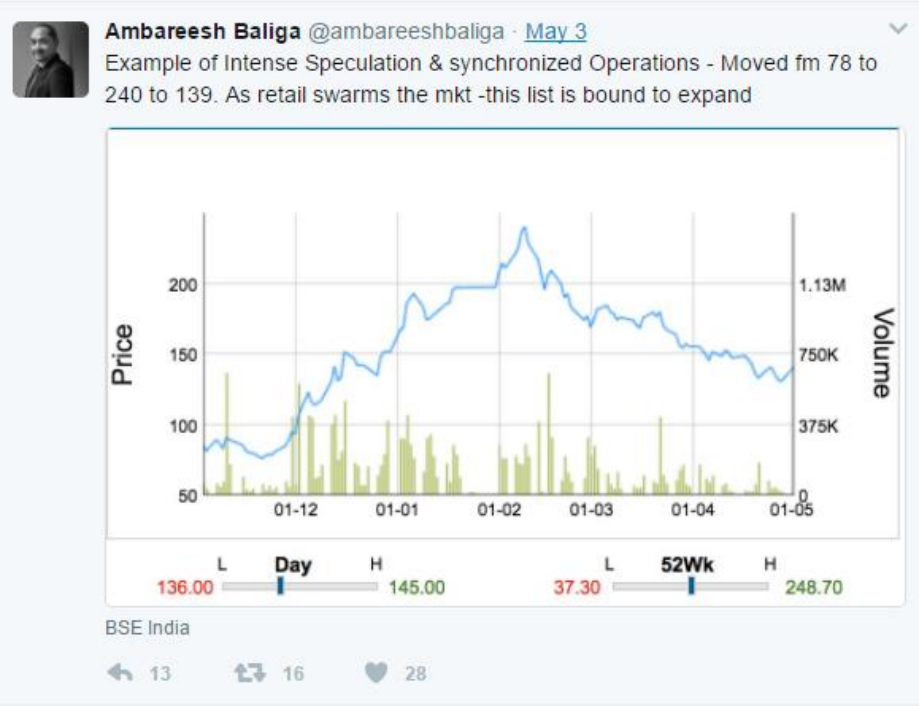
INTENSE TECHNOLOGIES LTD. – Is this a 'Pump and Dump' stock?

Intense has been having a topsy turvy ride on the bourses with price crashing from its high of 240 odd to 130 plus today. And the fear mongers are having a field day with terms thrown around like – 'Pump and dump', 'Hyderabadi Fraud Company' etc. Infact Ambareesh Ballga has tweeted it as a classical 'pump and dump' stock.



Now let us try and avoid the 'noise' and really understand what this company is all about. Many have absolutely no clue about what this company does, what its product is, what the market potential is etc.

This note is an attempt to understand the company, the space in which it operates, and the valuations that its peers command. Let us try and answer the basic questions about this company.

1. **Is this an IT services company or a product company?**
   This is **not** a IT service company like an Infosys, Wipro, Mindtree etc. This is an IT product company. Many are unfortunately not even aware of this. Comparing an IT service co with an IT product co. is like comparing apples and orange. Both have completely different business dynamics. In the listed space this can be compared to Majesco, Accelya kale, Intellect Design Arena, Nucleus etc. though Intense in a completely different product category to these companies.

2. **Can they fake a product?**
   It is impossible to build a business on a 'fraud' product. It take years or slogging, hard work, monetary investment and of course technical competence to build an IPR. Anybody working in the IT product business would understand what I am saying. Finally the proof of the pudding is in the eating. No point in having a great product if there are no clients. So let us check their clientele:

Domain	Partial client listing
Telecom	Bharat Sanchar Nigam Limited (BSNL) Reliance Jio Idea Cellular Ltd. Aircel Vodafone India Tata Teleservices Bharti Airtel
Insurance	ICICI Prudential Life Insurance Co HDFC Standard Life Insurance Bharti AXA Life Insurance Bajaj Allianz
Banking and Finance	HDFC Bank Mashreq Bank Commercial Bank of Kuwait (CBK) GE Money
Retail	Reliance Retail
Government	IT department of India

It would seem implausible that all of these marquee names would use a 'Fraud' product for their mission critical work of managing their customers. Customers are undoubtedly their most prized assets. Infact more than 70 % of the Indian Telecom space uses their product and so do almost all the Insurance companies in India other than LIC. Without realizing it almost all of us in India have been touched by their product in some form or another - whenever we receive customer communications, billing details, account statements, Policy welcome kits, premium notices etc.

3. **What exactly is a 'Customer Communication or Experience Management product?**
   Many are not aware of what exactly is a 'Customer Communication Management' (CCM) product. Here is a Cap Gemini Report as a ready reference on what a CCM product is all about
   https://www.capgemini.com/resource-file-access/resource/pdf/Customer_Communications_Management_Solutions.pdf

4. **Can this product be easily replicated?**
   There are opinions that this product is something which every Tom, Dick and Harry can easily replicate. You can get a web developer and get this done quickly. Not a valid argument though. Gartner and Forrester Research evaluate and categorize it as a separate product category just like Core banking systems, Core insurance systems, Data archiving systems etc.

   http://www.gartner.com/technology/cio-trends/customer-experience/

https://www.forrester.com/Customer-Experience

And look at the companies in the Gartner Magic Quadrant.

You have FIS, Oracle, GMC, Adobe, Pittey Bowes, FIS, Xerox, (Of course Intense) etc. in there.
A simple question: how easy is it technologically and functionally to onboard 100 million customers within 200 days (as they did with Jio)? Ask any Technical Architect in an IT firm and he will answer the question☺.

5. **What is the market potential of this space? Is this business mission critical for the future?**
   Read this excellent article for all the relevant statistics in this area:
   http://www.superoffice.com/blog/customer-experience-statistics/

6. **Are the biggies interested in this?**
   Seems so with the mergers and acquisitions in this space"

Pittey Bowes acquisition of Borderless	http://www.pitneybowes.com/uk/newsroom/press-releases/pitney-bowes-

	completes-acquisition-of-borderfree.html
OpenText acquisition of HP CCM	http://investors.opentext.com/releasedetail.cfm?ReleaseID=976325
Kofax acquisition of AIA	http://www.kofax.com/~/media/Files/Kofax/Datasheets/faq-kofax-customer-communications-management.pdf
Xerox acquires WDS	https://news.xerox.co.uk/news/xerox-acquires-uk-based-wds-strengthens-236350

7. **What were the M&A valuations in this space?**
   Here is some data I have accumulated for the deals in public domain.

Pittey Bowles acquisition of Borderless	
Acqusition cost (million dollars)	395.00
Borderless revenues (Million dollars)	125.00
EV/Revenues	3.16
EBIDTA margins or Borderless at time of acquisition	-1.86%

OpenText acquisition of HP CCM	
Acqusition cost (million dollars)	315.00
HP CCM revenues (Million dollars)	110.00
EV/Revenues	2.86
EBIDTA margins HP CCM	NA

Kofax acquisition of AIA	
Acqusition cost (million dollars)	19.50
AIA revenue	8.90
EV/Revenues	2.19
EBIDTA margins AIA	8.21%
EV/EBIDTA	12.19

8. **Where does Intense stand in the CCM space?**
   It's the new kid on the block. Till now dominant in India, Africa & Middle East, but now with breakthroughs in the most lucrative markets – USA with Cspire, Europe with Vodafone. In the concall they indicated a big pipeline in the Europe and Cspire. And of

course they are now in the Gartner magic quadrant in the same league as the biggies. Should also be there in the Forrester report shortly.

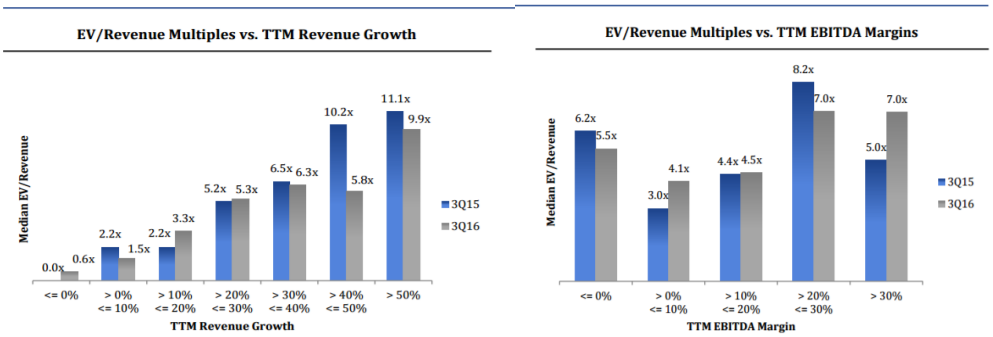
9. What are the valuations in the IT product space?

Please check the latest valuation reports in the M&A space in the IT product space.

https://www.slideshare.net/acinzori/software-valuation-and-ma-report-q3-2016

I will pull out some relevant slides for you:

Graph 1:

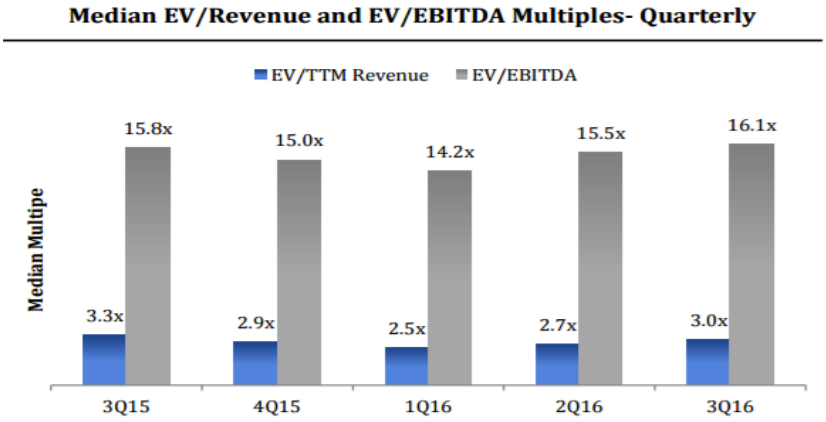


- **Points to note:** When revenue growth has been > 30 % Y to Y the EV/Revenue multiple has been around 6.3x. When it has growth > 50 % the EV/Revenue multiple has been 9.9x. Intense Y to Y growth rate should be more than 100 % in FY 2017.

  When EBIDTA margins are more than 30% then the EV/Revenue multiples are at 7.0x. Intense EBIDTA margins for FY 2017 should be north of 35 % and for Q3 it was an astounding 46%.

Here are the median EV/EBIDTA multiple across the IT product space.

Graph 2:



10. What the indicative valuations in the CCM /CRM space?

Now let us start with the peer M&A valuations in the CCM space.

Pittey Bowles acquisition of Borderless	
Acqusition cost (million dollars)	395.00
Borderless revenues (Million dollars)	125.00
EV/Revenues	3.16
EBIDTA margins or Borderless at time of acquisition	-1.86%

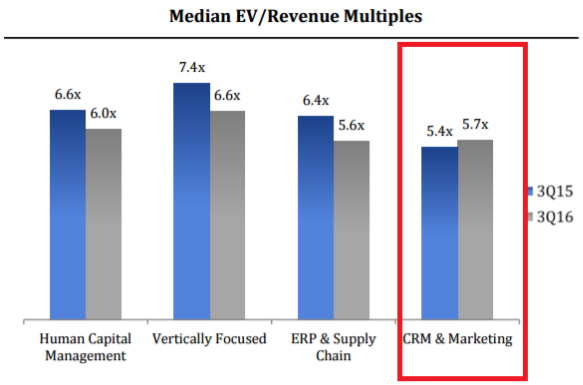
- **Points to note:** Pittey Bowles acquired Borderless at 3.16x EV/Sales. Note the Borderless EBIDTA margins at that time were negative -1.86%, while EBIDTA margins of Intense are 40%. So EV/Sales of Intense by common sense logic should be much more than 3.16x.

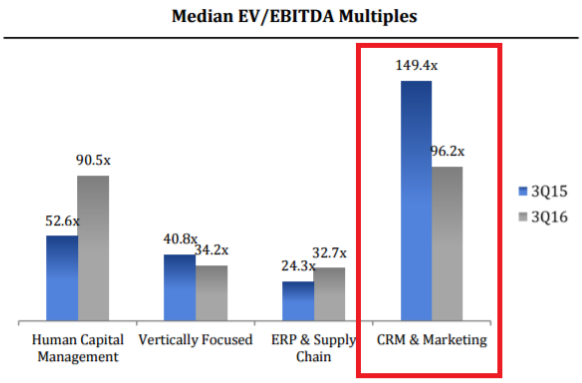
Kofax acquisition of AIA	
Acqusition cost (million dollars)	19.50
AIA revenue	8.90
EV/Revenues	2.19
EBIDTA margins AIA	8.21%
EV/EBIDTA	12.19

- **Points to note:** Kofax acquired AIA at EV/EBIDTA multiples of 12.19x. AIA EBIDTA margins were 8.21 %. So with EBIDTA margins of 40% the EV/EBIDTA multiple of Intense should be more than 12.19x

Now for the general multiples in the CRM space

Graph 3:





- **Points to note:** The EV/Revenue here is 5.7x and EV/EBIDTA is 96.2x (Exaggerated because most would have very low EBIDTA margins)

Now let us summarize all of it in one table:

Category	**EV/Revenue**	**EV/EBIDTA**
CCM Peers (Pittey Bowes)	3.16	
CCM Peers (Kofax)		12.19
CRM space	5.70	96.20
IT product (Revenue Growth)	9.90	
IT product (EBIDTA margins)		7.00

11. What would you value Intense as compared to its peers and Vis a Vis the IT product space?

Based on the above data let us arrive the minimum, median and Intense valuation (Based on its revenue growth and EBIDTA margins).

Category	Minimum	Median	Per intense revenue growth and EBIDTA margin
EV/Sales	**3.16** *Pittey Bowes multiple even though EBIDTA margins were negative	**5.70** *CRM space multiple Refer (Graph 3)	**9.90** *IT product (Revenue growth) Refer (Graph 1)
EV/ EBIDTA	**12.19** * Kofax even though AIA EBIDTA margins were just 8.21%	**16.10** * Median EBIDTA Refer (Graph 2)	**20.00** *Approximation based on 40 % EBIDTA

Now let's try to have a valuation set for Intense based on the above:

Assumption set for Intense FY 2017:

Revenues	90 crores
Revenue growth (Y to Y)	2.14x
EBIDTA	33 crores
EBIDTA margins	35.47 %
EBIDTA Q4	46.00 %

Valuation summary:

Category	Minimum	Median	Per Intense revenue growth and EBIDTA margin
EV/Sales	**Total: 285 crores** **Per share: 129 Rs.**	**Total: 513 crores** **Per share: 233 Rs.**	**Total: 891 crores** **Per share: 405 Rs.**
EV/ EBIDTA	**Total: 402 crores** **Per share: 183 Rs.**	**Total: 513 crores** **Per share: 241 Rs.**	**Total: 660 crores** **Per share: 300 Rs.**

Assumption set for Intense FY 2018:

Revenues	135 crores
Revenue growth (Y to Y)	1.5x
EBIDTA	62 crores
EBIDTA margins	46 %

Valuation summary:

Category	**Minimum**	**Median**	**Per Intense revenue growth and EBIDTA margin**
EV/Sales	**Total: 427 crores** **Per share: 194 Rs.**	**Total: 770 crores** **Per share: 350 Rs.**	**Total: 1336 crores** **Per share: 607 Rs.**
EV/ EBIDTA	**Total: 755 crores** **Per share: 343 Rs.**	**Total: 998 crores** **Per share: 453 Rs.**	**Total: 1240 crores** **Per share: 563 Rs.**

So although these are M&A valuation assumptions it gives us a fair estimate of what a product company like Intense would be valued assuming it were to be gobbled up by a biggie. **Please note that there are other qualitative factors also involved in the valuations which are not being considered here.**

Our views:

- This is surely not a 'Fly by night', 'Hyderabadi fraud', 'Pump and dump' from available data and facts presented above which are in the public domain and from the audited results.
- This is not a run of the mill IT services co. It is in an Enterprise product space and directly competing with the GMC, Xerox, Oracle, and Pittey Bowles of the world.
- Their new version UniServe Nxt which is to be launched in the coming months is projected to be a game changer in this space.
- It has mind blowing EBIDTA margins and revenue growth unmatched in this space.
- It should command premium valuations (8 to 10x EV/Sales) or 20x (EV/EBIDTA) whichever is more: with its marquee clients, more than 70 % revenue growth rate and more than 40 % EBIDTA margins purely based on peer M&A valuation data.
- Once the order book in Europe and USA materializes and is in public domain then this stock should get rerated very fast☺. The deal sizes in Europe and USA and much higher than that in India.
- Their entry into banking (HDFC bank, Mashreq bank) and retail (Reliance retail) will open up even bigger opportunities than in Insurance and Telecom.
- This should be easily valued at 300 Rs now and 550 plus next year if not more just on peer valuation data sets.

Disclosure: I hold Intense Technologies in my private capacity.

Hrishikesh Kale

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