformation deals. Intellect also indicated that It could achieve this transformation in complex applications 40% faster than other players in the market
- On the EBITDA margins front, the company maintained its guidance of 30% EBITDA margin for FY22. Intellect indicated that EBITDA margin guidance includes all the elevated costs, which would go into employees and other costs related to a transition from products to platform
- The company indicated that they have added net 400 employees for the quarter for which the cost is not fully booked and there would be further addition of employees to build up the capacity to achieve the target of US\$75 mn quarterly run rate soon
- Intellect called out three levers for margin improvement i) continued winning destiny deals (i.e. large size deals, the count has increased from 42 deals in Q3FY21 to 57 deals in Q3FY22) ii) revenue mix skewed towards license linked revenues iii) pricing i.e. it has already in discussion with clients on price increase and they are seeing an up-move here
- The company is seeing healthy traction on SAAS side, which is a reflection of 103% YoY (albeit on low base) revenue growth for the quarter. The company expects licenses linked revenues (which is license+ SAAS+AMC) to be 60% in FY22 vs. 57% in Q3FY22
- Intellect went live in 29 digital transformations across the world in Q3FY22
- **Collections and DSO:** Collections for Q3FY22 were at ₹ 485 crore. Net days of sales outstanding have gone down 141 days in Q2FY22 to 129 days in Q3FY22. Investment in product development (capitalised) is ₹ 28.2 crore for the quarter
- **Cash position:** Cash and cash equivalent was ₹ 431.4 crore at the end of the quarter

Exhibit 1: P&L

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue (USD mn)	68	52	30.9	61	11.1	
Revenue	508.3	382.2	33.0	452.1	12.4	Revenue growth was aided by License revenues which grew 29% QoQ, also aided by implementation revenue growth
Employee expenses	232.5	191.7	21.3	226.8	2.5	
Gross Margin	275.8	190.5	44.8	225.4	22.4	
Gross margin (%)	54.3	49.9	441 bps	49.8	442 bps	
Other expenses	142.8	94.3	51.5	107.2	33.2	
EBITDA	133.0	96.3	38.2	118.2	12.5	
EBITDA Margin (%)	26.2	25.2	99 bps	26.1	3 bps	Margin was flattish despite strong revenue growth due to sharp increase in other expenses
Depreciation & amortisation	24.7	18.9	30.5	23.7	4.2	
EBIT	108.3	77.3	40.1	94.5	14.6	
EBIT Margin (%)	21.3	20.2	108 bps	20.9	41 bps	
Other income	10.8	4.2	154.8	0.1		
PBT	119.1	81.6	46.1	94.6	26.0	
Tax paid	13.8	6.0	129.4	10.8	27.1	
PAT	100.9	80.4	25.5	79.2	27.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			FY24E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,696	1,926	13.5	1,955	2,210	13.0	2,585	Numbers re-aligned as per 9MFY22 performance
EBITDA	441	491	11.4	547	614	12.3	745	
EBITDA Margin (%)	26.0	25.5	-50 bps	28.0	27.8	-18 bps	28.8	
PAT	341	380	11.5	438	494	12.9	601	
EPS (₹)	25.4	28.3	11.5	33	36.8	12.9	44.7	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	1,497	1,926	2,210	2,585
Growth (%)	11.2	28.6	14.7	17.0
COGS (employee expenses)	808	1,030	1,131	1,298
Other expenses	335	404	464	543
Total Operating Expenditure	1,143	1,435	1,595	1,841
EBITDA	355	491	614	745
Growth (%)	400.9	38.4	25.1	21.2
Depreciation	77	81	85	89
Other income (net)	4	20	45	45
PBT	282	430	575	701
Total Tax	25	57	88	107
PAT after minority	263	380	494	601
Growth (%)	1,543.2	44.7	30.1	21.6
Diluted EPS (₹)	19.6	28.3	36.8	44.7
Growth (%)	1,542.9	44.7	30.1	21.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit	290	439	585	711
Add: Depreciation	77	81	85	89
Others	71	(22)	(47)	(48)
Inc/(dec) in working capital	78	38	(11)	(49)
Taxes paid	(53)	(57)	(88)	(107)
CF from operating activities	463	479	523	596
(Inc)/dec in Fixed Assets	(114)	(184)	(212)	(248)
Others	(77)	(275)	(250)	(250)
CF from investing activities	(190)	(459)	(462)	(498)
Borrowings	(204)	-	-	-
Others	(22)	(22)	(22)	(21)
CF from financing activities	(225)	(22)	(22)	(21)
Net Cash flow	48	(3)	40	77
Exchange difference	(2)	-	-	-
Opening Cash	100	145	142	182
Closing cash balance	145	142	182	258

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	66	66	66	66
Reserve and Surplus	1,338	1,721	2,217	2,821
Total Shareholders funds	1,405	1,787	2,284	2,888
Total Debt	17	17	17	17
Lease liability	18	18	18	18
Derivative Instruments	-	-	-	-
Other non current liabilities	3	3	3	3
Total Liabilities	1,442	1,825	2,321	2,925
Assets				
Property, plant and equipment	159	172	189	210
Goodwill	29	29	29	29
Intangibles	522	631	761	918
Right-of-use assets	36	36	36	36
Other non current assets	253	318	344	378
Cash & bank balance	153	150	190	266
Current Investments	96	396	696	996
Trade receivables	187	240	276	322
Loans and deposits	5	6	7	8
Other financial assets	491	470	509	595
Other current assets	114	146	168	196
Total Current Assets	1,045	1,408	1,845	2,385
Trade payables	169	217	249	291
Lease liability	13	13	13	13
OCL & provisions	420	540	620	725
Total Current Liabilities	602	770	882	1,029
Net Current Assets	443	638	963	1,355
Application of Funds	1,442	1,825	2,321	2,925

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Diluted EPS	19.6	28.3	36.8	44.7
Cash EPS	25.6	34.7	43.7	52.1
BV	104	132	169	213
DPS	(0.1)	-	-	-
Cash Per Share	11	11	14	19
Operating Ratios (%)				
EBITDA margin	23.7	25.5	27.8	28.8
PBT Margin	19.4	22.8	26.5	27.5
PAT Margin	17.5	19.7	22.4	23.3
Debtor days (billed + unbilled)	165	135	130	130
Creditor days	41	41	41	41
Return Ratios (%)				
RoE	18.9	21.4	21.8	21.0
RoCE	20.2	23.9	25.0	24.1
RoIC	33.4	49.8	60.6	67.4
Valuation Ratios (x)				
P/E	38.4	26.5	20.4	16.8
EV / EBITDA	27.2	19.1	14.7	11.6
EV / Net Sales	6.5	4.9	4.1	3.3
Market Cap / Sales	6.6	5.1	4.5	3.8
Price to Book Value	7.1	5.6	4.4	3.5
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	1.1	1.1	1.1
Quick Ratio	1.3	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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