

Robust growth in cloud revenues...

Intellect reported a healthy set of Q4FY21 numbers. Dollar revenues increased 4.5% QoQ to US\$54.1 million. Rupee revenues increased 3.2% QoQ to ₹ 394.6 crore mainly led by 54.2% QoQ growth in cloud revenues and 1.0% QoQ growth in AMC revenues. EBIT margin was flat QoQ at 20.2% mainly led by higher other expenses. PAT was flat QoQ at ₹ 80.6 crore due to lower other income. The company's net DSO declined from 124 days in Q3FY21 to 114 days in Q4FY21.

Healthy pipeline, recurring revenues key positives

The company has been winning healthy deals over the past few quarters and, especially, destiny deals (i.e. high value deals) in corporate & retail banking. Intellect has won four large deals in the current quarter as well. In addition, the company's focus on improving growth in Europe (especially Germany), healthy wins, Europe compliant solution, rapid proof of concept and holistic solution vs. emerging peers is expected to drive iGCB revenues. To cater to European & US demand, Intellect has also hired sales leadership in these regions and is also investing in cloud to drive growth. This coupled with the company's focus on improving quality of revenues (licence + AMC + Cloud from 46% in FY20 to 54% in FY21), huge addressable fintech market, strong deal pipeline (₹ 4177 crore) and monetisation of ISEEC has made the company aspire to achieve 14-16% CAGR in revenues over the next five years. Near term impact of Covid prompts us to factor in a 13% CAGR growth in dollar revenues.

Operating leverage to drive margins

The company has seen a healthy improvement in margins in FY21 (from 5% in FY20 to 23.7%). This was possible as Intellect was able to align its cost to non-licence revenues (i.e. AMC + Cloud + implementation revenues is equal to operating cost). This, coupled with revenue growth, is expected to enable the company to register 631 bps improvement in margins to 30% in FY21-23E. In addition, increased penetration of IGCB in the advanced market will help lower working capital requirements.

Valuation & Outlook

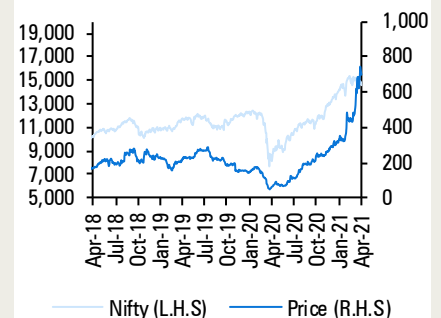
Improving deal wins in IGCB, IGTB and iSEEC, increased penetration in the US & Europe market, digital-ready product portfolio, healthy pipeline, huge addressable & underpenetrated market and improved annuity revenues bode well for revenue growth. In addition, healthy margins prompt us to revise our EPS estimates upwards by ~10% and ~13% for FY22E & FY23E, respectively. This, coupled with improving cash flows, prompts us to upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 875 (6x FY23E price/sales and 25x FY23E EPS) (earlier target price ₹ 640).



Particulars

Particular	Amount
Market Cap (₹ Crore)	10,004.3
Total Debt	16.6
CC&E (₹ Crore)	261.6
EV (₹ Crore)	9,759.2
52 week H/L	848/ 62
Equity capital	66.5
Face value	5.0

Price Performance



Key Risk

- We expect margins to improve led by cost rationalisation. However, if the company is unable to sustain cost savings it will adversely impact margins
- Lower-than-expected improvement in DSO days could be a downside trigger for stock

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1,450	1,347	1,497	1,696	1,955	14.3%
EBITDA	128	71	355	475	587	28.6%
EBITDA Margins (%)	8.8	5.3	23.7	28.0	30.0	
Net Profit	131	16	263	370	471	33.9%
EPS (₹)	10.0	1.2	19.6	27.6	35.0	
P/E	76.1	636.1	38.7	27.5	21.6	
RoNW (%)	12.9	1.0	18.9	21.0	21.1	
RoCE (%)	12.8	2.1	20.2	23.4	24.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	1,347	1,497	1,696	1,955
Growth (%)	(7.1)	11.2	13.2	15.3
COGS (employee expenses)	812	808	865	958
Other expenses	464	335	356	411
Total Operating Expenditure	1,276	1,143	1,221	1,369
EBITDA	71	355	475	587
Growth (%)	(44.5)	400.9	33.8	23.5
Depreciation	69	77	81	85
Other income (net)	9	4	25	45
PBT	11	282	419	547
Total Tax	5	25	56	84
PAT after minority	16	263	370	471
Growth (%)	(87.8)	1,543.2	40.9	27.1
Diluted EPS (₹)	1.2	19.6	27.6	35.0
Growth (%)	(88.0)	1,542.9	40.9	27.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit	23	290	428	557
Add: Depreciation	69	77	81	85
Others	25	71	(27)	(47)
Inc/(dec) in working capital	(80)	78	71	(11)
Taxes paid	7	(53)	(56)	(84)
CF from operating activities	44	463	497	500
(Inc)/dec in Fixed Assets	(135)	(114)	(162)	(187)
Others	35	(77)	(270)	(250)
CF from investing activities	(100)	(190)	(432)	(437)
Borrowings	105	(204)	-	-
Others	(25)	(22)	(22)	(22)
CF from financing activities	80	(225)	(22)	(22)
Net Cash flow	24	48	43	41
Exchange difference	1	(2)	-	-
Opening Cash	75	100	145	187
Closing cash balance	100	145	187	228

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	1,711	2,184
Total Shareholders funds	1,057	1,405	1,777	2,250
Total Debt	256	17	17	17
Lease liability	29	18	18	18
Derivative Instruments	18	-	-	-
Other non current liabilities	1	3	3	3
Total Liabilities	1,361	1,442	1,815	2,288
Assets				
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	195	236
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	1,351	1,781
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	671	999
Application of Funds	1,361	1,442	1,815	2,288

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Diluted EPS	1.2	19.6	27.6	35.0
Cash EPS	6.4	25.6	34.0	41.9
BV	78	104	131	166
DPS	-	(0.1)	-	-
Cash Per Share	8	11	14	17
Operating Ratios (%)				
EBITDA margin	5.3	23.7	28.0	30.0
PBT Margin	1.7	19.4	25.2	28.5
PAT Margin	0.8	17.5	21.8	24.1
Debtor days (billed + unbilled)	196	165	135	130
Creditor days	56	41	41	41
Return Ratios (%)				
RoE	1.0	18.9	21.0	21.1
RoCE	2.1	20.2	23.4	24.1
RoIC	0.2	33.4	50.4	61.1
Valuation Ratios (x)				
P/E	636.1	38.7	27.5	21.6
EV / EBITDA	143.0	27.5	19.8	15.5
EV / Net Sales	7.5	6.5	5.6	4.6
Market Cap / Sales	7.4	6.7	5.9	5.1
Price to Book Value	9.6	7.2	5.7	4.5
Solvency Ratios				
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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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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