

Intellect Design Arena Ltd.

Sensex: 27127

CMP: INR 214



COMPUTERS - SOFTWARE

Intellect Design Arena Ltd. (Intellect) was formed by demerging product business from services business of Polaris Financial Technology Ltd. Polaris was one of the first vendors to partner with Citigroup. Later, Citigroup started its own company, Citibank Overseas Software Ltd (COSL), to deliver IT solutions to Citigroup across the globe. COSL was renamed Orbitech and was merged with Polaris in 2003. Polaris acquired 57 IPRs from Orbitech, which were later rebranded to Intellect. Intellect generates revenue of ~INR124mn with 200 customers through offices in 40+ countries and diverse workforce of 4000 solutions architects, domain & technology experts.

Well diversified product portfolio

Deep banking domain expertise, coupled with investments of INR 8bn over the last ten years has helped Intellect to emerge as a full spectrum banking and insurance products company for the digital age. Intellect, through its iDigital platform offers products across four distinct lines of businesses: Global Consumer Banking (iGCB) (contributes ~30% of revenue), Risk, Treasury & Markets (iRTM) (contributes ~20% of revenue), Global Transaction Banking (iGTB) (contributes ~45% of revenue), Insurance Solutions (iSEEC) (contributes ~5% of revenue).

Strong deal win suggest product acceptability

Post demerger, Intellect has won 50 deals in FY16 and 56 deals in FY15. In a testimony of its superior product technology, Intellect won 2 multiyear deals from new license holders for Small Finance Banks for Intellect Digital Core Banking against all established players in the market. As intellect establishes itself as a vendor of choice in BFSI segment, deal size is also expected to rise. The company has recently won a \$15mn deal and is chasing nine deals in the \$3-7mn range.

Strong deal pipeline of \$450mn

After the demerger, Intellect hired aggressively across product lines to create delivery and marketing capabilities to win deals and boost license revenue. This led to the sharp surge in SG&A to ~40% of its revenue. The company has indicated that the hiring process is almost complete and it has already started yielding results with robust deals wins and ~25% dollar revenue growth in FY16. Its deal pipeline is also strong at \$450mn.

Growing market opportunity

As per industry analyst Gartner, global banking software spend stood at \$37bn in 2015, up 8.5% YoY. Of this, ~\$8bn (~22% of total

spend) is outsourced to third-party software vendors with balance being in-house. IT software spend by banks is expected to rise at 4% CAGR over FY15-18, whereas spending on third-party IT software is expected to increase at 8% CAGR to \$ 11bn over the same period.

Scope for margin improvement on higher license revenue

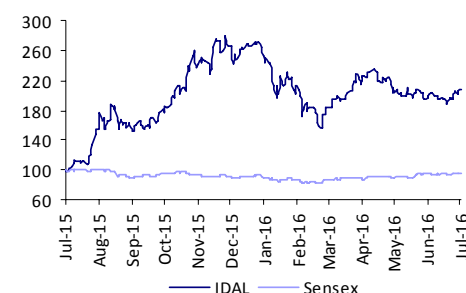
Currently Intellect derives ~34% revenue from license & maintenance, which is low compared to global competitors like Temenos, which derives ~80% revenue from license & maintenance. The reason for such divergence is that Intellect does all the implementation itself where as Temenos follows SI model. While Intellect is not keen on SI model at this point because of its size and also because it considers implementation as a strategic tool of customer satisfaction, it expects its share of license & maintenance revenue to improve to ~40% over next 8 quarters. As license revenue has higher margin, there is scope for margin improvement by ~150-200bps.

Outlook & Valuation

Most large global banks are operating on legacy core banking systems that are ill-equipped to support the range of functions and scalability that are imperative in today's digital banking. Despite which they are reluctant to modernize core systems as it entails high risk and huge investment. Hence, banks, especially tier I players, are purchasing add-on software and improving middleware system to facilitate their digital presence. Moreover, low growth, margin pressure, high competition and regulatory requirement will encourage banks to move to more efficient and cost effective IT solutions, spurring IT outsourcing (product and services). Intellect, equipped with a diversified, globally acknowledged and digital ready product portfolio is best placed to cash in on financial institutions add-on product demand. Current share of Intellect is just ~0.5% of the global spend on third party license & maintenance (compared to ~6% for Temenos). At CMP, the stock is trading at 2.6x FY16 EV/Sales.

Shareholding %	Mar-16
Promoters	32.77
FIIIs	9.06
DIIIs	9.13
Others	49.04

Relative Price Performance



Key Data	
BSE Code	538835
NSE Code	INTELLECT
Bloomberg Code	INDA IN
Reuters Code	
Shares Outstanding (mn)	101.04
Face Value	5
Mcap (INR bn)	21.99
52 Week H/L	302/101
2W Avg. Qty.NSE	747761
Free Float (INR Bn)	14.78
Beta	1.59

Y/E (INR mn) cons.	FY13	FY14	FY15	FY16
Net Sales	NA	NA	6087	8107
Growth	NA	NA	NA	33.17%
EBIDTAM	NA	NA	-13.19%	-3.85%
Adj. PAT	NA	NA	-732	-168
Growth	NA	NA	NA	NA
Adj. EPS (INR)	NA	NA	NA	NA
P/E (x)	NA	NA	NA	NA
EV/EBIDTA (x)	NA	NA	NA	0.39
EV/Sales (x)	NA	NA	1.60	2.76
RoACE	NA	NA	NA	NA
RoAE	NA	NA	NA	NA

Financials

Income Statement

Year End March (INR mn)	FY13	FY14	FY15	FY16
Net Sales	NA	NA	6087	8107
<i>Growth</i>	NA	NA	NA	33.17%
Employee Cost	NA	NA	5312	6388
Other Exps.	NA	NA	1578	2030
EBIDTA (excl OI)	NA	NA	-803	-312
<i>EBITDA Margin</i>	NA	NA	-13.19%	-3.85%
Dep./Amortization	NA	NA	190	208
EBIT	NA	NA	-993	-520
<i>EBIT Margin</i>	NA	NA	-16.31%	-6.41%
Interest Expense	NA	NA	8	12
Other Income	NA	NA	275	261
Exceptionals	NA	NA	-98	0
EBT	NA	NA	-824	-271
Tax Expenses	NA	NA	18	-91
PAT	NA	NA	-841	-180
Share of Profit	NA	NA	11	12
Adjustment to PAT	NA	NA	-830	-168
APAT	NA	NA	-732	-168
Growth	NA	NA	-	-
<i>APAT Margin</i>	NA	NA	-12.03%	-2.08%

Key Ratios

Year End March	FY13	FY14	FY15	FY16
Per Share Data (INR)				
Reported EPS	NA	NA	NA	NA
Adj. EPS	NA	NA	NA	NA
Growth	NA	NA	NA	NA
CEPS	NA	NA	NA	0.39
DPS	0	0	0	0
BVPS	NA	NA	56.80	56.43
Return Ratios (%)				
RoACE	NA	NA	NA	NA
RoANW	NA	NA	NA	NA
RoIC	NA	NA	NA	NA
Liquidity Ratios				
Net Debt/Equity	NA	NA	-0.159	-0.052
Interest Coverage Ratio	NA	NA	NA	NA
Current Ratio	NA	NA	1.57	1.68
Quick Ratio	NA	NA	1.57	1.68
Efficiency Ratios				
Asset Turnover Ratio	NA	NA	1.05	0.80
Inventory Days	NA	NA	0	0
Debtor Days	NA	NA	100	72
Creditor Days	NA	NA	82	82
Valuation Ratios				
P/E (x)	NA	NA	NA	NA
P/BV (x)	NA	NA	1.89	3.99
P/CEPS (x)	NA	NA	NA	577.55
Dividend Yield (%)	NA	NA	0	0
EV/Net Sales (x)	NA	NA	1.60	2.76
EV/EBIDTA (x)	NA	NA	NA	NA

Balance Sheet

Year End March (INR mn)	FY13	FY14	FY15	FY16
Share Capital	NA	NA	501	504
Reserves and Surplus	NA	NA	5691	5687
Total Network	NA	NA	6192	6190
Minority Interest	NA	NA	0	0
Secured	NA	NA	0	0
Unsecured	NA	NA	77	229
Total Debt	NA	NA	77	229
Deferred Tax Liability	NA	NA	108	1
Other Liabilities	NA	NA	12	32
Sources of Funds	NA	NA	6389	6453
Net Block	NA	NA	2220	2726
CWIP	NA	NA	448	655
Investments	NA	NA	1794	604
Current Assets	NA	NA	4673	5340
Current Liabilities	NA	NA	2975	3169
Net Current Assets	NA	NA	1698	2171
Deferred Tax Assets	NA	NA	57	66
Other Assets	NA	NA	172	231
Application of Funds	NA	NA	6389	6453

Cash Flow

Year End March (INR mn)	FY13	FY14	FY15	FY16
EBT	NA	NA	-824	-271
Less: Other Income/Exceptionals	NA	NA	-97	12
Add: Depreciation	NA	NA	190	208
Add: Interest paid	NA	NA	8	12
Direct taxes paid	NA	NA	-206	-199
Change in Working Capital	NA	NA	862	-884
Others	NA	NA	-99	9
Cash Flow from operations (a)	NA	NA	-165	-1113
Change in Fixed Assets	NA	NA	-240	-832
Change in CWIP	NA	NA	0	0
Change in Investments	NA	NA	921	1169
Others	NA	NA	631	84
Cash Flow from Investing (b)	NA	NA	1313	422
Change in Equity	NA	NA	2	5
Debt Raised/(Repaid)	NA	NA	37	152
Dividend paid	NA	NA	0	0
Interest paid	NA	NA	-8	-12
Others	NA	NA	-115	36
Cash Flow from Financing (c)	NA	NA	-85	181
Net Change in Cash (a+b+c)	NA	NA	1062	-510
Opening Cash	NA	NA	0	1062
Closing Cash	NA	NA	1062	552

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