Q2 FY 23 – Investor Earnings Call

Transcript

Greetings and welcome everyone.

Thank you for joining us today to discuss Intellect Design Arena Limited Financial Results for the 2nd quarter of the Fiscal Year 2022-23 ending 30th September 2022.

The investor presentation in the press release has been sent to all of you, and is also available on our website. Our leadership team is present on the call to discuss the result. We have with us today:

Mr. Arun Jain, Chairman & Managing Director;
Mr. Prabal Basu Roy, Advisor to the Chairman and Director on the Corporate Board.
Mr. Manish Maakan, CEO, iGTB,
Mr. Rajesh Saxena, CEO, iGCB,
Mr. Banesh Prabhu, CEO, iSEEC
Ms. Padmini Sharathkumar CTO
Mr. Venkat Saranu, CFO;
Mr. Andrew England, Non- Executive Director

Besides, some other senior members of the Intellect Management Team are also present in the call.

Mr. Venkat TE will present you the deck and then the commentary will be made by Mr. Arun Jain.

One Safe Harbor: I would like to remind you that anything which we say refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with the risk that the company faces.

I hand over to Venkat
Thank you. Greetings,

I will very briefly walk you through the Investor deck. I guess the investor deck and PR is already with all of you. It is also available on our website and stock exchanges. That's right. As we have articulated in several of the earlier investor conferences and calls, we are a product - IP led product and platform organisation. Our results are best viewed on an annualised basis.

On that note, we will start with reviewing the performance for the last 12 months which ended on 30th September. During this period, our revenues grew 27% moving from Rs 1640 crores last year to Rs 2087 crores this year. So, on an annualised basis, as a run rate we crossed the Rs 2,000 crore mark when we close this quarter. The Gross margins moved up by 25% against this revenue growth of 27%, moving from Rs. 931 Crores to Rs. 1166 Crores.

The EBITDA margin moved up by 9%, from Rs. 417 to Rs. 455 crores; while the profit after tax has remained almost flat to Rs. 311 from Rs 314 crore. The gross margins, as a percentage of revenue, as the slide shows, are fairly constant and the EBITDA percentage is 22% against 25% last year. Collections during the quarter have been healthy, so the last twelve months' collection is around Rs. 1905 crore.

Going into the granularity of the revenue – During the Technology Day 1 and 2 sessions which were hosted in 2021, we spoke about our progression from a products organisation to a platform organisation and perhaps eventually to a marketplace. So, the most gratifying metric that we would like to share is the stupendous growth in platform revenue.

Platform revenues grew by 62%. from Rs. 276 crores to Rs. 448 Crs. . During this period, license revenues have remained flat. The AMC revenues, which are driven by progressive go lives and installations coming on board, have grown by 11%. License linked revenue is the other key metric that an IP led organisation like Intellect would like to benchmark itself - that is again growing healthily north of 20% - t by 22% from Rs. 929 Crores to Rs. 1,132 Crores. The other one is the annual recurring revenue metric that we've been presenting in most of the recent investor meets, which is an assurance of future revenue streams- that's again grown well by 35% moving from Rs. 587 crore to Rs. 794 crore. Now in the full year- the last 12 months we had 41 wins, of which 14 wins were specifically in the last quarter. Looking at specifically the last quarter, our revenues were at Rs. 528 crore which is a 17% year on year growth compared to the second quarter of last year. Gross margins against the 17% growth of revenue moved up by 5%, moving from Rs. 262 to Rs. 276 crore.

EBITDA had a drop of 29% moving to Rs 84 crore from Rs 118 crore. PAT - we closed at Rs. 46 crores against 79 crore last year. The gross margin percentage of revenues is at 52% against 58% last year and EBITDA is at 16% against 26%. As I mentioned, the collections remain healthy. They were at Rs 472 crore in this quarter. The resultant day sales outstanding has been at 128 days of which the DSO 's for India based customers is at 164 by for the rest of the world 115.

Again, looking at the granular view of their revenues, the platform revenue growth continues to be robust. It grew by 33% from Rs 90 to Rs 119 crore. License revenues are at Rs 68 crore from Rs 86 crore in the corresponding period last year. AMC as I mentioned for the last 12 months has grown at 10% based on the go lives. We had 14 go lives this Quarter. The digital transformations which went successfully live in the quarter, so the AMC stream went up from Rs. 81 to Rs. 90 crore. License linked revenues grew by 7% while the annual recurring revenues grew by 22% .

As I mentioned a while back, we had 14 wins this quarter of which 9 are platform Wins, which means more than half of the deal wins of this quarter are coming from the 6 platforms that we launched hitherto. As I mentioned, they've also been 14 new digital transformations. Our MACH compliant architecture, our accelerators, technologies such as iTurmeric and Canvas have delivered at least 25 to 40% faster go live cycles. The revenue mix in terms of the currencies, as you all know, the rupee has significantly weakened. We have a significant Indian rupee revenue, which was affected by the conversion of that into dollars. Similarly, the weakening of the European based currencies such as Euro and the Pound, where we hold significant revenue streams also has impacted our dollar denominated revenues this quarter.

Looking straight into the future the pipeline growth has been continuously strong. There is a 36% increase in pipeline compared to the corresponding quarter last year moving from Rs4800 crore to Rs 6500 crore. In the recent quarters the overall pipeline itself is growing. We continue to benchmark ourselves in the key deals as it is above Rs 20 crore of value, which we track as the entire leadership team focuses on them. So, that grows both in terms of the number of deals as well as the customers, the marquee logos, the market involved with and as well as the average deal size. So, as you can see, compared to a year ago, the number of deals have grown from 54 to 66, with more deals growing in the higher tier of deal size, which is over Rs 50 crore.

Obviously, we're not articulated in this slide, but in the later commentaries we would hear that some of these deals are pursued with Marquee logos and we are at an advanced stage of evaluation or negotiation in several of these deals. As I mentioned, there are 14 wins, this particular quarter of which 9 were with Intellect platforms.

As we have mentioned in the 2 technology sessions about our architecture, the 4 core technologies of Intellect, the accelerators and the rich repertoire that we have 300 plus of package business components or user journeys, the open architecture with 900 Plus API which allows us to practically work with any ecosystem, integrate with any other technology partner of our customers the banks would be using and the speed with which we are able to complete this integration, which is traditionally a big pain point in all implementations.

These proven capabilities and the referenceabilities that they supply help us accelerate the deals. Like I mentioned, of the 9 of our platforms wins, 1 is Foresight, which is a major insurance client in the US, has chosen Platform of underwriting which combines Magic Submission , Risk analyst and Exponent. You would have heard the entire data story - . A senior colleague Deepak presented the entire data cycle in the Technology Sessions. So, right from that stage of data uptake to data enrichment to triangulation to presenting decision grade information to the underwriter for faster and sharper quotes so the entire cycle they address When you say underwriting, with an unparalleled accuracy, it is provided by this platform.

Saudi we mentioned as a focus upcoming promising geography in one of our earlier calls that is bolstered by one more win for the Cash cloud. It was also a recently announced platform where we also had signed a partnership with Microsoft Azure and that was our second deal in Saudi Arabia. We have a win in Egypt for our lifestyle banking where we had an award-winning lighthouse, kind of an implementation in the Middle East. So that is drawing more traction as we move along. iESG, as all this is obviously being the trendiest caption with a lot of investment bankers. A lot of financial institutions, investors, private investors, and PE houses focus on the quality of the ESG assessment of their target investment.

One of the world's largest sovereign wealth funds has chosen our iESG platform, which is again driven by data and AML technologies to implement this ESG assessment for all their investment evaluations. We also have one more insurance company win now. Our Magic Submission, which uses our Doc2API technology in conversion of structured and unstructured data that can be readily used by the person in the insurance organisation. Like I mentioned briefly about Saudi earlier, we have one more in Saudi for a micro service organisation for debt management. Platforms apart, our products in the transaction banking and the consumer banking business continued to fire, so the core product lead deal wins. We had 5 such Wins, one in among the top 3 UK banks where we already have a relationship that signed up for payments.

Similarly, payments had its second biggest win with another Canadian bank where we have, have a very strong relationship. That relationship has been further deepened by a win. UAE has always been one of the most successful markets, and we had one of the top 3 banks where we won a mobility upgrade. The consumer banking business also won a digital core deal in in Africa.

Last year you would recollect that we had mentioned about 3 large central banking deal wins in and around Africa - that winning streak is continuing with a digital core win during this period. And in India we did mention the 2 significant Wealth platform deal wins last year and in the earlier quarters. That reference ability has helped us with one more win in this current quarter. These are some of the deals. And I mentioned about the go-lives. So totally, we've had about 14 digital transformations going live during this quarter and in the next couple of slides we have given details of each of them. And so that sort of summarizes, very briefly, in terms of the numbers, performance during this quarter.

More importantly, as we always measure ourselves as an IP Led organisation, how we have performed over the last trailing twelve months, what is in store ahead? What has been the quality more importantly than the numbers that they've given to the top line? What has been the quality of some of the wins? Why are they promising, you know, and what message they convey towards and what confidence they give us, and what has been our success story?

Over to you Arun

Arun Jain, Chairman and Managing Director

Thank you, Venkat, for taking the whole presentation deck at a very fast pace. I am sure the smart investor would have picked up all the numbers which were thrown in the last 15 minutes. Looking at the quarterly numbers, and you look at it, I feel that a lot of investors on the street would be disappointed. I acknowledge that disappointment based on the numbers which are there. From the perspective of the quarterly results, we consistently communicated that as a heavily focused license revenue company which is adding a portfolio of platforms. It may result in a few quarters where we will not be sure of the final number and that was a kind of a perspective we always added to the communication with each investor conversation.

We can only design our business on an annualised basis. But Venkat put it at 27% LTM growth, that's the right metrics. Now this can get coloured from the perspective of saying this quarter is a trend which is coming from a few quarters like this, or this can be construed as a trend - whether we can trust the company for the future revenue, as some analysts report on the street. That could be coloring the investor perspective. So let me just take you to the L1 - next level detail of the results. So, the next level detail says that we have shortfall by $6,000,000 in revenue numbers, so that's the underlying equation of revenue and cost. If you have $6,000,000 added revenue, you would have been around 570 crore and our EBITDA t would have been 125 crore plus would have been the number from the $6,000,000. This $6,000,000 consists of 2 elements.

One element is when we move from a product to platform there's a like to like license revenue. So, like to like license revenue, we won 3 platform deals as announced by Venkat and these 3 platform deals resulted into like to like license revenue of $2.9. is a number which is coming to like.

So, we measure internally 2 year ARR of the platform, as like to like license deal to compare license deal versus platform deals and this 2 year ARR is what amounts to $2.9m and that's how we calculate our internal business plans and revenue streams based on that 2 year ARR as a part of MIS. Unfortunately, on accounting principle there is a zero accounting or less than $100,000 accounting in the last quarter of out of $2.9m in this for winning this deal while the winning that deal contracting everything has been done which is a celebration moment. Banesh and his team have done a wonderful job in getting this $2.9m of a deal this quarter. Second thing in $ 6m is $3.1m - 2 deals which are closed but not contracted. And this $3.1m is already in the bag but not contracted so it cannot be accounted for in the quarterly results. So that's a story from numbers perspective. Now if I look at it from a qualitative perspective, the team which is working in intellect.

We ourselves got surprised more than, what market is expecting, or market is trusting intellect as. What surprises are coming? So, we are calling this as a ‘White window moment ‘internally for this quarter or in the last 6 months of our journey, which happened. It's a ‘White window’ moment for us which is making us move from 2.0 to 3.0 .. What we spoke about in Technology Day 2 is all coming through within 9 months of our Technology Day 2. It very rarely happens when companies are able to present something in December 9, 2021 and what the market is looking for is what we presented that time. So let me take you through each story of the ‘White window’ moment we have.

First area is we planned 3 units one by one - we said GTB unit will go to the market first and take a product leadership where liquidity and DTB becomes a market leader and take. market shares.

Then we said in the next 2 years we look at GCB will take the major. I mean major is winning is pride last year you have seen the result. Whatever the investment we made in Core banking, lending and winning that deal in central banking in quantum all is driving towards the second wave.

3rd wave was intellect seec which we renamed it to intellect AI. The intellect AI was the unit where we looked at it as a Phase 3 of driving the revenue growth. And this year in the last 6 months, the platform deals have been won with substantial growth being visible in intellect AI. We have merged wealth management unit also as a part of intellect AI unit. So that's a joint unit is under leadership of Banesh delivering the results.
So first wave was Manish, second wave with Rajesh. 3rd wave Banesh.

Now when we look at it that our calibrated, strategy is panning out in the same way as we projected in 2017. Again, that is a validation of our strategy that the company is performing as per the strategy, not by chance or not by market tailwinds or market headwinds. During this period, we had a Brexit. We had a Trump Elections. We had everything. happening during the period.

But nothing has affected the overall strategy and consistency- Consistency of this strategy. Now looking atwhat we are seeing in the marketplace today. When we are winning the large deal from the largest Bank from Europe.

On AI for iESG. What it means for a company like us? As a technology company, there are highly invested companies where each company has invested more than $150 to $250minvested in AI and data space. And against them, we are winning a deal on a complex topic like ESG, which is just an emerging topic. And winning the deal against all American, against all European competition - that signifies a white window moment for us. It has not resulted into single revenue for this quarter.

It’s zero revenue for this quarter. But it's a lead indicator. Which is like we crack the fabric data services AI algorithm of multi question search. The moment of truth in the life was when Google was there, so we looked at it. When Google was doing a good search engine, they didn't have revenues, but they had an algorithm which was a great algorithm. The white window moment. is not about ESG or magic invoice or magic submission. These are 3 products we launch but they are being built on the same technology platform investments we made in last 5 years of our journey.

For each platform, the incremental investment is less than $3m. per platform in last 6 months, this platform could be able to be composed as soon as we see the possibility of ESG - within 6 months, we could pitch in for the largest fund house of Europe and win the deal against all the competition. The second white window movement is. When we are getting a large core banking space now, Core banking space we all know is the largest market space you must have read.

The market space size of $16b of a core banking space. This is published by Temenos in their results as to how big is the market size. Till last 2 years, we were ‘contenders’ in that space.

Now we are getting to leadership quadrant of that space. Now we are rubbing shoulders. with Thought Machine. Temenos and Intellect are the 3 players which are rubbing shoulders. On architecture, On API s, on micro services, on cloud. And on depth of the product functionality, we are competing with the largest player. Now this space of $16b billion dollar where the deal value multiplies- the size of deal value in our pipeline are running into double digit license numbers. And we are taking part in those deals which we never took part in our 10-year journey, Those are our dream deals or Dream Deal for any company.

When you're rubbing shoulders with these players, so we are in the backyard of the competition where in Thought machine, which is led by ex Google Player in 2014 - you must do research on Thought machine. The $550m funding has happened on that particular company for building the core banking product and still we are. head-to-head with them in 4 deals in Europe - with Thought Machine and similarly on Temenos.

Beating Infosys, Flex, Oracle, TCS PCs or Fiserv. They're turned around 10 player market, so that's the second white window movement for Rajesh, Rajesh and his team are extremely, extremely busy in bringing POCs and povs and a lot of presale investments are going. Almost more than 8 deals in Europe we are taking part over the period of time and that's giving us a confidence of saying we can, on on annualized basis. still do 20% growth numbers in rupee terms. The 3rd moment is. Creating a new opportunity window where we are saying consumerization of transaction, corporate banking. We created this space called GTB in 2014 when we started the business. We created a space called Global transaction banking space and in that space.

We could displace multiple players from 2014 onwards. There was a player called Mysis at that time. There was a player called FundTech at that point of time. This new space which we are creating is called consumerization of corporate banking, just to understand the perspective there. At least 15 startups in this space, which is called Embedded finance.- Largest of money coming in corporate banking spaces is in the space of embedded finance, where corporate banking is embedded with the final. accounts where payment Recon can happen. Like say if Coca Cola is a corporate account of GTB then all the vendors, suppliers of Coca Cola will also be part of the virtual network of the bank. And how do they take part that is, consumerization. When Uber is an account and drivers of Uber are a part of the virtual accounts that is embedded finance and that is about consumerization because the drivers of Uber is their consumers while Uber is a corporate and that's the consumerization of corporate banking. This is a new space which we launched in SIBOS last 2 years. We were working in this space.

We signed up 3 customers in this space before we are announcing consumerization of corporate banking, which is a 3rd white window moment which we are experiencing . More than 25 leads got generated in SIBOS within a small event of 3 days. And we are changing the narrative. and this is behind one of the largest European deals from a UK bank. Where payment space - which is crowded by a lot of European players, again, the payments, corporate banking, payment space is the one of the largest invested fund in all the start-ups and fintech's - we are able to win the deal for the largest- one of the largest- UK bank on building the payment system for them. So, all these 3-lead indicators - one on.

Consumerization of corporate banking, second is intellect digital core which is built on completely micro services. API, cloud native, headless architecture where more than 300 APIs are working on it with more than 200 micro services which we are combining for banking, lending and credit cards, and third is entire data space - these are like three different large, funded entities within a single ecosystem called Intellect equivalent to almost three companies. Each one has a potential to lead their own journey and fight the battles with the kind of culture we created at Intellect Design Arena, where all of these companies can go together in this space.

All the new deals sign up during this period are the indication - 14 deals. So we are accelerating number of deals in coming quarters, we are well-positioned to ensure that the license numbers can give us a good consistency going forward. And this is nothing new for us that one quarter will go bad. I will not say we are sure of it. But any part of journey we were expecting such moment where in one quarter $6 million can go where one $2.9 million goes from a perspective of moving to platform and $3.1 million goes - where the deal is closed, boxed in, customer is convinced about it and everything is there - but won't be able to contract before 30th September because date for audit is 30th September to get the contracting. So that's a story which I'm saying why we feel so excited as a management team over here. Now we are in window of opportunities, which has opened up with this white window moment that is phenomenally large.

The amount of time we're spending nowadays, more than 10 to 12 hours a day of our r&d teams or our sales teams, Pre sales team building POCs - is a humongous amount of excitement behind the scenes. So if you look at behind the scene, if you get an opportunity to see the BTS of Intellect, you will feel the pulse of what is happening at Intellect and thank you for participating and attending in numbers for this call. So for us, it's a journey which we are very excited about in spite of a slowdown or high inflation rates in the industry, how big is this year slowing down? some impact is there. So we have acknowledged that the slowdown impact because of high inflation in Europe and low growth indexes over there is creating our cost structures - because of talent - is going up more than what we anticipated or planned for and tax structure which is resulting into our lower PAT margins since tax is moving from 16% to 26%.

So there are three factors we acknowledge, which are the market realities, but in spite of those three realities, we have three windows of opportunities, which are led by our white window moment. Thank you.

Speaker 1

I think we can start the q&a. please. Now we are starting q&a In case you want to ask a question, please click on the ‘raise hand’. I request you to click on ‘please raise hand’. First we have Mr. Mukul Verma. Please ask your question.

Mukul Verma

So this presentation when we give that pipeline, so we give a pipeline comparing it to year on year and can we put quarter on quarter as well as one more column so it gives us a clearer perspective where we are moving quarter on quarter as well. Although we are looking at the company from a yearly perspective only to draw points, right? Quarter on quarter now how we are moving,

Intellect Speaker
We can give it. if we can do that we can know, a quarter on quarter how many added just to give that perspective. And so when you say that $6 million is something which could have come into the quarter true, but could not come due to non contracting and the platform thing.
Mukul

So, we assume that this is a one off quarter where profits have come on a lower end and yearly matrix we will grow at 20%. As we have been looking at what I wanted to know.

Speaker
That's right. Exactly Mukul. This is a one off quarter.

Mukul
Okay. Great. So I wish you all the best. Thank you. Thank you.

Intellect
Thank you, Mukul. Next, we have Krishna Thakker

Krishna Thakker
sir, I have two questions. One, of course, is that 6 million follow up. So as I understand 3 million, you guys will possibly report in third quarter, because it has already been signed. So we'll get that extra revenue. But the balance 3 million is converted or is spread over two years or three years. And then you will book only a few thousands a month or quarter? That's all it is. If that were to continue, do you think given our high license contribution, and I'm expecting as you migrate more towards platform, there will be more shifts coming ahead. So structurally, your revenue growth for one or two years could be a little slower in this transition phase?

Intellect
Yeah, that's true. I think that's exactly which will happen that whenever. But what we need to look at it, we need to publish a number for this kind of a deal. So that's what we need to publish separate number that how many platform deals are getting signed. And what other kind are we signing so but actual number, book number will be lower. So that's what we are now thinking about it. As of now, we have not made a decision, how do we communicate this platform deals to the investor so that they make the right decision.

Krishna

Okay, and possibly 20% may not be the right number to look at from a growth perspective. While you may do it this year, but from a longer time horizon, maybe two or three years, we should be more conservative than that.

Intellect
Yeah, in dollar terms. Yeah, definitely.

Krishna
And the second thing, sir, in terms of cost structures now, I was hoping when we plug in your numbers most of the costs are probably inline it is only that revenue base, which is flowing through to EBITDA is too bad, is that - cost is heavy built in all the costs? Or do you think this Q3, Q4 because generally you plan ahead for the next year? So are there any incremental costs, which we should build for the rest of the year? Or do you think cost will remain steady, and therefore that additional 3 million will not come with additional costs in the third quarter.

Intellect
Most costs are always built in on actual basis costs we can take through and forward , like cost is all built into this, but the incremental cost of the salary increment, as you know, we do a quarterly salary increment, not annual salary increments. So those cost of talent still will be there. But those numbers will not be significantly

Krishna
What I mean to ask is generally like I've been following the company for few years. So typically, you build in the second half for potentially fy 24. Sometimes you hire more sometimes we step up cost is that something we should expect in Q3/Q4? Or do you think cost structure is currently perfectly sized?

Intellect
Yeah, what I'm trying to say is the cost structures from this perspective as of now 443 crore is a total cost structure created our cost is 443 crore, it may go up by some 2 million 3 million per quarter based on the new talent requirement and new platform in GTM - those costs will be there or POC cost. So these are the few cost numbers will go up but they're not that significant number as what we had experienced q1 numbers, we had travel costs and other costs, all of them went together. So now travel costs are now stabilized, infrastructure cost is stabilized. So it's only that these costs will be the hit on us, q3 we have marketing costs also like Sibos and other things will be there few marketing costs up to three crore will be there. But those are natural costs, which is there in a business so no extraordinary cost.

Krishna
Okay and last was therefore, I will conservatively if my revenue growth is going to be 20%. Earlier we used to have this outlook on margins of 23-24%, wherever we end up, so should we assume that it is only a quarterly slippage, and therefore 16-17% is not the recurring budget. next quarter, we should be back to a proper full perspective so when we project, we should look at 23-24% margin.

Intellect
It's difficult give me an exact number, but it will 20% Plus for the full year

Krishna

I think your last 12 months average including the bad quarter is 22%. Don't commit to something here. 16-17% should be the new base is what you're saying rather than going back to 24

Intellect
Yeah. So it can happen here. What we can't commit right now. 2020' s number 20% rupee growth and 20% margin

Krishna
Okay. Thank you, and all the best.

Intellect
Thanks Mohit. Next, we have Sugandhi Sud. So can you please ask your question?

Sugandhi
Yes. Hello, thank you for taking my question. I just had, you know, a similar question on the growth, you know, on the growth trajectory and look at just the license, AMC SaaS revenue mix, you know that there is a significant deceleration. Now, I do understand, you know, the extra color that you're given. But is there something structural that you're seeing in the market? Maybe is on account of the, you know, pressures you're seeing in your end customers, or maybe just the natural, you know, trajectory that the business was to fall? Because, you know, there was this sudden surge in implementation revenue. And you know, that's bound to decelerate. So could you give us some clarity?

Intellect
I think there are two things which I mentioned, one is license revenue of 8.5. If you look at it, so some acceleration will be less as far as typically $1311/12/13 million, isn't licensed revenue is science. So you ask a structural question which is obviously because of the high inflation, the market environment, there's some structural delays happening on closing the deal in the last minute. , Closure cycle times are getting elongated. So that's a structural issue we are facing. And that's a issue, we are now not a different island than any other player in the marketplace. So we are passively sitting in the same island of technology companies where some slowdown is happening on the technology investments as we move forward. Second unit license AMC and implementation those numbers on a quarter on quarter basis doesn't mean much of it, look at it from the LTM basis, that will give us a good indication because the AMC is growing 11% which we expected around 11%. So that is a license number growth will be 10%/11%, that's a number we expect. Our core value as a company which we have changed our trajectory from Intellect 2.0 to 3.0 is around platform, platform is what is making a difference. And the three white window moments, which I mentioned, are those three units in any business performing at the same time, is very rarely, as seen in my life that three out of three units are performing. So that's what I can respond to your question.

Sugandhi

And in terms of implementation with iTurmeric, I understand that your implementation cycles have shrunk? And does that have a role to play? Because we've seen a very strong growth in implementation over the last 12 months or let's say, you know, five quarters? And is that something that one should factor in and you know, that implementation again, would have a linkage with the pace of new wins. So is that a correct interpretation? I mean, you know, organic growth of revenues versus the accrual of revenues over a shorter period because of the faster implementation.

Intellect
Yeah, and then I think very good point you picked up. First of all, I must congratulate you that you are tracking the company so well, that you are even looking at that implementation lifecycle. So that becomes my competitive edge because my implementation cost for winning, the deal will be lower because of turmeric I'm using for reducing the cycle time. And this may result into the lowering of the implementation revenue. What we're trying to do now is that we want to participate in more cross selling propositions. So we identified 20 accounts, where we are looking at to help them be the accounts for digital transformation using our composable and contextual technology. And those revenue as of now, get booked under implementation revenue, we will be looking at it whether we create a line item called digital transformation line item, but yes, implementation revenue will come down because the cycle time is coming down. So if if I have a deal of million dollar, which I'm bidding $600,000, for license, customer has a finite budget of million dollar. Now I'm able to do 65 to 70% on license and 30% to implementation. Well, earlier, it used to be 50-50, or it used to be a 45 for licensing and 55 for the implementation. So very well picked up by you.

Sugandhi
Sure, thank you for that color. And in terms of your deal, you know, if I look at the data that you give around Destiny deals, I can see that, you know, across all ticket sizes, your funnel has seen very healthy attrition. But if I look at the pace of wins, that has been, you know, more or less within the within the four to five, sort of, you know, one quarter excluding four to five range and while the number pipeline continues to grow. So, you know, what is going behind, are you taking more time to close it because of the size of deals or the nature of deals. So, could you just, you know, join the dots between the increasing number of deals in the funnel and the actual win rate? Considering that, you know, the commentary around, you're competing with a top tier is very encouraging.

Intellect
Yeah, I think what happened now is that the decision cycle has got two angles to it. One is their environment issue which is delaying some other decisions. But the second angle is, with cloud technology available, the way the client evaluates a vendor is changed substantially. Earlier, most of the deal we used to win based on the lot of presentations, a lot of dance and drama on the boardrooms, on the capability of the product. What is working in our favor is now cloud technology available, customer is asking for proof of concept where they're taking a real time scenario and they want to run on a system. So they have a longer cycle time. So when we first qualify under dance and drama session, so first of all is the proposal session, then there is a dance and drama session on the boardrooms on the technology and the domain and now there is an actual real play which happens and

takes another three to six months. And that is where these deals are getting delayed. Rajesh can speak about it, how much work he has to do for a single large deal. Rajesh, you want to share something?

Rajesh

So I think from a deal perspective, if I can put a little bit of the GCB context to it, I think Arun very rightly said that a couple of quarters and a couple of years back the market, the deals that we were competing for were relatively smaller, and we were fighting with smaller players. Now, as you rightly pointed out, we moved into the big boy category, where now we are looking at some very very large destiny deals and in these large destiny deals, which cuts across you know, maybe multiple countries, multiple product lines etc. The process of winning this deal, the timeline that is required is much longer and that is what is being reflected as you have seen in the data. A number of opportunities are rising because we are now competing with let's say from a core banking perspective Temenos or a Thought Machine. So the deal values are very high that we are chasing, but it is also taking us longer as compared to four or five quarters back when we were still competing with Finastra and Finacle, etc. That game has changed little bit for us, especially in markets like Europe.

Sugandhi

If I may just one, add one more question on the cost structure side. So you did mention it, you know, call out the ESOP Number in your notes. But, you know, within the software development cost is there. Is that kind of a new base and we continue to grow? You know, are there any other one offs? Are you including any, you know, the employee cost for r&d, how do you allocate that between the r&d costs and, and the software line item

Intellect

Looking at the last few years, our r&d budgets are $20 million which consists of 120 crore when it's 60 rupees, now 75 rupees translates into 150 crore. So we are on a similar budget, so we capitalize this quarter. I think we can play around 35 crore which is the same number as close to $5 million, less than $5 million - $4.54 million - we capitalize on the r&d costs. So the cost which is for technology upgrades we put into part of the research and engineering group, and which is we take the actuals as in when it occurs. So this charges around Rs 40 plus crore for this quarter. So that's a total r&d spend, one of the lowest in the industry from that perspective.

Intellect

Thanks, Sugandhi. Next, we have Mr. Vivek. Please ask your question.

Vivek

So thank you for the opportunity. Sir. On the cost structure, you mentioned that we should expect another $2-3 million for the next two quarters. Will that be the new norm? Or should we expect, say after q4 for it to slow down a bit? And in terms of the headcount, are we now at a 90 million run rate? I mean, now that we are moving some revenue from product to platform, I'm guessing that will take more time. But in terms of the headcount, do you think we are at the 90 million capacity?

Intellect
So headcount is almost there, we are still needing more headcount on sales and marketing side, because of the platform, we need to build up a capacity in the sales and marketing side. So that is not in headcount dump, but it will be in the qualitative, hard cost inputs will be there from the perspective of looking at it, $2-3 million cost increase with a kind of talent, let's see how the market stabilized then we can comment on it. But as of now, for next two quarters, this number is visible to us, because of whatever the reasons they get in first quarter and second quarter, third quarter, fourth quarter has to be in line with our raises of Q1 and Q2

Vivek
So in terms of we were expecting previously to hit $100 million in the next 8/10/12 quarters, do you want to now stretch that? And do we still hold on to the 30% margin target at $100 million? Or we need to scale that back by a few points?

Intellect
Let me not comment on it as of now, because the market is too volatile right now. And this, these fluctuations are too much right now. So this quarter will not be right time, maybe another three to six months, we can come back on that number of two to three years, but reaching 100 million dollar in 8-12 quarters, I think that is we are quite concentrated about. On the margin side means you just need to look at it the market volatility.

Vivek
sir, and you've mentioned that you're still confident about hitting a 20% growth for this year. Is that dependent on you on assigning a few big deals which are in the pipeline, as Rajesh had mentioned? Because if those don't come through, the numbers might drop down significantly? Or are we reasonably confident that those will come through?

Intellect
We're not taking those into account in this 20% on the rupee.

Vivek
Okay, so we are focusing not taking those big deals when we talk about it when. So previously, we were talking about a 20% dollar road run rate. I mean, yes, there is some change in the market because

Intellect
There's some change in the market, I think we need to recognize that some slowdown is happening. So, this slowdown has resulted in Q2 number. So we say we always mentioned to you is that we have designed our business for 20%. Last year we did 26% in dollar terms. But I constantly kept on saying - a lot of time investors are saying why shouldn't you grow more than that? We say 20% plus minus 5% can happen because of market scenario. And that is what exactly will happen in this year. So yeah, so if we win more deals, it can be much more closer to 20, it may be lower and closer to 15.

Vivek

On the one hand, we keep talking about the fact there's a slowdown in the market. And then we are pressing ahead with so much of investment. Don't you think we might run into a wall where we've bloated up the cost structure, but the revenues aren't running? Or are you reasonably confident that with the headcount entries, there's enough business to be had? Because I mean, I can't square the two together, we're talking about increasing the pace of investment.

Intellect

I'll give you the indication. There's a company called Modern treasury. Yes. I mean, they signed a deal with Goldman Sachs.

Okay, so there's a company called Modern Treasury Manish can share the color on it. And there's a company called thought machine. So if you just study these two companies, what are they seeing - the new investors which are coming at the valuation of Thought Machine at $2.7 billion for a $50-60 million revenue company? What are they seeing the market size in core banking space, what kind of inefficiencies are sitting on core banking side in Europe and America, which is leading to that? Similarly, what are the opportunities in Modern Treasury in same space as consumerization. Manish, would you like to put a color on it?

Manish
They're also about 25-27 million revenue, and between 2-2.5 billion market cap, this is primarily because the TAM being very high and this is based on volume of transactions, the whole platform banking as a service, which we have launched, this is based on a transaction value, volume, multiple similar parameters, you're also competing in North America, the same market number of these individual fintechs are running, I think the difference between them and us would be they're borrowing someone else's money and burning it out, we are organically funding and competing and winning against them. Our base assets were strong that - tuning it for the right market segment, we could do it at a much lower cost like Arun said, where we might look at is on sales marketing some of the costs but from a product readiness, the composable nature of our products is straight away we are able to get in a segment where there are more happening and the TAM on if you look at study the TAM on embedded finance in general, both on consumer and corporate the numbers are in trillion dollars, this is a new segment which is happening and this is where growth is happening very significantly.

Vivek
Okay. So, thank you.

Intellect
Thank you, Vivek. Next, we have Mr Harshil Sethia for AUM advisors.

Harshil
So, I want ask, our operating cash flow for the first six months is at 45 crore. So it was 94 crores for the same time last year. So, what has happened in the first six months is that our

operating cash flows have reduced, I see that our DSO days have increased by 13 days in the first six months.

Intellect
I think this operating cash flow coming down is basically on a bonus payout. So, the bonus payout is higher this year. So, dividend is not a part of operating cash flow. So, operating cash flow is a bonus payout for the last year we grew very well close to 27% last year. So the bonus payout was higher than the previous year on that basis. Collection was 460 crore last quarter and 460 crore this quarter is in the same line of business and salary costs are higher in this year compared to the salary costs in the last year. So, yes, there is a marginal drop, but these are the two places salary cost increase and travel cost increase compared to last year. Travel was not there last year at the same time.

Harshil,
And so, my question for the DSO days that it has increased which was x India 95 days, two quarters back has gone 215 days currently.

Intellect
This fluctuates from quarter to quarter. I think it will come back once we get an advanced payment we get some large deal payments and closures of projects. So 10 days here and there is fluctuating in a product business compared to the services business.

Harshil
Okay, so what would be our standard sustainable range of the essence

Intellect
if you try to look at it between 115 to 125, which fluctuates on an overall basis, so it goes to 120 Plus it comes down to one plus 16 If you look at it last 16 quarters, you'll have this in the same range.

Intellect
Next, we have Mr. Ravi Mehta from Deep Financial.

Arun: Pravin, I want to clarify that some of the investor report which is floating around unbilled revenue that revenue is fake revenue. I think some analyst has looked at it as if unbilled revenue is fake revenue and that is projected in an investor report. We got very hurt by that kind of non-knowledgeable people doing the analysis and sitting in the analyst community and saying that unbilled revenues are not appropriate.

Unbilled revenue is the nature of the business so if somebody has to write a report he should talk to us that what is the nature of the business. The nature of a business means when we sign a contract we have some commitments of business outcomes-based deals we sign, based on that when we complete the outcome we billed the customer. But whatever efforts you've put in during building the solutions for the customer when the customer is not achieving the milestone, it lies into unbilled revenue.

Unbilled revenue is not a new phenomenon. It always happens in many civil contracts, when a building has to be constructed, huge amounts of unbilled revenue sitting in the books of the work-in-progress business. So that is one point since you have mentioned about the DSO days, so I just wanted to cover the point because I received some calls after the reports got published. That somebody is looking unbilled. Why won't you give a clarification? I said I don't need clarification for anybody when we are doing the right business in this area.

Ok, Next question

Intelelect
Thanks, Arun. Next, we have Mr. Ravi Mehta.

Ravi
Yeah Hi!

Intellect
Yes Ravi, Please go ahead.

Ravi
Just two questions, one was on the Pre-sale investment, because looking at the larger deals and also the POC involved in platforms deals; What kind of pre-sale investment, if you can share some numbers, what we used to do because I think the margins that we see capture the pre-sale which wasn't that high earlier, so maybe some color around pre-sales investments.

Arun
So, if you look at S&M investment, which is close to now 150 crores for this quarter so it's around 600 crores, So presale is embedded into this particular cost of S&M and which has grown by 7 crores from last quarter to this quarter. So that is the kind of pre-sale investment which is booked. So they are not capitalized or anything, they are just expensed out.

Ravi
Also one more question, In this quarter we signed 9 platform deals out of the total 14. But the platform revenues, the subscription revenues are flat. So just wanted to understand the cycle as to when you book a deal, by when we see the revenue flowing into the subscription lined item.

Arun
Typically it takes between 3-6 months to get flowing because when somebody starts consuming the platform the payment starts from the day he is consuming the platform, so the initial product business which we used to call implementation, so you used to have two revenue streams earlier. We used to have licences booked on the day of booking, and if you have to make somebody live in 6 months' time, then 6 months was the implementation cycle time. So in the platform deal, we reduce the cycle time of going live. Some situations

are two months, some situations 3 months, and some situations 4 months, depending upon the various platforms when they become live, the platform revenue gets booked.

Ravi
And there won't be any implementation component when the platform deal is going live maybe in two or three months?

Arun
In few cases it's there, few cases not there. So normally if its a standard platform, no changes are there and just onboarding other customer, so then there is no implementation charge, but they could be set up charge for certain large customers we may have a setup charge for them; when we are onboarding a customer and he has some specific requirement for using the platforms, like if the largest financial services company in Switzerland start using our platform then we obviously we need to integrate their platform with their security structures and their cyber security issues and we need to spend a lot of time with it so that time customer pays a setup fees.

Ravi
So that helps. So just one small follow-up to the clarification you just gave prior to my question regarding those unbilled revenues and DSO days. Just wanted to check that the unbilled portion was increasing pretty sharply in the last few years, so is that the function of the cloud business, the platform business, is it a function of that?

Arun
Yes, I think there are two ends of functions. One function of this unbilled is related to the contextual payment in it, where we sign a 5-year deal where we have to book the revenue based on the accounting principle on the date of booking the deal; and then the contracted payments are annual basis. So some of the deals are in a cloud nature where we sold licenses. We have accounted for the deal on the date of booking the contract, that increases the unbilled component. Second is that more and more customers are now looking for outcome based deliveries, so major milestones, payments are not equally apportioned every three months. They are linked at a time of UAT sign or when business is going live because of which the market situation is changing from that perspective. So there are two factors which are resulting into higher unbilled Revenue.

Ravi
Sure that answers, thanks, all the best.

Arun
Thank you

Intellect
Thanks, Ravi. we have next Mr. Rahul Jain from Dolat capital

Rahul
Hello, just two questions, firstly on the business side, is there a way that we should now look next 12 to 18 months a little different than what we were perceiving on the demand scenario , and what aspect of the business in terms of the segments, multiple segments we operate should see a behavioral change in terms of the customer spend, any color on those front-end, a base case demand, thought process if you could share, assuming that macro is uncertain, I can understand it's very difficult to compute a number for next year sitting today, but any base case number one can go for from the next 12-month perspective that would be an additional color if we could give in any form that would be of help, thank you.

Arun
The three indicators when we say white window movement for us, I'll ask Banesh to look at the opportunity that what is he seeing in the data opportunity - Data is such a big space emerging so fortunately a technology day was a path-breaking day. December 9th when we presented the technology Day to all of you, I think you should go back to those presentation decks. We were expecting that to be true in the next two years when we presented on technology day 2 in December, within nine months we are seeing that those are becoming reality and those are from product to platform to Marketplace.

The companies which are struggling are those who stayed in the product business, since we took a journey almost 18 months back, we are able to see some windows of opportunities but for many product companies will be in a struggling phase right now.

So, Banesh can share the data opportunity that we see, because the underlying platform of fabric data services and API, ability to create new platforms which can compete in new emerging scenarios in next two to three years, those capabilities are there, then Rajesh's composability is there. So the product we are selling in the market is not the standard product, with composable and contextual technology - two frames which you use composable frames to create new products and contextual frames for a data perspective. Both the frames are panning out so beautifully for us.

Over to you Banesh

Banesh
Yes. You know, just to add to what I think Arun was saying earlier, the data platform that I talked about at technology day along with another colleague of mine, Deepak. I think the data platform is being a big differentiator for us in the US where we've launched it from an insurance perspective. Now we've touched on the end-to-end life cycle of, you know just to take stock again, the insurance platform that we run for commercial lines insurance fully on AWS on the cloud,, it's a hundred percent subscription business; now within the subscription customers are clearly paying a licence component that is paid over a period of time and some of the subscription revenues are actually sticking for a lot longer period, so what we're actually seeing is a significant number of customers and we've had some very good traction in the last two quarters, both for the data platform that we use which is using a product that we call risk analyst, along with the Magic Submission platform where people submit a lot of documents for different commercial lines insurance businesses.

So Doc2 API which is the platform that actually is the core platform that extracts information from insurance companies' documents, and these are pretty large set of documents, quite complex, this is not just extraction of data, but we have a lot of AI technologies that pull information, so it's actually achieving operational efficiency for the client in such a way that it is almost a low-touch operations model, so it's quite efficient for a customer to take a submission from an email extracted and convert it to APIs, have a data platform that we have which is FDS which enhances the data quality on the submissions, thus some validations of the submissions and passes it to the underwriter on the underwriter workbench which is Exponent to fulfil underwriting.

Rahul:
I think we are addressing more than the technology aspect of it, my question was more from the sense of, that I think our use cases are pretty much proven in terms of the kind of customers we have got onto those kinds of products, where my question is more I mean, your Insight would be more of a help in terms of how we see some of these things become scalable because some of these products like the scan list we've been hearing for more than five-six years now. so I know the market has evolved your use cases has evolved from insurance offering to a of your peers in the space, so I think those parts are well addressed in your bigger events and all my simple question, right now is that some of these right positioning of the product, be it on the cloud or, be it on the otherwise, on-premise model also; with these offerings where we stand today in this current environment because this is probably as per the various analyst thought process and all probably the first down cycle in the potential down cycle of a banking sector that we may see ever since we came into public, right? So from that perspective should we see anything to look into from next 12 to 18 months perspective versus whatever we have delivered on the last five years CAGR basis is that the number we can still stay as from our thought process perspective or should we see in a different slide given the macros that we are facing right now?

Banesh
Rahul, hold on for six months, I think this volatility is there today, so on 30 September Pound went down to 1.03 it came back to 1.16, so this volatility of 10% in the market we've never seen in the past. I think it will be better to comment when we are able to see at least up to March right now on the exact number that you are judging. we see we are on a cutting Edge and these Technologies are required and we are seeing the momentum of the Investments come in spite of the downturn of the startup investment but in this piece is what consumerization of corporate banking, the core banking Investments are coming there so it means the market depth is there how exactly, how much percentage - wait for six months maybe we can able to communicate to you in during the annual cycle of the communication.

Rahul
Got it sir thank you and best of luck for the time.

Intellect
Thanks Rahul Arun, its over 6.15. Can we take more questions?

Arun
Just one more question here,

Intellect
okay next we have TVK Kumar from Bestpal. Hello Mr. TV Kumar, you're there?

Kumar:
So you told about this digital core banking that we are competing with Temenos and Thought Machine, have you won any deals or you're very sure; so what was the essence of what you are saying in that? are you sure that you will have a reasonable market share, because you are saying this is a new thing that has opened up for us, so can you just throw more light on that

Intellect

Let me let me answer that for you, I think when we when we look at a large player,looking at a core banking transformation and this could be a large with multiple countries, business; they start with a long list, and that long list could be 10 to 12 of our peers competitors who are in that long list. And as we go through the process, we go through various stages and what we are seeing, much different set of offering, now in the last three stages, and what are we seeing there right, and what is very interesting for us is that we see Temenos_ there and we see Thought Machine and we see Intellect there; and that's where we are saying that we feel confident that a large tier bank and when you say large tier bank, if you understand they're buying a mechanism it goes through functional, it goes through technical, it goes through their Architects, it goes through their Cloud Architects, so I think it's a very thorough process and for us to make consistently from the long list to the shortlist and be in the last three for a couple of these very large deals gives us the confidence that our technology is the market-leading technology and I think what we have said earlier which is MACH right microservices API and event driven cloud and headless is what is resonating very well for us in the in markets like Europe. That's why we feel cautiously optimistic that in these deals you may not have won any deal because if we win any deal this will have a significant impact on our revenues but we feel reasonably confident that our product is well matched to our competitors our peers, these two competitors that I talked about in this market.

Kumar
So, we will be announcing, when will we know?

Intellect
We are all waiting for it here. I wish we had the crystal ball

Kumar
yeah that was my question yeah do you have crystal ball.. okay got it. Thank you. All the best.

Intellect
Thank you Mr. Kumar.

So thank you everybody for participating in today's call. There might be a few questions which because of the paucity of the time we were not able to take it. Thank you so much.