

Intellect Design Arena (CMP: INR255, M-Cap: IN3400cr)

PROFIT AND LOSS ACCOUNT	FY16	FY17	FY18	FY19	Q4FY20	FY20	FY21E	FY22E	FY23E	FY24E
Revenue (in US\$ mn)	123.8	136.3	168.3	207.7	49.7	190.6	198.9	223.8	248.0	277.2
INR Revenue	8,095	9,110	10,873	14,587	3,596	13,509	14,824	16,449	18,225	20,789
Expenditure										
Software development expenses	3,913	4,633	5,490	7,372	1,669	6,987	6,551	6,902	7,306	7,858
Selling & marketing and General & Administrative exp	3,403	3,956	3,766	4,553	905	4,213	3,399	3,630	3,843	4,131
Research & Engineering expenses	1,063	719	724	1,004	236	1,219	943	1,030	1,170	1,230
ESOP Cost	0	0	0	0	49	170	297	296	296	740
Provision for Debts and Write offs	0	77	106	174	98	172	150	190	235	310
Total Expenditure	8,379	9,385	10,087	13,102	2,957	12,760	11,340	12,049	12,849	14,269
EBITDA	-283	-276	786	1,485	639	748	3,484	4,401	5,376	6,520
Depreciation & Amortisation	208	241	265	416	191	690	784	850	900	945
EBIT	-491	-517	521	1,069	448	59	2,700	3,551	4,476	5,575
Other Income	239	349	204	417	-49	280	102	88	83	152
Finance Cost	12	113	138	114	38	174	114	70	30	22
Share of profit/(loss) of associates and joint venture	5	66	50	30	62	62	-97	-90	-185	-290
PBT	-259	-215	637	1,402	423	227	2,590	3,478	4,344	5,416
Tax	-91	28	70	89	13	51	436	877	1,095	1,354
PAT	-168	-243	567	1,313	411	176	2,154	2,602	3,249	4,062

Cash Flow (Rs Mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Profit before tax	-325	-195	637	1,402	227	2,590	3,478	4,344	5,416
Depreciation & Amortisation	207	241	265	416	690	784	850	900	945
Net Interest Expense	-40	79	90	63	82	114	70	30	22
Direct taxes paid	-199	-148	-285	-329	71	-436	-877	-1,095	-1,354
Chg in Workg Capital	-800	-508	-193	-1,775	-803	-77	-594	-508	-688
Other	151	-119	-21	-280	168	0	0	0	0
CF from Operations	-1,006	-650	495	-503	436	2,975	2,928	3,671	4,341
Capex	-832	-933	-1,106	-793	-1,244	-1,358	-1,400	-1,450	-1,500
Acquisition	0	0	0	0	0	0	0	0	0
Change in Investments	1,233	-202	-411	754	213	-100	0	0	0
Other	-95	46	22	50	32	0	0	0	0
CF from Investing	306	-1,089	-1,495	11	-999	-1,458	-1,400	-1,450	-1,500
Issue of Equity/ Preference	24	89	1,996	1,067	41	5	0	0	0
Change in Debt	152	1,483	-432	-321	912	-1,574	-139	-108	-84
Interest exp net	-12	-113	-138	-114	-152	-114	-70	-30	-22
Dividend Paid (Incl. Tax)	0	0	0	-2	0	0	0	0	0
CF from Financing	164	1,460	1,425	630	801	-1,683	-209	-138	-106
Effect of exchange differences	0	61	-40	1	6	0	0	0	0
Net Change in Cash	-536	-279	384	138	244	-166	1,319	2,083	2,735
Opening Cash balances	984	448	230	615	753	997	831	2,150	4,233
Closing Cash balances	448	230	615	753	997	831	2,150	4,233	6,968
Free Cash Flow	-1,838	-1,583	-611	-1,296	-808	1,617	1,528	2,221	2,841

Measures of Investment	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EPS (Rs.)	(1.7)	(2.4)	4.5	10.0	1.3	16.3	19.6	24.5	30.6
Book Value (Rs.)	12.1	11.8	13.5	15.5	15.8	18.9	22.8	27.7	33.8
RoANW (%)	(2.7)	(4.0)	7.8	14.1	1.7	18.7	18.7	19.3	19.8
RoACE (%)	(7.9)	(7.2)	5.8	10.4	0.5	21.4	25.1	26.4	27.2
RoAIC (%)	(13.8)	(10.4)	8.3	13.8	0.6	27.0	32.6	37.4	42.5
Valuation Ratios									
CMP (Rs.)	320	320	320	320	320	320	320	320	320
P/E (x)	(191.6)	(133.9)	70.6	32.1	238.5	19.7	16.3	13.1	10.4
Market Cap. (Rs. Mn)	32,249	32,555	40,023	42,077	42,077	42,411	42,411	42,411	42,411
MCap/ Sales (x)	4.0	3.6	3.7	2.9	3.1	2.9	2.6	2.3	2.0
EV (Rs. Mn)	30,796	32,789	39,013	41,387	42,216	41,042	39,584	37,392	34,573
EV/Sales (x)	3.8	3.6	3.6	2.8	3.1	2.8	2.4	2.1	1.7
EV/EBDITA (x)	(108.7)	(119.0)	49.6	27.9	56.4	11.8	9.0	7.0	5.3
P/BV (x)	26.4	27.2	23.7	20.7	20.3	16.9	14.0	11.6	9.5
FCFF Yield (%)	(5.7)	(4.9)	(1.5)	(3.1)	(1.9)	3.8	3.6	5.2	6.7

I. Background and Company Description

- Intellect Design Arena (INDA) is a fast growing banking software company in the world with offerings across multiple segments in the BFSI sub-segments.
- INDA is a product business spun off from Polaris Financial Technology. INDA got listed in Dec 2014. Management felt INDA required separate focus and go-to-market strategy.
- INDA is a rare company that has created specialized software catering to the entire spectrum of BFSI sub segments such as Transactional Banking (product name: iGTB), Consumer Banking (iGCB), Central Banking, Risk & Treasury (iRTB) and Insurance (SEEC).
- Client Profile

Region	Clients
Europe	Barclays, Lloyds Bank, HSBC, RBS, Banco Santander, DNB, SEB, Societe General, Deutsche Leasing, Elavon, Migrosbank, Euro Exim Bank, Raiffeisen Bank
Americas	Bank of Montreal, CIBC, JP Morgan, Citi, Northern Trust, Fifth Third Bank
India	HDFC Bank, ICICI Bank, Axis, PNB, IDFC, BoB, Bank of India, IDFC, ING, Kotak, Dhanalaxmi Bank
Asia-Pacific	Bangkok Bank, BIDV, BCA, Mizuho, SHB, DBP, Hong Leong Bank, ANZ, Westpac, UOB
ME & Africa	NBK, QNB, ADIB, ADCB, Firstbank, ABSA, Housing Finance Bank, Arab Bank, Bank Muscat, Fedbank, FNB, GIB, Mashreq

- Geographic Exposure – INDA gets about 60% of exposure from advanced markets (EU, US, Japan, Australia). Among advanced markets, it is particularly strong in EU as can also be seen from the client list above. US is one of the most challenging market and INDA has now tied up with IBM to take this challenge of entering the US market.

II. Summary of the Investment Case

- **INDA is a product company with a wide range of product suite spanning across transaction banking, consumer banking, insurance, wealth management, treasury and catering to secular opportunity of increasing role of digitization and technology in BFSI space** – Higher adoption of technology and role of software in banking is getting the backing of regulators and this is required not only from perspective of ease of use, transparency, fraud detection, less corruption but this is also required for capabilities enhancement and use of analytics.
- **Has Intellect reached an inflexion point in terms of operating leverage, cash flow generation?** We think so. The key metric to monitor in every software product company is the stage in which the products currently lie in the product life cycle (incubation -> catalyst -> adoption -> monetization). **INDA has 6 out of the 12 suites of products in the monetization stage.** The remaining 6 are in adoption stage with more products expected to reach monetization stage. Next year, company expects that two its products in the insurance segment will also reach monetization phase and that will enhance recurring revenues visibility, aid in margin improvement and better cash flow generation.

Earlier products in GTB were in monetization phase and investment spending on other products was being funded through only one successful segment (GTB). Now, INDA has gained success in GCB (consumer banking) and thus operating cash flow has improved.

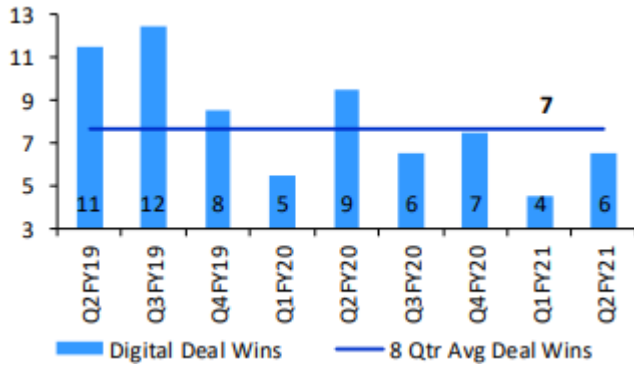
Notice the profitability improvement in last 3 quarters.

PROFIT AND LOSS ACCOUNT	FY16	FY17	FY18	FY19	Q4FY20	FY20	Q1FY21	Q2FY21E
Summary (Rs mn)								
Revenue (in US\$ mn)	123.8	136.3	168.3	207.7	49.7	190.6	46.0	50.1
INR Revenue	8,095	9,110	10,873	14,587	3,596	13,509	3,492	3,730
Expenditure								
Software development expenses	3,913	4,633	5,490	7,372	1,669	6,987	1,612	1,635
Selling & marketing and General & Administrative exp	3,403	3,956	3,766	4,553	905	4,213	832	844
Research & Engineering expenses	1,063	719	724	1,004	236	1,219	230	234
ESOP Cost	0	0	0	0	49	170	75	74
Provision for Debts and Write offs	0	77	106	174	98	172	30	40
Total Expenditure	8,379	9,385	10,087	13,102	2,957	12,760	2,779	2,827
EBITDA	-283	-276	786	1,485	639	748	713	903
Depreciation & Amortisation	208	241	265	416	191	690	189	194
EBIT	-491	-517	521	1,069	448	59	524	709
Other Income	239	349	204	417	-49	280	44	-18
Finance Cost	12	113	138	114	38	174	39	25
Share of profit/(loss) of associates and joint venture	5	66	50	30	62	62	-58	-4
PBT	-259	-215	637	1,402	423	227	471	662
Tax	-91	28	70	89	13	51	45	70
PAT	-168	-243	567	1,313	411	176	426	592

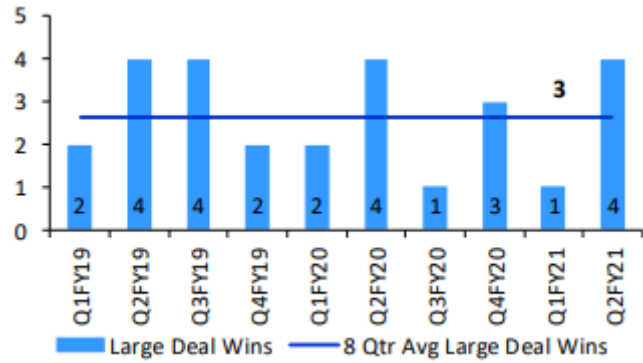
- **Differentiated Sales Strategy:** In order to achieve this goal of selling more products to existing clients, thereby taking products to the monetization phase, INDA has been spending 25% of its revenues on S&M over the last 3 years by getting its sales strategy right i.e. hiring local sales people rather than Indians and hiring people either from large competitors or banks. Additionally, to drive profitable growth, INDA has partnered with multiple System Integrators (SIs) to implement the products. Agreement with SIs would increase the size of deal wins and also improve margins, as professional services have lower margins.
- **Large Deal Wins, deal wins in advanced markets and higher recurring revenues are enhancing the visibility.**
- Growth levers –
 - **Cross Sell:** Bouquet of 12 products will allow INDA to cross sell to boost scale as new client acquisition is most expensive proposition. Good software companies such as Oracle find new ways to get more from same client every year somehow. INDA has the opportunity to do the same in future.
 - **Upgrades of products over time.**
 - **Leverage on increasing the customers in relatively newer markets that it entered in last 12 months:** INDA hires top banker/top competitor to target the key bank in any new market it enters. Later on it builds customer base over time. Entering a new market is not easy. Currently, INDA is present with 1-2 customers in so many countries and thus now it may find easier to penetrate those markets and add more customers. Instead of going for completely new markets now, INDA may look to now leverage its base in existing markets.
- **Gartner Reviews:** We checked the Gartner reviews for INDA. Although the reviews are limited and are restricted to reviews by Chief Information Officer and IT/Technology Heads of firms in Asia Pacific, the rating and ranking generally is good.

III. Supporting Data of the Investment Thesis – Story through charts

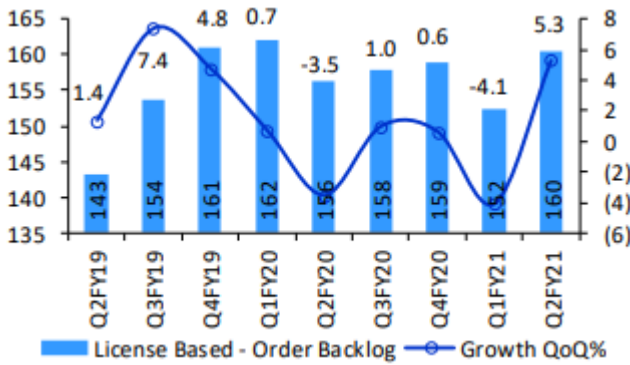
Digital Deal Wins



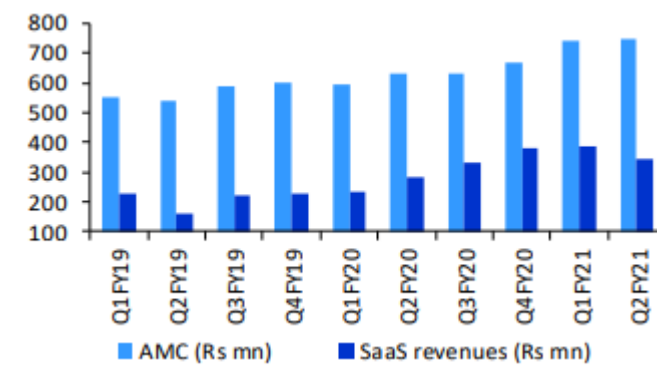
Large deal wins



License based Order Backlog at \$160.5m

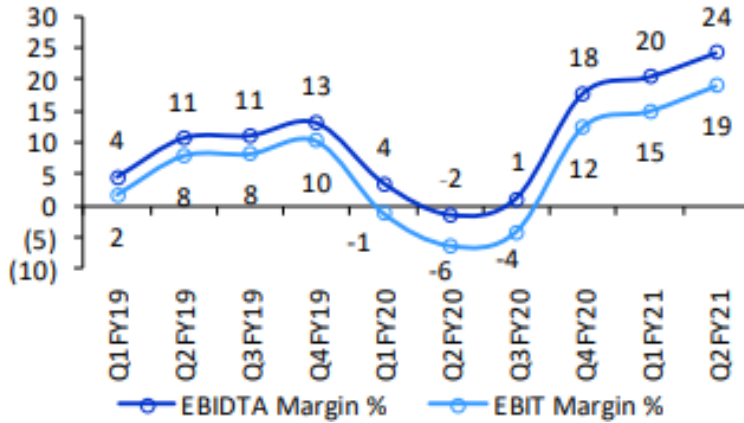


Recurring revenues improving



Source: Dolat Capital

Tight cost control, operating leverage, more number of products in monetization stage driving OPM gains.



Active Deal Pursuits

High value active pursuits

41

9 Pursuits > INR 50 Cr
 12 Pursuits between INR 30 Cr to INR 50 Cr
 20 Pursuits between INR 20 Cr to INR 30 Cr

	Q1 FY21 Active Pursuits	Won	Lost	Added	Q2 FY21 Active Pursuits	Remarks
> INR 50 Cr	8	-	-	1	9	8 deals from Q1 FY21 + 1 new deal added
INR 30 Cr - INR 50 Cr	12	2	1	3	12	2 deals Won 1 deal Lost 9 deals from Q1 FY21 + 3 new deals added
INR 20 Cr - INR 30 Cr	20	2	3	5	20	2 deals Won 3 deals Lost 15 deals from Q1 FY21 + 5 new deals added

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue (\$mn)	45	54	52	56	49	47	45	50	46	50.1
QoQ (%)	(5.3)	21.7	(3.4)	7.6	(12.5)	(5.7)	(3.4)	10.5	(7.4)	8.9
YoY (%)	21.5	32.3	27.5	19.8	10.7	(14.2)	(14.2)	(11.9)	(6.7)	7.6
Revenue Breakup (\$mn)										
Licence	5	15	11	12	8	6	7	14	8	13
AMC	8	8	8	9	9	9	9	9	10	10
Implementation & Customisation	32	30	34	36	33	31	29	26	28	27
Cloud / SaaS (subset of above)	3	2	3	3	3	4	5	5	5	5
Revenue Breakup (\$mn) (YoY)										
Licence	44.0	71.1	31.6	19.2	69.3	(60.4)	(35.6)	13.1	(0.9)	116.5
AMC	(10.4)	3.6	6.2	5.0	4.4	17.1	8.5	8.5	13.9	12.2
Implementation & Customisation	24.9	22.2	32.6	24.3	3.5	4.9	(12.9)	(25.5)	(13.6)	(14.8)
Cloud / SaaS (subset of above)					(2.7)	77.3	51.8	60.9	54.3	15.3
Order Backlog (\$mn)										
License Based	141	143	154	161	162	156	158	159	152	160
SaaS and Subscription based	36	34	39	42	43	53	120	117	125	NA
Order Backlog Total	177	177	193	203	205	210	278	276	278	160
Order Backlog (\$mn) (YoY)										
License Based				16.4	14.9	9.3	2.7	(1.3)	(6.0)	2.6
SaaS and Subscription based				79.5	20.9	56.8	207.9	180.6	190.4	NA
Order Backlog Total				25.5	16.1	18.4	44.1	36.2	35.3	(23.5)
Geographic Mix (%) (LTM)										
Adv Markets	49.3	61.7	61.7	65.4	65.3	0.0	61.6	59.3	60.5	57.4
India	14.4	11.9	11.4	11.5	10.6	0.0	12.6	13.2	14.3	14.8
Rest of the world	36.3	26.4	26.8	23.2	24.1	0.0	25.8	27.5	25.2	27.9
Deals										
Deal Wins	10	11	12	8	5	9	6	7	4	6
Large Deal Wins	2	4	4	2	2	4	1	3	1	4
Implementation go lives	7	21	15	18	9	13	17	5	12	19
Active Pursuit (\$ mn)										
Current Funnel	527	515	505	508	515	524	536	512	530	540
Accounted by Large deals Opportunities	448	415	416	397	474	471	456	376	399	407
Avg. deal size in mn \$	1.8	1.8	1.9	1.9	2.3	1.8	2.3	2.0	2.0	2.4
Total large deals	134	134	130	122	133	134	133	120	119	117
Destiny Deals (\$ mn)										
Avg deal size of destiny in mn \$					5.9	6.2	5.6	5.0	5.7	
% Contribution to total opportunity funnel					69.0	65.0	64.0	57.0	54.0	
Total destiny deals					41	41	41	41	40	41
Collections Data										
Collections (In Rs. Mn)	3,152	2,902	3,761	3,294	3,382	3,120	3,345	2,985	4,365	3,343
Net DSO	111	131	115	124	119	126	132	0	126	127
Investment in Product Development Capitalized										
Amount in INRmn	295	295	283	295	295	284	287	240	269	284
YoY (%)				4.2	(0.1)	(3.8)	1.6	(18.7)	(8.7)	0.1

Source: Dolat Capital

IV. What I will be monitoring

Key metrics that I will be monitoring for INDA's investment case to sustain –

- Improvement in recurring revenues (AMC+SAAS)
- Deal flow and ability to sing large deals in advanced markets.
- Lower receivable days, higher operating cash flow. Net DSO reduction, albeit slowly, in each of the market.
- Consistent accounting policy with regard to capitalization of R&D spend and controlled R&D spend. Any change in account policy on capitalization should be looked closely.
- Low attrition rate especially in senior management.

V. Company Information

Directors	Designation
Arun Jain	Chairman & Managing Director
Anil Kumar Verma	Executive Director
Arun Shekhar Aran	Independent Director
Andrew England	Non-Executive Director
Vijaya Sampath	Independent Director
Abhay Gupte	Independent Director
Auditors	
S.R. Batliboi & Associates (EY)	Statutory Auditors

Promoter, Arun Jain's Background

- Serial Entrepreneur with engineering background.
- After graduating, Arun, along with friends Vishnu Dusad and Yogesh Andlay started International Information Systems (IIS) in 1983 as a partnership firm. In 1986, IIS was renamed as Nucleus Software, another India listed product software company. Later after parting ways with Nucleus (where he is still a shareholder), Arun set up Polaris.
- He was the founder, Chairman and CEO of Polaris. Polaris piped the likes of big IT giants in winning big for a project for Citibank and later Citibank became Polaris' longest standing client. Polaris Software focused on software projects for BFSI and Insurance.
- Arun Jain then moved towards winning global clients.
- 2002 Set Back (Indonesian Nightmare): The Indonesia saga, which was played out in the premises of Bank Artha Graha, Jakarta detention centres and the Indian embassy premises, was brought to an end by some hectic behind-the-scene efforts by Indian government officials, influential businessmen. The bank demanded \$10m in damages for release of one product by the company and had detained Polaris officials and were later shifted to policy custody.
- In 2015, Virtusa acquired 53% stake in Polaris held by Arun Jain and certain other minority shareholders for about \$180m (INR1173cr).
- He then went on to set up Intellect Design.
- Arun Jain has a reputation of decentralizing the company and empowering employees. He is also known to pay well to attract top talent. We see evidence of both these points in INDA's strategy also.
- Arun is the Chief Mentor of the Centre of Excellence for FinTech set up by MeitY, Govt of India.

VI. Key Shareholders

- Float (% of outstanding shares): 47%
- Promoter Stake: 31.3%
- Key Institutional Shareholders
 - Amansa Capital: 7.5%
 - Atyant Capital Management: 4.8%
 - Nippon Life AMC: 2%
 - Whiteoak Funds and Management Accounts: 3.5 %
 - Duke University: 3.8%
 - Unifi: 0.15%

VII. Valuation and View

Measures of Investment	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EPS (Rs.)	(1.7)	(2.4)	4.5	10.0	1.3	16.3	19.6	24.5	30.6
Book Value (Rs.)	12.1	11.8	13.5	15.5	15.8	18.9	22.8	27.7	33.8
RoANW (%)	(2.7)	(4.0)	7.8	14.1	1.7	18.7	18.7	19.3	19.8
RoACE (%)	(7.9)	(7.2)	5.8	10.4	0.5	21.4	25.1	26.4	27.2
RoAIC (%)	(13.8)	(10.4)	8.3	13.8	0.6	27.0	32.6	37.4	42.5
Valuation Ratios									
CMP (Rs.)	320	320	320	320	320	320	320	320	320
P/E (x)	(191.6)	(133.9)	70.6	32.1	238.5	19.7	16.3	13.1	10.4
Market Cap. (Rs. Mn)	32,249	32,555	40,023	42,077	42,077	42,411	42,411	42,411	42,411
MCap/ Sales (x)	4.0	3.6	3.7	2.9	3.1	2.9	2.6	2.3	2.0
EV (Rs. Mn)	30,796	32,789	39,013	41,387	42,216	41,042	39,584	37,392	34,573
EV/Sales (x)	3.8	3.6	3.6	2.8	3.1	2.8	2.4	2.1	1.7
EV/EBDITA (x)	(108.7)	(119.0)	49.6	27.9	56.4	11.8	9.0	7.0	5.3
P/BV (x)	26.4	27.2	23.7	20.7	20.3	16.9	14.0	11.6	9.5
FCFF Yield (%)	(5.7)	(4.9)	(1.5)	(3.1)	(1.9)	3.8	3.6	5.2	6.7

Price Chart



View: INDA is one of the promising software companies in India, building products for the entire banking domain. Region-wise, in the advanced markets (57% of revenue), it competes with established large product companies like FiServ and Temenos. INDA has strong operations in Europe, the Middle East and Asia Pacific and is looking at partnerships with large system integrators like IBM to build significant operations in the US markets by FY23. The benchmark for the company is Temenos which trades at 10x P/S although it has a longer successful track record and converts all its EBITDA into OCF. The key to INDA's rating would be 1) How INDA scales its business in Advanced Markets especially US; 2) Continuous improvement in OCF due to higher recurring revenues and lower receivables.

INDA is in its sixth year of operations and has grown substantially over this period from \$99m revenues in FY15 to \$191m in FY20. The focus shifted to profitability in H2 FY20. It improved on this parameter in Q2 FY21 and will continue to improve. Intellect is currently in a phase where it is looking to further improve on efficiencies and net cash. The company is in its Intellect 2.0 journey where the focus is on monetization till FY23. Post FY23, the company may relook at slight acceleration in investment but it would not be to the extent it was 5 years prior to FY20. Reduction in its receivables days for FY21 and FY22 would lead to release of capital in OCF, which will be utilised for growth and debt repayment.

Comparison of Consensus Numbers with Indian and Global Product Companies focusing on Financial Services

Company Name	Last Price	M-Cap USD m	RoE		Sales GRTH(%)		EPS GRTH (%)		EV/Sales(x)			EV/EBIDTA(x)		PE (x)	
			FY21	FY22	FY21	FY22	FY21	FY22	FY20	FY21	FY22	FY21	FY22	FY21	FY22
Intellect Design	269	482	18	19	10%	14%	1222%	24%	2.8	2.4	2.0	11.0	8.5	16.8	13.5
Oracle Financial	3,066	3,560	25	26	7%	11%	16%	9%	4.5	4.0	#####	8.0	#####	15.5	14.2
Majesco Ltd	925	377	9	11	15%	9%	-5%	34%	2.3	2.0	1.8	16.8	13	40.0	29.8
Temenos Ag-Reg	113	9,186	50	41	-8%	11%	31%	10%	9.7	10.2	9.1	22.9	20.5	33.5	30.4
Fiserv Inc	108	72,387	8	10	40%	7%	154%	22%	9.2	6.5	5.9	16.5	14.0	24.5	20.1

Notes:

1. Consensus numbers for comparison purpose
2. Temenos and Fiserv are global players. Other names in the list are India listed players.
3. Majesco recently sold its listed US operating subsidiary at 4x EV/Sales and at significant premium to the listed price.
4. OFSS also looks appealing and has downside protection based on attractive dividend yield of 6%+.

Mar-23 Target Price Calculation

Methodology	Multiple	FY24E Metric Value	Value (INR m)	Mar-23 TP	Comments on multiple
P/S	2.6	20789	54,052	408	1. 40% discount to Oracle Financial multiple. 2. This is also almost 35-50% discount to some of the recent transactions of similar companies such as Kony or Majesco.
P/E	15	31		460	Comparable companies have traded in the range of 13-22x
P/OCF	15	4341	65113	491	
FCF yield	5%	21.44		429	
DCF				431	Assumptions: WACC: 12%, Terminal Growth Rate post FY31: 3.5%
Average				444	

Mar-23 Target Price of INR400+ looks possible. As shown in the above comments that over time once Intellect achieves scale and is able to penetrate more in the advanced markets and with healthy balance sheet and much improved cash generation than in the past, there is possibility of Intellect getting higher multiple.

VIII. Takeaways from Calls and Interview

Jan 2021 Interview Arun Jain – ET Now

- Cloud, AI and ML are major disruptions for the industry.
- Recurring revenues: INR450cr annual run rate.
- Margins in recurring revenue are high at 80%.
- Pursuing 41 destiny deals with deals ranging from \$3-15m.
- 3 (liquidity, digital transaction banking, central banking) out of 12 products – No 1. Helps in getting pull deals vs push deals.
- GTB: DTB (things are moving online) showing good progress. INDA has single architecture
- 24 deals out of 57 deals in last 4 years.
- 11 accounts in US. Large entry barriers in US.
- Deals flow is good. Satisfied with the progress.
- EPS can grow 30-40% CAGR for next 3 years.
- AMC growing at 15-17% CAGR. Cloud revenue may grow to INR200cr next year.
- Cost came down as R&D came down. Our costs were front-loaded.
- Less than \$2m R&D cost per product which is one of the lowest.
- Largest market potential is US. Have built AI ML molecule in underwriting space.

Dec 2020 Call with company

1. One of the things that we have noticed is Intellect's presence in terms of product suite offerings in multiple areas be it transaction banking, consumer banking, insurance, wealth etc. What is the Intellect's USP when we go and compete with the bigger players say a Temenos or OFSS say in core banking.

Response: Product design, quality, sales together make lot of difference. Last 1% extra effort in each of the things makes a significant difference. Wider product suite will help in cross-sell. Pointed out unique aspects in the sales strategy like investment in local sales team, hiring people from target banks in target geography. Don't sell products on lower pricing. Sell on quality.

Entire senior team is hungry for success. Attrition has been quite low.

Two large deals in 2018 and 2019 of \$10m were a game changer for us. Shows that we don't want to just do small deals. Idea is to go after large banks in a new target geography. This can be difficult which is why investments in the past have been high, sales cycle can also be high but if you usually crack a bigger bank, then it is easier for you to get more customers.

2. *With one of the leaders, OFSS, what we have seen in last few years is that top line growth has been muted but margins are really high. We look at the trend of digitization, AI, ML in financial services. That has been picking. So why is it that for one of the leader growth has slowed. Is it a function of some gap in product or just base from which it is difficult to grow. Also could you share the competition in each of the spaces where you have a product offering.*

Response: OFSS seems to be highly dependent on parent. For Larry Ellison, OFSS seems to be a cash cow. It seems to be more keen on milking the existing products which is why the margins are high and increasing. Regarding growth, leadership agility and hunger also plays a role. Even for Temenos, exclude acquisitions and the growth is muted. Some of it could be base but many companies want to milk AMC part.

Competitors

Many competitors in general. Some have a wide product suite, some don't. INDA has a wide product suite.

iGTB – Biggest competition is Finastra. OFSS is not a competition here.

Core banking – Big guys Temenos, Finastra, OFSS, big IT giants.

3. *What has worked in Europe. Can the same approach work in US? Why is US the toughest market to crack?*

Response: In London, we have office in Canary Wharf. All the EU banks are based there. Meetings are easy. Trust has been built easily. Last 1% focus and effort (in terms of investment, spend, quality of product design, sales effort) makes lot of difference.

EU banks have more acceptance to change right now. In Americas region, we find Canada is more prone to change, adoption of new technologies, vendors.

US is less prone to change. It is also ahead in terms of digitization journey. There is a bigger ego around US companies. You need to seriously challenge them on technologies in AI/ML/Cloud. We have worked on that and are doing that. Like we said, last 1% effort makes lot of difference. We have done that in Europe.

In US, INDA's likelihood of success is more in SEEC than in GCB.

Will you set up an office in US? It is a more spread out market, not like you have in Canary Wharf.

4. *Some color on US business. What it could be like 2 years from now.*

Response: INDA has 12 clients in US today. It is difficult to say about US market. For INDA, it could be somewhere \$30-50m to 100m annual run rate. Wide range is there. Depends if we get traction in AI/ML.

Cloud and Machine Learning would be two focus areas for US market.

GeM: Share is increasing. RBI, AMFI, LIC are all doing business with Intellect. Recognize that collection from govt can be an issue.

Intellect business can be broken into

- Digital banking platform
- AI/ML platform
- GeM - Ecommerce. Completely non linear platform. Think of it as PE play in a listed company.

Net DSO for industry standard is 90-120d. Intellect is currently at 127d.