

Intellect Design Arena Q4FY21

Financial Results & Highlights

Brief Introduction:

Intellect Design Arena is a global leader in Financial Technology for Banking, Insurance and other Financial Services. It is positioned at the forefront of the digital transformation that global banks are looking for in a connected world. Intellect's robust iDigital platform enables products across four distinct lines of businesses: Global Consumer Banking (iGCB), Risk, Treasury & Markets (iRTM), Global Transaction Banking (iGTB), Central Banking and Insurance (Intellect SEEC). Deep banking domain expertise, coupled with investments of Rs 800 Crores over the last ten years in developing the world's first full spectrum of banking products has made Intellect the company with one of the most advanced technologies for financial institutions with global businesses.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	283	205	38.05%	278	1.80%	1019	764	33.38%
PBT	59	30	96.67%	70	-15.71%	223	-20	1215.0%
PAT	56	19	194.74%	67	-16.42%	207	-31	767.74%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	400	361	10.80%	386	3.63%	1510	1373	9.98%
PBT	90	42	114%	86	4.65%	290	23	1161%
PAT	82	41	100%	80	2.50%	264	18	1366.67%

Detailed Results:

1. The company had an excellent quarter with consolidated revenues rising 10% YoY while profits were at Rs 82 Cr vs Rs 41 Cr last year in Q4.
2. In \$ terms, revenues grew 9% YoY in Q4.
3. SaaS revenues rose 68% YoY in Q4 and 47% YoY in FY21.
4. The gross margin was at 56.5% in Q4.
5. EBITDA margin was at 25% in Q4 vs 18% last year.
6. The Net Days of Sales Outstanding (DSO) is 114 days in Q4 FY21 as against 150 days in Q4 FY20.
7. Investment in Product Development (Capitalised) is Rs 28.4 Cr vs Rs 23.97 Cr last year.
8. The company has cash & cash equivalents of Rs 262 Cr as of 31st Mar 2021.
9. The company had 12 digital led deal wins in Q4 with 4 of them being large deal wins. In FY21 period, the company won 32 deals with 15 of them being large ones.
10. The current funnel of Intellect is around Rs 4177 Cr out of which Rs 3302 Cr is accounted for by 136 Opportunities.
11. The average destiny deal size in Q4 FY21 stands at Rs 40.8 Cr against Rs 38 Cr in Q4 FY20. Destiny deals contribute to 53% of the total Opportunity funnel in Q4 FY21.
12. Revenue breakup is 55% Advanced Markets, 29% Rest of the World & 16% India.

13. Intellect bagged a large transformational deal with SocieteGenerale, a leading financial institution in France.
14. One of the top banks headquartered in Singapore has chosen Intellect Digital Cards.
15. Intellect also went live in 13 projects in Q4.

Investor Conference Call Highlights:

1. The banking industry would run with 100 TPS or 200 TPS at the most according to the management. Thus, Intellect has an edge here by expanding this capacity to 5000 TPS which is the key to advanced markets in this space.
2. The management has likened Intellect's business to IKEA where it is selling package business components like core banking, lending and credit card, etc, and is delivering new business solutions depending on client requirements. The range here consists of 35 PBCs and 300 APIs.
3. The company has 25 customers in the Americas, 23 in Europe, 53 in APAC, 139 customers in India, Middle East, and Africa.
4. The main competition in consumer banking are Temenos, Finastra, TCS, Finacle, Mambu, Thought Machine nCinos. The competitors in transaction Banking are Finastra, ACI Worldwide, CGI, bottom line. In core banking, they are Carpe Data, Planck, and Palantir. In Risk and Treasury competition is mainly from Sungard, Finastra, and Calypso.
5. The company has added a few leadership profiles in the US.
6. The company has become the de facto market standard and won most of its wins in 2 products, digital transaction banking, and corporate liquidity management.
7. The company has also added Lloyds Bank as a customer in Q4.
8. It now has 40+ customers for liquidity across 56 countries.
9. The company has added salespeople in U.K., Spain, Austria, U.S., UAE, Singapore to drive the funnel in these regions.
10. All of the company's products are cloud-native and platform agnostic so they work on all cloud providers including Microsoft and AWS.
11. Lending is expected to develop into another growth lever for Intellect. The management has stated that it has no direct competitor for its offering in this space. The offering includes an integrated lending suite across retail, retail customers, SME customers, and corporate customers, and it also got across loan origination, loan management, collateral, limit management, and debt management.
12. The company also has 12 modules in quantum banking today.
13. All SEEC customers are cloud and subscription-based.
14. The company reported license revenue of INR 849 million and AMC revenue of INR 750 million in Q4.
15. The management has stated that Intellect now has an assured revenue run rate of revenue of near \$76 million per annum. This ARR now forms 38% of total revenues.
16. The management maintains its confidence in doubling Intellect's revenue from \$200 million to \$400 million in the next 5 years. It has stated that it has designed the business around 20% growth but needs a 14% CAGR for growth to reach \$400 million in the given time frame.
17. AMC revenues are directly dependent on the closure of the project and thus it has not maintained a stable growth rate as other segments according to the management. AMC is also growing at a slower rate than other businesses at 11-12% CAGR.

18. The main idea is to pursue cloud and recurring revenue like nCinos for Intellect according to the management.
19. The order backlog is around Rs 1200 Cr at present.
20. The company's TCO offering is expected to be 10-12% cheaper than a comparable price competitor software for the customer bank.
21. In the replication of cross streaming tech from Netflix, the company has taken some open-source from Netflix and is looking to offer the synchronization of the entire back end to front-end technologies for corporates with large databases like Reliance or Coca Cola or GE. It has also been able to streamline it for banking specifically in the last 4 years.
22. 80% of new deals are in cloud delivery.
23. The management is encouraged by the deal wins against industry majors that have provided entry into major economies like Canada, Germany, and France.
24. The company is looking to deliver on current deals with big players and use these deals as a springboard to secure the next leads from these marquee customers.
25. nCinos is mostly in USA and is built on Salesforce. But Intellect offers distinct advantages due to domain advantages in the case for BFSI industry which has helped it win deals against nCinos, according to the management.

Analyst's View:

Intellect Design Arena is a fast-rising disruptor in the world fintech space. The company's products are well received all over the world which is evidenced in the diverse set of geographies and financial institutions that they cater to. The company has had an excellent quarter with marquee deal wins with SocGen and Lloyd's Bank. FY21 was exceptionally good for Intellect with it scoring 32 deals in the year so far with 15 of them being big destiny deals. The company is now targeting to grow organically at a CAGR of near 14% and reach \$400 million sales in the next 5 years. It is also looking to use its marquee deal wins to source new leads and establish itself as a serious competitor in all BFSI technology spaces worldwide. It remains to be seen whether the company will be able to maintain its growth momentum as the management has proposed or whether there will be any other headwinds that will put pressure on the company. Nonetheless, given the acceptance of the company's products in all kinds of financial institutions worldwide and its high customer retention rate and accelerated implementation time for its projects, Intellect Design Arena remains a stock to watch out for in the financial software industry.

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