

## Healthy traction expected across products...

We attended the analyst meet of Intellect Design Arena (Intellect). The company highlighted its key product features and its cloud & API ready products. Intellect also highlighted that it is seeing healthy traction across its product categories in corporate banking, retail and insurance segment. Currently top three products yielding value are digital transaction banking, liquidity and Quantum Central Banking. IDC, payments and digital lending are also expected to drive growth. The company is currently undergoing a phase of monetisation of products and in second phase will witness monetisation of big data analytics and artificial intelligence. This, coupled with cost control, sustainable capex and improving working capital bodes well for the company's financials.

## Retail banking, insurance products to drive growth

The company believes the overall market for retail banking is US\$60 billion of which US\$11 billion is Intellect's addressable market that is expected to grow at 10% CAGR to US\$16 billion in FY25E. This, coupled with the company's focus on improving growth in Europe (especially Germany), healthy wins vs. Temenos (two out of five deals), Europe compliant solution, rapid proof of concept and holistic solution vs emerging peers is expected to drive iGCB revenues. Further, the company's document extraction and underwriting solution in iSEEC is expected to be a game changer in insurance segment. Hence, the company expects ISEEC to reach US\$100 million in revenues over the next few years. Apart from this, Intellect expects its risk & treasury market product to enter monetisation phase in FY23E. Healthy traction in government e-marketplace (GEM) and Magic Aadhar (₹ 50-100 crore market) can be other key revenue drivers.

## Cash flows to improve

The company believes that ~ ₹ 300 crore of quarterly cost and ~ ₹ 200 crore of annual R&D expenses (amortisation & capitalisation) are sustainable. We believe this bodes well for margins. In addition, increased penetration of IGCB in advanced market will help lower working capital requirements. This bodes well for cash flows in coming quarters.

## Valuation & Outlook

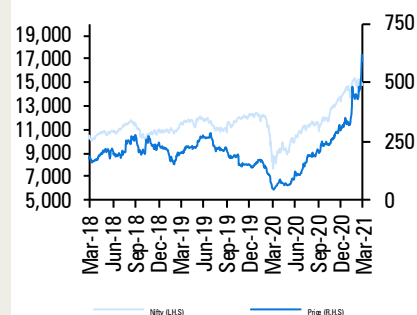
Healthy traction in IGCB & iSEEC is expected to drive revenues. This coupled with penetration in the US market, digital-ready product portfolio, healthy orderbook, huge addressable & underpenetrated market and improved annuity revenues are key long term drivers of revenues. In addition, improving cash flow and deleveraged balance sheet prompt us to be positive on the stock from long term perspective. However, the recent run up in stock price prompts us to downgrade the stock from BUY to **HOLD** with a revised target price of ₹ 640 (5x FY23E price/sales and 21x PE on FY23E EPS) (earlier target price was ₹ 455).



### Particulars

Particular	Amount
Market Cap (₹ Crore)	7,665.1
Total Debt	256.2
CC&E (₹ Crore)	134.3
EV (₹ Crore)	7,787.0
52 week H/L	648 / 44
Equity capital	66.2
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
- Higher-than-expected improvement in DSO days could be an upside trigger for stock

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### Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,450	1,347	1,491	1,648	1,829	10.7%
EBITDA	128	71	355	462	549	97.9%
EBITDA Margins (%)	8.8	5.3	23.8	28.0	30.0	
Net Profit	131	16	261	352	432	200.0%
EPS (₹)	10.0	1.2	18.7	25.2	30.9	
P/E	58.3	487.4	31.1	23.0	18.8	
RoNW (%)	12.9	1.0	20.0	21.2	20.7	
RoCE (%)	12.8	2.1	20.3	22.7	22.9	

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>1,347</b>	<b>1,491</b>	<b>1,648</b>	<b>1,829</b>
Growth (%)	(7.1)	10.7	10.5	11.0
COGS (employee expenses)	812	808	841	896
Other expenses	464	328	346	384
Total Operating Expenditure	1,276	1,136	1,187	1,281
<b>EBITDA</b>	<b>71</b>	<b>355</b>	<b>462</b>	<b>549</b>
Growth (%)	(44.5)	401.1	30.0	18.9
Depreciation	69	76	80	84
Other income (net)	9	8	20	40
PBT	11	287	402	505
Total Tax	5	29	53	77
<b>PAT after minority</b>	<b>16</b>	<b>261</b>	<b>352</b>	<b>432</b>
Growth (%)	(87.8)	1,530.4	35.1	22.6
<b>Diluted EPS (₹)</b>	<b>1.2</b>	<b>18.7</b>	<b>25.2</b>	<b>30.9</b>
Growth (%)	(88.0)	1,467.5	35.1	22.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit	23	290	407	510
Add: Depreciation	69	76	80	84
Others	25	(8)	(22)	(42)
Inc/(dec) in working capital	(80)	58	48	(13)
Taxes paid	7	(29)	(53)	(77)
<b>CF from operating activities</b>	<b>44</b>	<b>387</b>	<b>460</b>	<b>462</b>
(Inc)/dec in Fixed Assets	(135)	(139)	(158)	(175)
Others	35	18	(270)	(250)
<b>CF from investing activities</b>	<b>(100)</b>	<b>(121)</b>	<b>(428)</b>	<b>(425)</b>
Borrowings	105	(160)	-	-
Others	(25)	(24)	(22)	(22)
<b>CF from financing activities</b>	<b>80</b>	<b>(184)</b>	<b>(22)</b>	<b>(22)</b>
Net Cash flow	24	83	10	15
Exchange difference	1	-	-	-
Opening Cash	75	100	182	192
<b>Closing cash balance</b>	<b>100</b>	<b>182</b>	<b>192</b>	<b>207</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	66	66	66	66
Reserve and Surplus	991	1,252	1,606	2,039
Total Shareholders funds	1,057	1,318	1,672	2,105
Total Debt	256	96	96	96
Lease liability	29	29	29	29
Derivative Instruments	18	18	18	18
Other non current liabilities	1	1	1	1
<b>Total Liabilities</b>	<b>1,361</b>	<b>1,462</b>	<b>1,816</b>	<b>2,249</b>
<b>Assets</b>				
Property, plant and equipment	169	171	175	180
Goodwill	30	30	30	30
Intangibles	439	512	601	701
Right-of-use assets	42	42	42	42
Other non current assets	239	252	266	282
Cash & bank balance	106	189	199	214
Current Investments	17	17	317	617
Trade receivables	285	286	316	351
Loans and deposits	6	6	7	8
Other financial assets	439	409	361	376
Other current assets	99	109	121	134
Total Current Assets	951	1,016	1,321	1,699
Trade payables	208	230	255	282
Lease liability	14	14	14	14
OCL & provisions	286	317	351	389
Total Current Liabilities	509	562	620	686
Net Current Assets	443	454	701	1,013
<b>Application of Funds</b>	<b>1,361</b>	<b>1,462</b>	<b>1,816</b>	<b>2,249</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Diluted EPS	1.2	18.7	25.2	30.9
Cash EPS	6.4	25.4	32.6	38.9
BV	78	93	119	150
DPS	-	-	-	-
Cash Per Share	8	14	15	16
<b>Operating Ratios (%)</b>				
EBITDA margin	5.3	23.8	28.0	30.0
PBT Margin	1.7	19.5	24.7	27.9
PAT Margin	0.8	17.5	21.4	23.6
Debtor days (billed + unbilled)	196	170	150	145
Creditor days	56	56	56	56
<b>Return Ratios (%)</b>				
RoE	1.0	20.0	21.2	20.7
RoCE	2.1	20.3	22.7	22.9
RoIC	0.2	32.1	45.7	53.5
<b>Valuation Ratios (x)</b>				
P/E	487.4	31.1	23.0	18.8
EV / EBITDA	109.9	21.3	15.7	12.6
EV / Net Sales	5.8	5.1	4.4	3.8
Market Cap / Sales	5.7	5.1	4.6	4.2
Price to Book Value	7.3	5.9	4.6	3.7
<b>Solvency Ratios</b>				
Debt/EBITDA	3.6	0.3	0.2	0.2
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	1.6	1.4	1.3	1.3
Quick Ratio	1.6	1.4	1.3	1.3

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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