



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Intellect Design Arena Ltd Q2FY23 consolidated revenues came in at ₹527.54 Cr, up 16.68% YoY and down 2.54% QoQ.
- EBITDA for Q2FY23 stood at ₹83.96 Cr, down 28.23% YoY and down 28.96% QoQ.
- EBITDA margins for Q2FY23 came at 15.92% as compared to 21.61% in Q1FY23 and 26.14% in Q2FY22.
- PAT for Q2FY23 stood at ₹48.45 Cr, down 41.3% YoY and down 33.8% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Management mentioned that slowing of demand environment, longer decision making time by clients and shrinking of deal size had impacted their growth during Q2FY23.
- Management revised downward the revenue guidance to 15% for FY23 vs 20% growth earlier.
- Management remains confident on achieving 20%+ EBITDA margins for FY23.

### 3. SEGMENTAL ANALYSIS:

- Q2FY23 Revenue Breakup: License (12%), AMC (17%), Implementation & Customization (48%), Cloud/SaaS (23%).
- H1FY23 Currency Wise Revenue Mix: USD (36%), GBP (20%), CAD (8%), INR (27%), EURO (3%), Others (6%)

### 4. CONCALL SUMMARY

- During the quarter company launched 2 AI-based Platforms - Magic Invoice and iESG
- 14 new Customers have chosen Intellect's Digital stack for their Digital transformation, including 9 Customers who have chosen Intellect platforms in Q2 FY 23
- Platform revenue of Q2 FY 23 is INR 119 Cr as against INR 90 Cr in Q2 FY22 - grew 33% YoY
- License Revenue of Q2 FY23 is INR 68 Cr as against INR 86 Cr in Q2 FY22
- AMC Revenue of Q2 FY23 is INR 90 Cr as against INR 81 Cr in Q2 FY22 - grew 10% YoY
- The destiny deals increased by 2 during Q2FY23 taking it to 66. The average size of destiny deals declined to US\$5.5 mn from US\$6.2 mn in Q1FY23.
- Management mentioned that the funnel remains steady at US\$818 Mn, +1.6% QoQ
- Operating cash flow in H1FY23 is low mainly due to bonus payout, travelling expenses and increase in employee expenses.
- During Q2FY23, the company recorded 10 Digital led wins including 9 Platform deal wins.

### 5. VALUATION AND OUTLOOK:

We believe company will continue to perform well over next few quarters due to robust demand environment. Company is continuously launching AI based products in the Financial sector due to strong demand. Also the confident commentary from management aim to achieve 20%+ EBITDA margins are other positive triggers for stock.

IT Sector companies are facing supply based challenges across the globe and may remain volatile in near term but we believe long term growth drivers of this sector remains intact.

We give a "BUY" rating on the stock and value the stock at 20.6x FY24E earnings to arrive at the target of ₹524.

## RECOMMENDATION - BUY

CMP – 457

TARGET – 524 (15%)

Industry	IT - Software
NSE CODE	INTELLECT
BSE CODE	538835
Market Cap (₹ Cr)	6006.65
Shares Outstanding (in Cr)	13.54
52 wk High/Low (₹)	986.65 / 407.45
P/E	19.34
P/BV	3.27
Face Value (₹)	5.00
Book Value (₹)	135.58
EPS (FY22) (₹)	25.94
Dividend Yield (%)	0.26
Debt / Equity	0.00
Interest Coverage	57.60

## SHAREHOLDING PATTERN

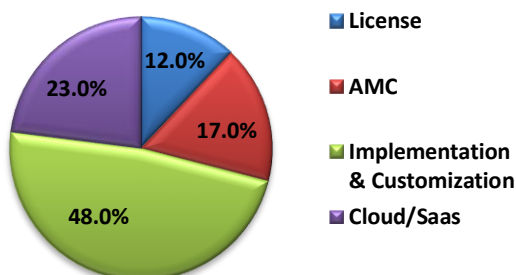
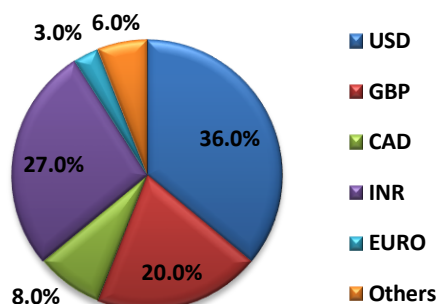
	Sep 22	Jun 22	Mar 22
Promoters	30.66	30.76	30.86
MF/ DII	1.44	1.58	1.86
FII/FPI	24.49	24.60	25.42
Retail & Others	42.67	42.14	41.12
Promoter Pledging	0.00	0.00	0.00

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
<b>Creole</b>			
Sales	1878	2189	2518
Sales Gr. (%)	25	17	15
EBITDA	470	419	554
EBITDA %	25	19	22
PAT	349	251	345
EPS (₹)	25.94	18.53	25.44
<b>Ratios</b>			
RoE (%)	21.8	22.1	21.5
RoCE (%)	25.3	25.8	26.2
Payout (%)	0.0	0.0	0.0
<b>Valuation</b>			
P/E (x)	27.5	24.7	18.0
P/BV (x)	5.2	3.5	2.8

## Historical & Industrial Val Ratios

Historical P/E	36.79
Industry P/E	30.25
Historical P/B	4.18
Industry P/B	8.90

**REVENUE SPLIT**
**Vertical Mix (Q2 FY23)**

**Currency Wise (H1 FY23)**

**QUARTERLY PERFORMANCE (CONSOLIDATED)**

(₹ Cr)

Y/E March	FY21		FY22			FY23			FY22	FY23E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
<b>Net sales</b>	<b>398</b>	<b>408</b>	<b>452</b>	<b>508</b>	<b>509</b>	<b>541</b>	<b>528</b>	<b>549</b>	<b>1878</b>	<b>2189.20</b>
YoY change (%)	11.04%	18.06%	21.61%	32.99%	28.13%	32.56%	16.68%	8.09%	25.43%	16.56%
<b>Total Expenditures</b>	<b>298</b>	<b>313</b>	<b>337</b>	<b>378</b>	<b>389</b>	<b>429</b>	<b>446</b>	<b>446</b>	<b>1406</b>	<b>1770</b>
<b>EBITDA</b>	<b>100</b>	<b>95</b>	<b>115</b>	<b>130</b>	<b>121</b>	<b>113</b>	<b>82</b>	<b>110</b>	<b>472</b>	<b>419</b>
Margins (%)	25%	23%	26%	26%	24%	21%	15%	20%	25%	19%
Depreciation	20	23	24	25	26	28	29	30	98	117
Interest	1	1	1	1	1	1	1	1	4	4
Other income	11	16	0	11	26	10	11	10	43	41
<b>PBT</b>	<b>90</b>	<b>88</b>	<b>91</b>	<b>115</b>	<b>120</b>	<b>93</b>	<b>62</b>	<b>89</b>	<b>413</b>	<b>339</b>
Rate (%)	9%	16%	12%	12%	20%	26%	26%	26%	15%	26%
<b>Adjusted PAT</b>	<b>81</b>	<b>74</b>	<b>79</b>	<b>101</b>	<b>95</b>	<b>69</b>	<b>46</b>	<b>66</b>	<b>349</b>	<b>250</b>
<b>EPS in Rs</b>	<b>6.06</b>	<b>5.51</b>	<b>5.91</b>	<b>7.51</b>	<b>7.08</b>	<b>5.09</b>	<b>3.38</b>	<b>4.85</b>	<b>25.94</b>	<b>18.53</b>

**Key Performance Indicators**

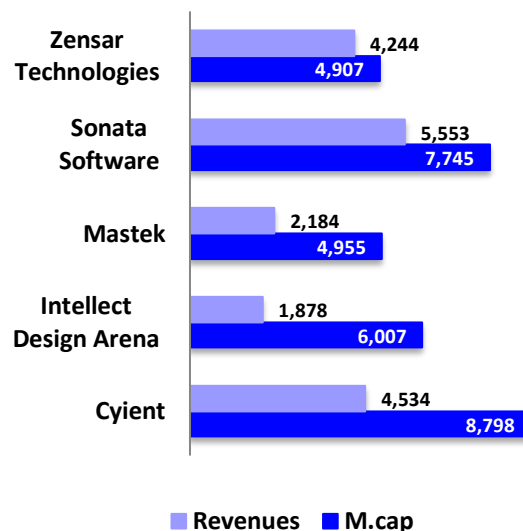
<b>Current Funnel (\$ Mn)</b>	573	628	649	675	725	805	849		
<b>Deal Wins</b>	12	10	9	10	6	10	14		
<b>Large Deal Wins</b>	4	5	0	0	3	5	0		
<b>Implementation Go Lives</b>	26	11	6	11	6	11	14		
<b>Avg Destiny Deal Size (\$ Mn)</b>	5.6	5.6	5.6	5.8	6.0	6.2	5.4		
<b>Inv in Prod Dev (Rs Mn)</b>	284	287	290	282	297				

Source: Company, Hem Securities Research.

## 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 19.2% of the total global IT spend in FY21.
- 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 2022-23, the government has allocated Rs. 88,568 crore (US\$ 11.58 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, Sonata Software etc.

## KEY PLAYERS in SmallCap IT



## PEER PERFORMANCE

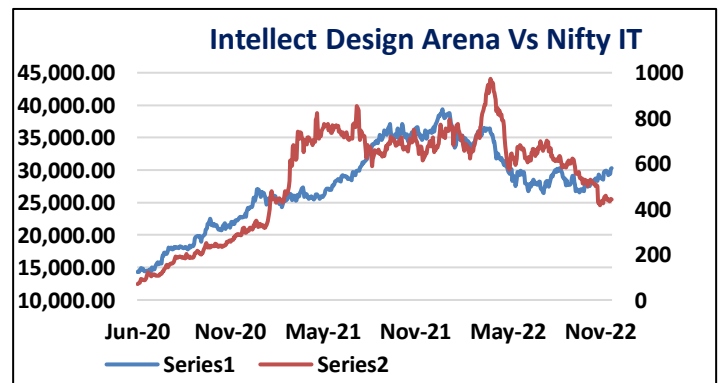
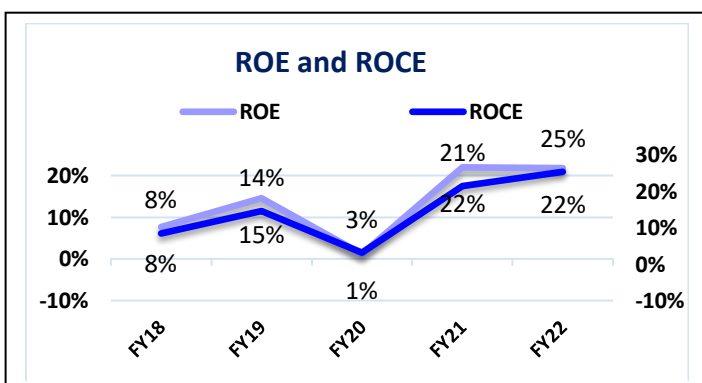
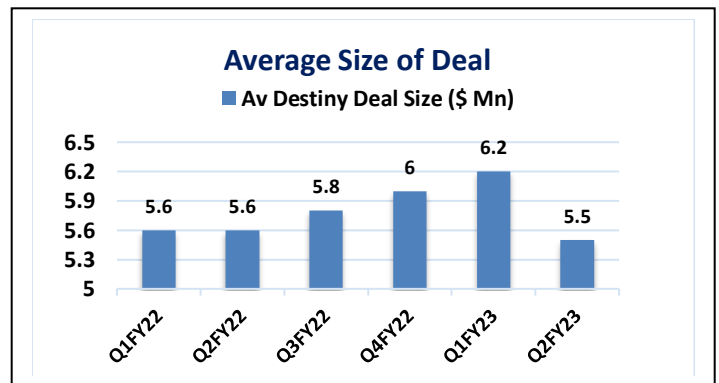
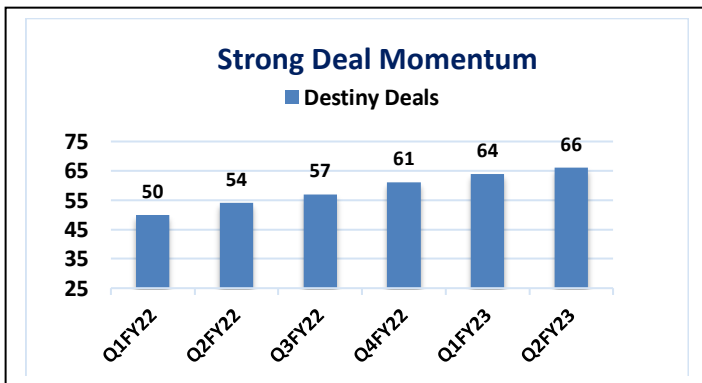
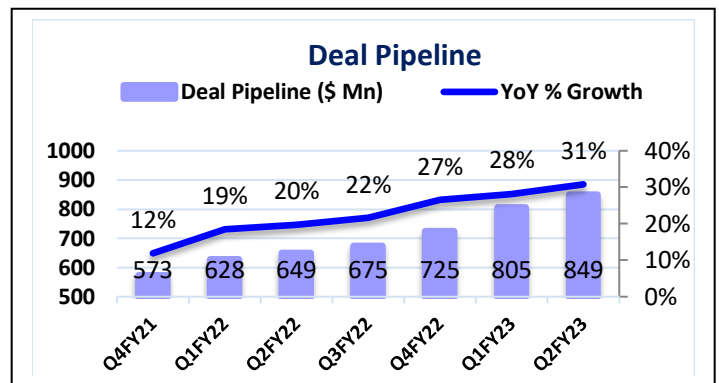
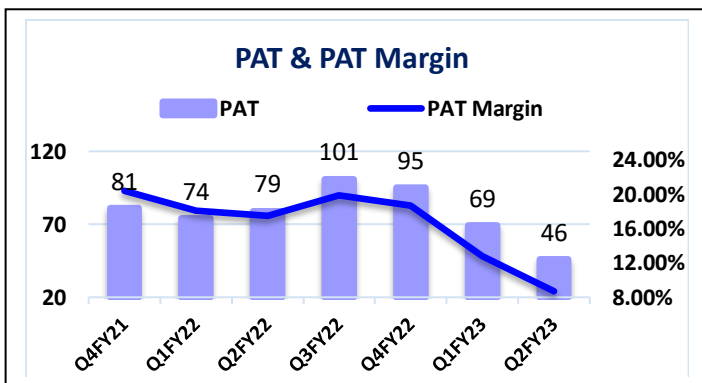
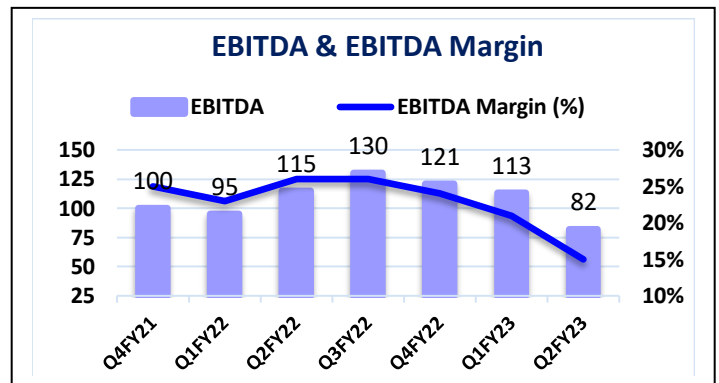
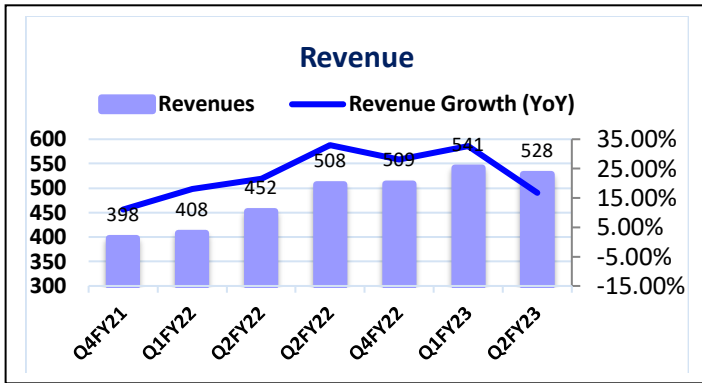
(₹ Cr)

Particulars	Intellect Design Arena Ltd.	Zensar Technologies Ltd.	Cyient Ltd.	Mastek Ltd.	Sonata Software Ltd.
Market Cap	6,006.7	4,906.6	8,798.4	4,954.7	7,745.3
Net Sales	1,878.2	4,243.8	4,534.4	2,183.8	5,553.4
EBITDA	475.0	627.3	817.8	462.5	456.4
PAT	349.1	416.3	522.3	295.1	376.4
EPS(₹)	25.9	18.4	47.3	98.3	27.2
EBITDA MARGIN %	27.4	18.7	20.5	22.8	10.2
PAT MARGIN %	18.5	9.9	11.5	15.3	6.8
ROCE %	25.7	24.2	22.0	38.3	48.6
ROE %	22.8	16.9	17.3	35.5	37.6
P/E TTM	19.3	13.9	18.3	16.0	18.5
P/B TTM	3.3	1.8	2.8	4.1	6.6
EV/EBITDA	12.0	6.42	10.0	10.1	12.1
Dividend Yield %	0.6	2.3	3.0	1.2	3.8

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Revenues for LTM Q2FY23 grew 27% YoY to INR 2087 Cr.
- EBITDA for LTM Q2FY23 grew 9% YoY to INR 455 Cr
- Licence Linked Revenue for LTM Q2FY23 grew 22% to INR 1132 Cr.
- Annual Recurring Revenue for LTM Q2FY23 grew 35% to INR 794 Cr.
- Company won 41 wins including 21 platform deal wins in last twelve months.
- In Q2FY23 14 new Customers have chosen Intellect's Digital stack for their Digital transformation including 9 Customers who have chosen Intellect platforms
- Company has diversified Geographical Revenue Mix.
- 35% increase in Pipeline which would aid the revenue growth in future.
- The company is making continuous investments to improve the quarterly run rate to \$90-100 Mn.
- iGTB launched new Platform under the larger theme of Consumerisation of Commercial Banking (COCB) – Banking as a Service
- iGCB is doing well in European markets where consumers are looking for migrating core banking to cloud based banking.

## RISK / NEGATIVE FACTORS:

- EBITDA margins of IT companies are under pressure due to supply side challenges.
- Management revised the revenue guidance for FY23 to ~15% vs earlier guidance of ~20%.
- 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, 2022.
- 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 FY22, company won 35 deals including 13 large deal wins.
- 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	2018	2019	2020	2021	2022	2023E	2024E
<b>Revenue from operations</b>	<b>1,087.29</b>	<b>1,449.57</b>	<b>1,346.88</b>	<b>1,497.46</b>	<b>1,878.18</b>	<b>2189.20</b>	<b>2517.59</b>
Growth YoY (%)	19.01	33.32	-7.08	11.18	25.4	17%	15%
<b>Total Expenditure</b>	<b>1,012.18</b>	<b>1,317.48</b>	<b>1,271.42</b>	<b>1,138.84</b>	<b>1,406.0</b>	<b>1770.16</b>	<b>1963.72</b>
(%) of sales	93.09	90.89	94.40	76.05	74.86	80.86%	78.00%
<b>EBITDA</b>	<b>75.11</b>	<b>132.09</b>	<b>75.46</b>	<b>358.62</b>	<b>470.2</b>	<b>419.04</b>	<b>553.87</b>
EBITDA Growth (%)	849.54	91.40	-47.68	264.27	31.11	-10.88%	32.18%
EBITDA Margin (%)	9.36	13.44	7.57	24.80	25.03	19%	22%
Depreciation	26.53	41.56	68.96	76.71	97.56	117	127
<b>EBIT</b>	<b>75.26</b>	<b>153.27</b>	<b>38.52</b>	<b>294.59</b>	<b>372.6</b>	<b>302.04</b>	<b>426.87</b>
EBIT Growth (%)	660.78	103.67	-74.87	664.79	26.48	-18.94%	41.33%
Net Interest Expenses	16.56	16.03	21.99	12.98	4.27	4	3
Other Income	26.68	62.74	26.47	12.68	40.50	41	40
<b>Earnings before Taxes</b>	<b>58.70</b>	<b>137.24</b>	<b>16.53</b>	<b>281.61</b>	<b>410.73</b>	<b>339.04</b>	<b>463.87</b>
EBT Margin (%)	5.40	9.47	1.23	18.81	21.87	15.49%	18.43%
Tax-Total	7.03	8.95	5.09	25.45	60.29	89.33	120.61
Rate of tax (%)	11.98	6.52	30.80	9.04	14.68	26%	26%
<b>Net Profit</b>	<b>51.67</b>	<b>128.30</b>	<b>11.44</b>	<b>256.16</b>	<b>350.44</b>	<b>249.71</b>	<b>343.26</b>
PAT Growth (%)	278.49	148.30	-91.09	2,140.11	36.81	-28.74%	37.46%
PAT Margin (%)	4.75	8.85	0.85	17.11	18.66	11.41%	13.63%
Minority Interest	-9.98	0.00	-1.66	-1.87	-1.4	-1.4	-1.4
<b>Adjusted PAT</b>	<b>46.73</b>	<b>131.26</b>	<b>15.99</b>	<b>262.77</b>	<b>349.08</b>	<b>251.11</b>	<b>344.66</b>
<b>EPS</b>	<b>3.72</b>	<b>9.96</b>	<b>1.21</b>	<b>19.76</b>	<b>25.94</b>	<b>18.53</b>	<b>25.44</b>
EPS Growth (%)	280.55	167.61	-87.87	1,535.36	31.28	-28.56%	37.26%

### Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	63	66	66	66	67
Reserves	739	954	979	1,326	1,741
<b>Net Worth</b>	<b>802</b>	<b>1020</b>	<b>1045</b>	<b>1392</b>	<b>1808</b>
Borrowings	159	133	300	82	20
Other Liabilities	400	478	525	567	764
<b>Total Liabilities &amp; Equity</b>	<b>1,361</b>	<b>1,631</b>	<b>1,869</b>	<b>2,042</b>	<b>2,594</b>
Fixed Assets	274	334	368	397	775
CWIP	196	228	312	349	4
Investments	69	68	77	146	416
Other Assets	822	1,001	1,113	1,150	1,398
<b>Total Assets</b>	<b>1,361</b>	<b>1,631</b>	<b>1,869</b>	<b>2,042</b>	<b>2,594</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	4.75	8.85	0.85	17.11	18.66
EBITDA margin (%)	9.36	13.44	7.57	24.80	25.03
EBIT margin (%)	6.92	10.57	2.86	19.67	19.83
ROE (%)	7.66	14.53	1.15	21.97	21.8
ROCE (%)	8.40	14.50	3.14	21.46	25.3
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	47.21	0.00	73.30	41	50
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	74.86	55.89	66.05	57.46	37
Current Ratio (x)	1.52	1.54	1.30	1.71	1.40
<b>Valuations Ratios</b>					
EV/sales (x)	1.92	1.89	0.65	6.50	4.90
EV/EBITDA (x)	20.52	14.03	8.57	26.21	19.5
P/E (x)	44.29	20.44	45.27	37.43	27.5
P/BV (x)	2.68	2.70	0.72	7.39	5.2
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.21	0.13	0.26	0.04	0.01

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>CF from Operating activities (A)</b>	<b>49</b>	<b>-50</b>	<b>44</b>	<b>463</b>	<b>453</b>
<b>CF from Investing Activities (B)</b>	<b>-154</b>	<b>1</b>	<b>-99</b>	<b>-193</b>	<b>-399</b>
<b>CF from Financing Activities (C)</b>	<b>143</b>	<b>63</b>	<b>80</b>	<b>-225</b>	<b>-52</b>
Net Cash Flow	38	14	24	45	2
Add: Opening Bal.	23	61	75	100	145
<b>Closing Balance</b>	<b>61</b>	<b>75</b>	<b>100</b>	<b>145</b>	<b>146</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
6 June 2022	Buy	768
28 Nov 2022	Buy	524

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