

CMP: ₹ 745

Target: ₹ 815(9%)

Target Period: 12 months

July 29, 2021

## EBITDA margins disappoint...

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

- The company generates 55% of revenues from developed markets & rest from emerging markets
- Recently, it saw a turnaround in margins (from 5% in FY20 to 23% in FY21)

**Q1FY22 Results:** Intellect reported weak Q1FY22 results.

- US\$ revenues increased 2.3% QoQ to US\$55.3
- Adjusted EBITDA margins declined 285 bps QoQ to 22.3%
- License linked revenue was at 58% of overall revenues

**What should investors do?** Intellect's share price has grown by ~4x over the past five years (from ~₹ 205 in July 2016 to ~₹ 745 levels in July 2021)

- We downgrade from BUY to HOLD

**Target Price and Valuation:** We value Intellect at ₹ 815 i.e. 25x P/E on FY23E

### Key triggers for future price performance:

- Improving deal wins, deal pipeline (₹ 4,630 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 14-16% CAGR in revenues over the next five years. However, the near term impact of Covid prompts us to factor in 13% CAGR in dollar revenues
- It is expected to post 431 bps improvement in margins to 28% in FY21-23E

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

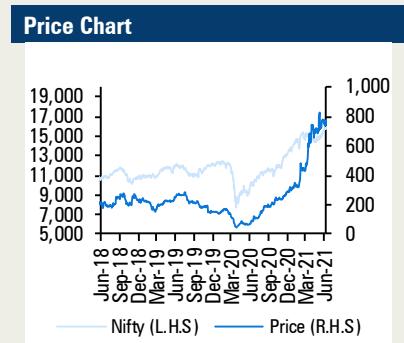
- Larsen & Toubro Infotech's (LTI) ability to deliver end-to-end solutions is expected to help in registering industry leading growth
- BUY with a target price of ₹ 5,065

**HOLD**



Particulars	
Particular	Amount
Market Cap (₹ Crore)	9,832.5
Total Debt	16.6
CC&E (₹ Crore)	261.6
EV (₹ Crore)	9,587.4
52 week H/L	892/136
Equity capital	66.5
Face value	5.0

Shareholding pattern				
	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	31	31	31	31
FII	23	24	27	27
DII	5.1	4.7	3.0	3.0
Public	41	40	39	39



### Recent event & key risks

- SAAS revenues getting traction
- **Key Risk:** (i) Deceleration in deal pipeline, (ii) higher than expected margins.

### Research Analyst

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### Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	1,450	1,347	1,497	13.0%	1,696	1,955	14.3%
EBITDA	128	71	355	NA	441	547	24.2%
EBITDA Margins (%)	8.8	5.3	23.7		26.0	28.0	
Net Profit	131	16	263	NA	341	438	29.0%
EPS (₹)	10.0	1.2	19.6		25.4	32.6	
P/E	74.8	625.2	38.1		29.3	22.9	
RoNW (%)	12.9	1.0	18.9		19.7	20.2	
RoCE (%)	12.8	2.1	20.2		21.9	23.0	

Source: Company, ICICI Direct Research

## Key takeaways of conference call

### Q1FY22 Earnings Conference Call highlights

- The company has guided for mid-teens to high teen growth in revenues (no change) in FY22 as digital acceleration is providing further opportunities as reflected in the increased funnel. The funnel for Q1FY22 is at ₹ 4,630 crore, up 11% QoQ
- EBITDA margins are expected to be in the range of 25-30%. The company did mention that EBITDA margins for FY22 would have few headwinds like increase in employee costs because of demand-supply mismatch that the industry has been facing. Intellect foresees incremental opportunities in digital. To cater to the same, they expect elevated manpower costs
- The company is seeing healthy traction on SAAS side, which is a reflection of 100% 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. 58% in Q1FY22
- Margins in the quarter dipped 160 bps due to headcount addition (160 bps impact) visa cost (40 bps impact) partially offset by 50 bps operation efficiency
- The company also guided for 25-30% EPS CAGR growth in the next three years
- Other income for the quarter had a one-time benefit of liquidation of five properties in Mumbai and forex related gain
- Intellect went live in 26 financial institutions across the world in Q1FY22 despite the impact of the second wave of Covid on Indian delivery centres
- **Collections and DSO:** Collections for Q1FY22 were ₹ 309.9 crore. Net days of sales outstanding is 131 days in Q1FY22 against 126 days in Q1FY21. Investment in product development (capitalised) is ₹ 28.69 crore against ₹ 26.92 crore in Q1FY21
- **Cash position:** Cash and cash equivalent is ₹ 255.1 crore against ₹ 191.8 crore in Q1FY21. Net cash as of Q1FY22 was at ₹ 218.2 crore against ₹ 57.0 crore in Q1FY21

## Financial summary

Exhibit 1: Profit and loss statement		₹ crore		
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>1,347</b>	<b>1,497</b>	<b>1,696</b>	<b>1,955</b>
Growth (%)	(7.1)	11.2	13.2	15.3
COGS (employee expenses)	812	808	899	997
Other expenses	464	335	356	411
Total Operating Expenditure	1,276	1,143	1,255	1,408
<b>EBITDA</b>	<b>71</b>	<b>355</b>	<b>441</b>	<b>547</b>
Growth (%)	(44.5)	400.9	24.3	24.2
Depreciation	69	77	81	85
Other income (net)	9	4	25	45
PBT	11	282	385	508
Total Tax	5	25	51	78
<b>PAT after minority</b>	<b>16</b>	<b>263</b>	<b>341</b>	<b>438</b>
Growth (%)	(87.8)	1,543.2	29.7	28.4
<b>Diluted EPS (₹)</b>	<b>1.2</b>	<b>19.6</b>	<b>25.4</b>	<b>32.6</b>
Growth (%)	(88.0)	1,542.9	29.7	28.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore		
(Year-end March)		FY20	FY21	FY22E
Profit		23	290	394
Add: Depreciation		69	77	81
Others		25	71	(27)
Inc/(dec) in working capital		(80)	78	71
Taxes paid		7	(53)	(51)
<b>CF from operating activities</b>	<b>44</b>	<b>463</b>	<b>468</b>	<b>466</b>
(Inc)/dec in Fixed Assets		(135)	(114)	(162)
Others		35	(77)	(270)
<b>CF from investing activities</b>	<b>(100)</b>	<b>(190)</b>	<b>(432)</b>	<b>(437)</b>
Borrowings		105	(204)	-
Others		(25)	(22)	(22)
<b>CF from financing activities</b>	<b>80</b>	<b>(225)</b>	<b>(22)</b>	<b>(22)</b>
Net Cash flow		24	48	13
Exchange difference		1	(2)	-
Opening Cash		75	100	145
<b>Closing cash balance</b>	<b>100</b>	<b>145</b>	<b>158</b>	<b>165</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore		
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	66	66	66	66
Reserve and Surplus	991	1,338	1,681	2,121
Total Shareholders funds	1,057	1,405	1,748	2,188
Total Debt	256	17	17	17
Lease liability	29	18	18	18
Derivative Instruments	18	-	-	-
Other non current liabilities	1	3	3	3
<b>Total Liabilities</b>	<b>1,361</b>	<b>1,442</b>	<b>1,785</b>	<b>2,225</b>
<b>Assets</b>				
Property, plant and equipment	169	159	168	180
Goodwill	30	29	29	29
Intangibles	439	522	613	723
Right-of-use assets	42	36	36	36
Other non current assets	239	253	297	321
Cash & bank balance	106	153	166	173
Current Investments	17	96	396	696
Trade receivables	285	187	211	244
Loans and deposits	6	5	5	6
Other financial assets	439	491	413	450
Other current assets	99	114	129	148
Total Current Assets	951	1,045	1,321	1,718
Trade payables	208	169	191	220
Lease liability	14	13	13	13
OCL & provisions	286	420	476	548
Total Current Liabilities	509	602	680	782
Net Current Assets	443	443	642	936
<b>Application of Funds</b>	<b>1,361</b>	<b>1,442</b>	<b>1,785</b>	<b>2,225</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore		
Per share data (₹)				
Diluted EPS	1.2	19.6	25.4	32.6
Cash EPS	6.4	25.6	31.8	39.4
BV	78	104	129	162
DPS	-	(0.1)	-	-
Cash Per Share	8	11	12	12
<b>Operating Ratios (%)</b>				
EBITDA margin	5.3	23.7	26.0	28.0
PBT Margin	1.7	19.4	23.2	26.5
PAT Margin	0.8	17.5	20.1	22.4
Debtor days (billed + unbilled)	196	165	135	130
Creditor days	56	41	41	41
<b>Return Ratios (%)</b>				
RoE	1.0	18.9	19.7	20.2
RoCE	2.1	20.2	21.9	23.0
RoIC	0.2	33.4	46.1	56.3
<b>Valuation Ratios (x)</b>				
P/E	625.2	38.1	29.3	22.9
EV / EBITDA	140.5	27.0	21.0	16.4
EV / Net Sales	7.4	6.4	5.5	4.6
Market Cap / Sales	7.3	6.6	5.8	5.0
Price to Book Value	9.4	7.1	5.7	4.5
<b>Solvency Ratios</b>				
Debt/EBITDA	3.6	0.0	0.0	0.0
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	1.6	1.3	1.1	1.1
Quick Ratio	1.6	1.3	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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