Earning call post the Q4 FY 22 results of Intellect Design Arena Ltd

Praveen Malik

Greetings and Welcome everyone. Thank you for joining us today to discuss Intellect Design Arena Limited Financial Results for the 4th Quarter and full year of the Fiscal Year 2021-22 ending 31st March 2022.

The Investor Presentation and Press release has been sent to all of you and is also available on our website. Our leadership team is present on this call to discuss the results. 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 Makkan, CEO iGTB;

Mr. Rajesh Saxena, CEO iGCB;

Mr. Banesh Prabhu, CEO Intellect Seec,

Mr. T V Sinha, CEO IRTM;

Mr. Venkat Saranu, CFO;

Mr. Andrew England, Whole time Director

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

Mr. Arun Jain would brief you on the results. This would be followed by Q&A which would be replied to by the senior members of our management team. Once the Q&A starts, you can ask a question by clicking on 'raise your hand' and we will unmute you so that everyone is able to listen to you.

Safe harbour: I would like to remind you that anything which we say which 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

With this I request Arun to give his briefing

Over to you Arun

Arun Jain

Thank you Praveen.

Good afternoon everybody and good evening.

It's a great pleasure for me to announce the result. I think we have performed very well during this year crossing 25% revenue growth. We initially designed the growth for 20% and we finally achieved 25% revenue growth. Our PAT growth comes to 33%. The cash collection is all time high and our cash balance is at an all time high of Rs 558 Cr. So all the financial metrics are good. Our market presence is good. The kind of deals we are winning is good. Our acceptance and early investment, which we made in cloud technology, are coming out well. Those are delivering great results to us. We have a cloud revenue growth of over 112% during the year.

So I will just summarise my points as the presentation deck is there. We talk about it, that we accelerate the digital transformation journey where a maximum amount of dollars are spent in the industry. So I'll say there are seven elements which went very well in this quarter.

Annually, it's a fantastic year for all of us at Intellect. It’s giving great expectation going forward to all of us.

So first of all, the cloud when we say 4 exponential technologies, 5 platforms, 12 products, that's our whole asset base. It used to be 4 platforms when I talked to you during the technology day in December. We added one more platform which went live. This is a Trade and Supply Chain Finance technology upgrade platform. This is a platform normally sitting on a legacy platform.

One of the large deals which we announced 2 years back in Singapore was around this platform. Now this platform has been launched on a cloud, which makes it 5 platforms.

So the cloud growth of 112%, or if I look at it annualised growth of this quarter is close to INR 119 Cr tantamount to $ 60 mn run rate cloud business which is achieved in just three years of our entry into the cloud space and organically $ 60 mn to be achieved in cloud is a phenomenal success to Intellect and Management teams - Manish, Rajesh, Banesh and everybody who contributed in building this cloud related business.

Second milestone is, we crossed INR 1000 Cr of license linked revenue, exactly INR 1060 Cr revenue which is purely coming from license linked revenue.

When we started the company we started with INR 600 Cr as overall company and license was close to INR 100 Cr to INR 150 Cr. In the last six years, that momentum of the license linked revenue which was to the limit of something INR 150 Cr to INR 160 Cr license in 2015 -16, today that crosses INR 1000 Cr. I think very few companies can boast of having a license of India sold in the global market. And we take pride. This INR 1000 Cr comes from all the top banks in the world.

In India we have eight out of 10 banks from RBI, HDFC Bank, ICICI Bank, Yes Bank, IDFC bank. You name it and I think we have all the banks where we have a deep footprint. It comes from the best banks in UAE, top eight of the 10 UAE banks are our customers. Top three banks of Saudi Arabia, top Bank of Singapore, top Bank of Malaysia, top Bank of Philippines, top Bank of Indonesia, top Bank of Vietnam, top Bank of Australia. If you move into these geographies one of the top three banks in South Africa, top three banks in UK, top three banks in France, in Spain, in Germany, in Sweden, and then in Canada and USA. And that is what makes the product company different on the whole trajectory which is there and that makes the biggest deal which we announced last quarter is Reserve Bank of India. They entrusted to give a complete cloud native central banking solution, first time in the world on managed services to Intellect. It's a big confidence that the Reserve Bank of India demonstrated in their technologies and they took almost 18 months to evaluate our internal technology with their architect that is suitable for next 10 years or next 20 years, whether this technology is suitable or not.

This contract is a seven year contract that runs into close to over INR 400 Cr. So this contract we have very least accrual in this quarter for this contract. This contract is a large value contract, but since it is signed in the last and it’s being designed to build on a POC basis and completion basis, so obviously by the time it's signed, we had completed only a small portion of the contract and that's why it's not a full license being booked of the contract upfront, which is normal practise. This since it's a full managed services contract. This we require to build partial billing and that has some shortfall from that perspective of the expectations of investors. In this quarter in the revenue there’s some shortfall which is because of that. However, that's not an issue at all, because in the long run it's a full deal, ‘Managed Services’ deal for seven years.

We got another very large digital transformation deal for a large private sector bank in India. This is about transforming their entire digital scope for transaction banking, entire payment systems. And this is another very big deal, where the client entrusted us and gave this deal for execution.

The fifth point is our Microsoft partnership, looking at all the wins, what we are getting and the presence we have in the marketplace. Banking and financial services Division of Microsoft Azure, where they have brought in very senior people from the industry to lead the financial service segment. Whether it is Bill Boyden, who was also coming from transaction banking or Peter. They have seen all the companies in the world in transaction banking business and they have chosen us to be their Partner on Azure. This will give us a huge access to the customer in Europe and America in all advanced markets besides Asia and Middle East. However, our sales team will get enhanced and get a better footprint in all the Advanced Market over there.

Besides this next point is DBS and Bajaj FinServ. You know they launched their operation in India last month and they are operating on our card platform. This is a platform which we are building it up over the last two to three years period, but it's now moved to the cloud and DBS has chosen this platform against all the standard platforms they have in Singapore or the global products. So that going live creates an opportunity for the credit card area.

What has not gone so well in this quarter is the Russia-Ukraine war. We lost one large mega deal. It was about core banking transformation for a Russian bank in Germany. They were about to sign the deal on the same day when Rajesh was about to fly to sign the deal, and Russia attacked Ukraine. There was a smaller deal which we had not mentioned in the press release where we were to implement the Trade Supply Chain Finance system in Ukraine for one of the European banks and that was supposed to be implemented in Ukraine. For both these deals we have not booked any revenue or any exposure on the company books so it's completely risk free from that perspective, if we would have signed that deal, let's say in January, and then we might have to take a write off of that deal that would have been harmful for all the investors. So on one side, it's good from that revenue perspective. But bad from the loss of at least $ 4 mn of the revenue, which could have been accounted for in this quarter because of the deal.

Second thing is about talent cost. INR 13 Cr cost increase happened during the quarter over the last quarter. This INR 13 Cr attributable to salary increase and employee increase and few travel which started sometime in May or March. So these three elements constituted the INR 13 Cr increase.

On the front we look at six capitals. The way we look at the whole business, are Technology capital, where our products, which I was mentioning, are gaining momentum. If you look at 'Technology Day' Presentation we are progressing very nicely, continuously in that space.

In the leadership space, our leadership, which we call it most critical for a product company, is the top 500 people in the company who have deep expertise in the product business. Our attrition is less than 10% in that space, which is very good news because the expertise is when the industry is running around 25 to 30% attrition, we were able to retain the critical talent in the company, which is very useful for us.

Our customer base, I always mentioned that we have 270 customers in another year and these customers are marquee clients of every geography and that makes it another area for next years, when we look at the journey. Now we need to go deep in each country and expand operations on customer capital.

I want to bring to the attention the execution capital. How do we deliver the product to the customer and there the significant improvement happened which is displayed by INR 558 Cr cash in the company is demonstrated by single phenomena. In the last two years what happened is we applied Design Thinking for execution excellence. What does it mean as an investor? I cannot explain the nitty gritty of how we work. We did a digital transformation of one of the Malaysian banks on Cloud. A typical digital transformation takes 18 months to 24 months. Globally, that's the benchmarking of digital transaction banking. When we sign that deal, after signing that deal, you have observed the AMC takes 2 years to come in. It's because 18 months is a cycle time for the implementation. For using the cloud as a technology and using our delivery methodology, which we call iZoom methodology of implementation where we break down every small user journey to the smallest work packet to be delivered and what decision the customer needs to give it. We are able to implement the entire cycle in six months' time.

So it's a significant moat we have created for digital transformation using our execution capital, when we apply Design Thinking at a Requirement stage, Solution stage, Engineering stage. So we are inspired by Toyotas, what Toyota disrupted the auto industry of America in 80s. That's how we are looking at it, Intellect disrupting the IT implementation industry by bringing every smallest component to be so perfect that it accelerates the transformation on a cloud significantly faster and that's our storyboard for next year.

On the future side, if I look at next year, our design strategy is 20% which is a stated strategy that we have designed our organisation for 20% growth and we are not looking to downgrade or anything because international disturbances are there. We understand international disturbances. We have taken into account those deals and those pipeline deals which were just sitting in that area which is doubtful. In spite of that, our sales pipeline has grown to $ 725 mn from last quarter, substantially higher than the last quarter. Our destiny deals have also grown up to 61 destiny deals.

So all the metrics which are there for us to see the next year, they were the dilemma in the management team. Should we look at design of 20%? We designed for 20%. This year, we are able to do 25% which is much better than what we designed the organisation. Obviously in Product Company which is measured on an annual basis. So the first principle of a product company is never a quarterly company. It's not a service company. Again, Indian investors, we believe that everything is a quarter on quarter and I mentioned multiple times that when you have a deal of 4 mn or 5 mn in a single deal, it's 4 Mn deal means, 30 Cr of additional profit or 30 Cr of additional reduction in the profits. Now that is not a way we can understand. and play on Intellect stock from that perspective. But 20% move to 25% was our delight as a Management Team. We are all celebrating that element that 25% growth we achieved and next year we are looking at 20% growth should be available.

Then next thing is Microsoft should accelerate building some tailwinds to our 20% growth there. That should help us out in doing it.

We have seen where we have given a focus on the countries. So, we are what I mentioned, that if you go to the top bank in a country and then expand the footprint in 2016 I spoke about it that our strategy is to go to one of the top three banks. Whenever we enter the country and then we go down from the top three banks to the rest of the banks in that country. And that strategy is working in India and that strategy is working in UAE. That strategy is working in the UK. That strategy worked in Canada. That strategy is working in the US. So these five countries where we spent a full kit Sales team. We invested into these five countries. We have achieved a substantial runway of more than $30 mn revenue per country delivered by these five countries.

Now we are looking to choose another three countries for market expansion where we deepen and so we have 18 countries where we do a revenue pool of where we have a $ 3 mn to $ 5 mn revenue pool per country. This revenue pool for three countries we've chosen one in Asia, one in Middle East Africa and one in Europe and these three countries will be deepened by moving the sales team. So we have moved Paramdeep Singh, who was Executive Vice President to lead our Vietnamese business and Vietnam will become our focus country for deepening the relationship there, deepening the country there. So that number can move to $10 mn per country in the next two to three years' window.

Next point, which is working in favour of Intellect, is we've now learned how to deal with last time you ask a question; Can you crack a $ 50 mn deal? And some investor asked a question. And I was, we were working with RBI for that deal, but I was shirking away that question. That yes, we are working on those large deals of $ 50 mn and now we have demonstrated the $ 50 mn deal we can crack.

Because for a $ 50 mn deal, we need to have a proposal team,, pre-sales team. It requires a full village to win a $50 mn deal. But once we have all the templates, all the calculations, all the commercial arrangements, all the delivery nuances coming together, the organisation moves from a $ 5 mn deal to a $ 15 mn deal to a $ 50 mn deal. So we crossed the third hump of a $ 50 mn deal and it's about a strategic deal. When we called the Destiny Deal a few years back, we were focusing on strategic deal. That is what is working well now. And that's how we look at it. That we prepared the organisation for saying calibrated $ 60 mn. Two quarters of $ 55 mn, two quarters $ 60 mn and then $ 67 mn and then $ 75 mn so our focus will be in the next two quarters to each. Whatever the investment we did initially, additional investment last quarter in this quarter for the head count that will be prepared for $ 75 mn run rate and that we are hopeful to achieve faster.

But looking at the tailwinds, which are available to us, we need to invest higher from the sales and marketing side along with Microsoft.

So some increase in the budgets will happen. One is because of travel. Obviously the travel costs will go up, COVID is open up, so all the meetings have started happening, face to face meetings. The beauty of the face to face meeting is those large deals which are there internationally we could be able to sign, lots of deals. But now the face to face meetings are happening. Our sales team is able to influence the deal to earlier closure of those deals. So that will be helpful. So one, investments will be on the Sales and Marketing side over the coming year and second side of investment would be on Product investment. As of now, in spite of the salary increase, our capitalization of the product is still at INR 116 Cr versus INR 120 Cr.

Next year this budget will go by at least 15% to 20%. The R&D budget will go up because we are looking for those countries, where we are entering. We have to make it last 1% suitable for that country. The product upgrade, the technology edge and the interfaces, so those are the places where the large edge investments are going into next year. Our product, like Wealth which is bought by SBI. It is a great validation of wealth products, so those high growth underwriting products are taking momentum in the US and underwriting products.

Treasury product is taking momentum, so these are the third layers of the product besides the top layer of product. Liquidity, Quantum and DTB, the three products which are the core leading products. And then IDC, IDL, Payments and Cards, which are the next generation products. So it's a very healthy pipeline over there.

Next year our tax rate will come to 26%. Standard tax rate will be all our losses are being taken care of. In this quarter, the tax rate has gone up somewhat because we exhausted the cumulative losses, which was available for us till the third quarter, so the fourth quarter tax rate has gone up to 20%, slightly over 20%.

But the regular tax rate will be 26%, but one beauty is an effective cash tax rate or balance sheet Tax rate will remain at 17% to 18% because we have a INR 96 Cr of MAT Credit available to us. That INR 96 Cr will take at least next two years for us to bring our effective cash tax rate above 18% tax rate.

So this is what I think I want to share as a story with you.

And at this point of time I can leave for question and answer. All the presentation slides, all the data slides are available now in the deck and any question arises from there you can go through it.

Praveen Malik

Thank you Arun . Now we are opening the session for Q&A . Please click on raise your hand to ask a question.

So we have a first question coming up from Mr Rahul Jain of Dolat capital.

Rahul, you may ask your question please.

Rahul Jain

Hi, thanks for the opportunity. First question is on the Growth and the comments you have shared on the cost side of it the headwind, so I understand that the year has progressed well. But at least from a Q4 exit perspective, we faced a couple of challenges. So how with these things, are we going into FY23? How do some of your overall outlook changes and what are the risks that get assigned to that outlook with the changed macro situation?

Arun Jain

Rahul I mentioned to you we are quite confident on the pipeline that we have, the deals that we have and those pipeline makers are confident of our design growth of 20%. It is all possible and if and unless something else happens in the industry or any other, anything happens in the industry as of now, whatever the parameters available to Russia in Ukraine all the deals we talked to other customers and all the pipeline members were in P4 and P5 stage of our sales funnel. We are quite OK for managing that. Salary cost of the talent is definitely a concern, but that's an industry phenomena. We have less dependence on headcount increase compared to any other industry and we are not expecting in this quarter not to add more than 100-125 people in this quarter, so there is no significant pressure from additional count, but salary increase is definitely which will get distributed over four quarters.

Prabal Basu

Rahul to answer your question as well. You know none of us can have ever disregarded the macro factors which are affecting the global economy today. Having said that, the pipeline numbers which you see in the presentation shows a healthy growth and that is after discounting and clarifying with various customers about the digital transformation journey allocation of capital and all of that. The key point here is that the larger players in the BFSI segment will have issues to some extent. It is our belief that niche focused players which are specially IP related will be able to weather the term relatively better, based on current circumstances as we see it. So therefore, as Arun said, the organisation is designed for 20% Growth.

Rahul Jain

Right, just a small follow up on that on the profitability side since we are already at a much higher growth rate than the 20% kind of a thing that we are highlighting as of now.

So what should be the margin given that we have had 20% plus the growth rate which would be lower compared to last year. Well, so is it safer to assume the Q4 should be the benchmark going forward right now for the near term

Arun Jain

Rahul, look at the LTM basis margins. Don't look at the quarterly margin. Quarterly margins are no indicator. If a $ 4 mn deal of Russia could have been there, then the margin would have been 28% to 29%.

So for a Product company planning. Do you use different yardstick on an LTM? Would be a better yardstick for you.

Rahul Jain

OK, so 25% for the full year is the, is the right number.

Arun Jain

I don't want to put the numbers are still full, but my PAT margin will be lower because of effective tax rates on P&L will be lower, so visible PAT will be lower because 26% will be there while effective cash tax rate would be not more than 18%, so that's how I think you have to make a judgment call.

Rahul Jain

Right, right, and to the comment that Prabal mentioned on the macro situation on how several large banks may think about the way forward. So is this also emanating from some of our conversation or is this a generalised view in terms of past cycle behavior that we might have witnessed.

Arun Jain

This is a general macro issue, not a Client talking, so don't mix up two issues.

The Clients we talked to, they're looking for technology faster than earlier. The liquidity solution which we have with the interest rate going up, it becomes valuable product

Because all the banks are now accelerating the journey because all the Corporate is putting pressure with the interest rate going up. So Manish if you can just throw some light on the liquidity product. Why the interest rate increases is helpful for selling the liquidity.

Manish Maakan

Yeah, that's a leadership quadrant product for us. And actually you will see it in the press release also. So we have been rated best in class, by Aite and there's a significant gap between us and the next vendors over there. That's from a market positioning perspective. Interest rates if you look at across the board, I guess including India yesterday increased, the UK increased today. This is an opportunity for the corporates to gain more and for banks it becomes quite a defensive product as well as a retention product to ensure that the balance remains with them.

The amount of RFP's I'm dealing with is at an all-time high right now from a number of European banks as well as Asian banks.

So this demand will only grow with all these interest rates. I think the UK itself is saying we will expect another 2-3 interest rate hikes. USA is saying the same across the board. In Europe you're hearing the same thing, so the demand for it will only go up. I think we have established success for very large banks in the US also to return live in six to nine months. You're leveraging our iZoom methodology.

That creates that moat for us of having a ready product to be able to implement fast and having market coverage for covering tax regulation for 60 plus countries, no one else has that ready product from a market perspective. Any large global bank will have at least 30 to 50 country footprints.

So, that becomes a big differentiator.

Rahul Jain

Manish, if you could share a quick thought on this iColumbus, how it changes our market positioning or the TAM or anything so.

Manish Maakan

If you look at most of my revenue drivers was through cash management from a Corporate banking perspective. Trade and Supply chain, we had done a deal with Raffesien bank before and then you will be in Asia in Singapore. That's where we were modernising the platform. AI based cloud native infrastructure, it was important to ensure we establish the right level of success.

And if you look at any of my peers, their trade revenue is higher than their cash revenue. That gives you a perspective of the revenue pool I will be playing in. So, that's a very big opportunity as of now taking it out to market leading product will be adjusted and establish success and to take that out to the market. So that should add to the growth of the platform.

Rahul Jain

OK, so you're saying this? iColumbus is a kind of a test deployed already on this. The two transactions that you mentioned in the past.

Manish Maakan

That's where the base formation of that happened. Over there, we have significantly added AI capabilities and other capabilities which will be taking it out, and this is the only product out in the market where you have trade finance, supply chain finance, collateral limits integrated along with a channel which is integrated with a cash channel. No one else has that capability. So now it's about monetizing that. Taking it out to market, marketing it. So that's where you focus. And if you look at again from a trade perspective and the supply chain perspective, all the demand supply gaps which we are hearing in the market as well as the pressure on trade to digitize and how AI will help you do that faster and take paper automation, I think all of those things we have addressed are looking at the market needs.

Rahul Jain

Sure, that's quite helpful. Just last one book keeping one on the other income side. Sorry I missed your comment. If you’ve shared already or what is the reason for the other income.

Arun Jain

There are two reasons for it. One reason is subsidy income. So there are two companies, NMS Works and Adrenalin. They delivered a good quarter four, so they are not a consistent number. And then there is some reversal, which our Auditor considered more than 3 years outstanding as write off, there is a write-back into it. And the third component is Treasury income. Now we have surplus cash.

Rahul Jain

Thank you, I'll get back into the queue.

Praveen Malik

Yeah, thanks Rahul. Next we have Mr Vivek Charodia. Vivek, Please ask your question, please unmute him.

Vivek Charodia

I thank you for the opportunity, so we've had two quarters where we've hit a run rate of $ 67 mn. Should we expect this to ramp up from the next quarter onwards? And, as you said earlier, should we expect it or run rate of $ 75 mn in the next two quarters and if yes, if we go from $ 67 mn to $ 75 mn, and even if the cost increased, the margin as a percentage should go up. Would that be fair to assume?

Arun Jain

That's what we are shooting for $ 75 mn is next quarter or next to next quarter. But that's what we are shooting for in the next two quarters. One of the quarters we should hit $ 75 mn. So you understood right Vivek

Prabal basu

And Vivek, not very far away in history. You know, I think it's you or others who asked the question. We were struggling in the $ 55 mn to $ 60 mn categories. So we are already talking of a $ 75 mn hump at that stage I think, just keep that in perspective as well.

Vivek Charoria

So just one more question on the talent front, should we expect a bit more to come in the books or most of it as of now is on the books and from here on we should expect gradual alert cell increases? Or do you think because in the last order you had mentioned that a bulk of the cost was yet to come on the books, so would you say a Q4 run rate of INR 250 Cr? As I can see on the P&L for the employee cost, would that be a fair base or do you expect this to grow up higher than the revenue growth from here on ?

Arun Jain

It won't be higher than revenue growth, but I think the cost rate will go up, increments and some 100 people additional costs.

That's what we are and now I'm saying if you are making a sales and marketing investments then those will be the also part of salary Costs will come in.

Vivek Charoria

Answer once we, up to what level of revenue trend the current capacity sustains. I'm just trying to understand because we talked in the past.

Arun Jain

As of now, $ 75 mn current capacity is there. That's what we have mentioned to you and that is what we completed till March 31st. Now we are, now the next milestone is $ 100 mn or $ 90 mn. That's what we need to see when we are preparing the organisation for a $ 100 mn or $ 400 mn run rate in the next two to three years, whatever the numbers will be there. So that is where our effort will be there, what is the right investment we need to make. That’s why three countries we've chosen in this year, we want to choose again calibrated growth. Of the country, three countries per year. Then we make a full country and then expand further on it.

Vivek Charoria

So just one last question. As we've been saying in the past that since we're a product company, I'm guessing as we go from $ 67 mn to $ 75 mn to $ 90 mn to $ 100 mn, at some point there should be a jump in the margin, right? I mean, because we mentioned that beyond a certain point, most of it flows down to the EBITDA. So would you say that I mean that might have been delayed because of the cost increase, but that premise is still valid.

Arun Jain

Premise is fully valid because if you decide license linked revenue of INR 1060 Cr this time. That INR 1060 Cr comes flown into the bottom line without an additional cost of the delivery. So that number is the one important number you have to monitor is license linked revenue. But on the other side some companies stop investing. You have seen some other product companies stop investing and then push for the margin like flexcube may push for the margin to 40% per cent 45%. We will not be doing that, so we have been advised by the investor. All of you. Then we don't push for the margin beyond a point because market size is too big for us to capture and for that we need to constantly keep on investing ahead of time for our growth. Growth investment has to be part and parcel of it and you are seeing multiple product companies which stagnate at $ 60 mn, which stagnate at $ 70 mn, just because they stop investing into growth investments.

Prabal basu

Absolutely, and you see this statement, which we just made, is very crucial to understanding this, which is that most of these companies we compare with or are being compared with are essentially single product or dual product companies. Firstly, we are very young and they are much more mature companies. Secondly they were just one or two product companies. We are 12 products, 4 and 5 platforms now and four horizontal technologies. So this is our IP chest so to speak. So as a result, continuous investment is the right way to go for shareholder wealth. I mean there is no other great mantra. Continuous investment will form part of our first strategy purely for the reason of our offer IP regions.

Vivek Charoria

That was very helpful, thank you.

Praveen Malik

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

Nitin Gupta

Yeah, my question is what are you planning to do with the cash that you are having on your books.

Arun Jain

We declared the dividend first. This is the first time we are sharing the dividend. But I think cash in the books is just starting to build up as I mentioned last time. We'll be looking at it where the opportunities are there. We are not an acquisition company, but if some opportunities are there in the market, we'll see if something comes out but not to disrupt the system. Whether it could be market facing acquisition, if it comes in our way or mostly market facing, not on the IP side. On the IP side, we have everything available to us. So if market facing which gets us a acceleration somewhere, then we may consider. But otherwise we will have two buckets - pay back to the investors and then deploy in case of M&A opportunity comes our way. We need to keep our Kitty ready.

Nitin Gupta

OK, one minor point so for how many quarters this ESOP cost is going to continue.

Arun Jain

ESOP will continue. It's every time we issue the new ESOP. This quarter, we have around INR 11 Cr. So in this year we spent something INR 40 Cr in ESOP/RSU which is not a non cash payment so that is bundled into it. If we take that into account, it's around INR 40 cr, which will be close to 2.5% of the EBITDA margin.

Nitin Gupta

OK.

Praveen Malik

Thanks Nitin

Next we have Mr Mayank Babla from Dalal and Broacha

Mayank Babla

Thanks for taking my questions. Just wanted some clarity. Sorry I missed earlier. We lost two deals because of the Russia - Ukraine crisis and so you mentioned I think $ 4 mn was the size of the deal. Is it both put together?

Arun Jain

Both put together, yes.

Mayank Babla

OK, and so I know it's a bit difficult, but any view on when we can recover, or you know this deal will be back on track.

Arun Jain

Unlikely as of now. Russia in Europe and the operation of Russia in Europe will not be activated for the next 2-3 years.

Mayank Babla

OK, Alright Sir, that's all from my side. Thank you so much.

Praveen Malik

Thanks. Next, we have Mr Rajiv from Ambika.

Nishid Shah

Yeah hi, this is Nishid Shah from Ambika and thanks for taking my question. Arun, congratulations on a good set of numbers. My question is, I mean, everyone seems to be too focussed one quarter EBITDA margin but my question is on the overall, how do you see the next three years and you have now 5 platforms and you added one platform. You already talked about moving to $ 100 mn run rate a quarter from $ 67 mn a period of next two or three years. But where do you see the company in the next three years and how do you see between GTB, GCB and Insurance?

Arun Jain

So, from a product company perspective, I would say five years is a good horizon. We should look at how we have designed the company for the next five years. So that's our whole design, is all about. When we invested into cloud technology in 2019 and 20, we suffered some losses but those are very advanced investments which have delivered the result for our SAAS revenue to go up to $ 60 mn annual run rate. Even if we say, $ 50 mn - $ 60 mn annual run rate, this is a very recurring revenue stream and that is license linked revenue. So that's once we look at it, that each time we are selling into one country, like in UAE, if we are selling to the ENBD as a bank, and then I sell to FAB as the next bank, the premium got increased and my delivery time has come down, so my margin has gone up on every deal when I go. As of now we are building on 3 products as I mentioned. Three out of 12 products, 5 platforms. So, this is a big scope to us.

We are finding our competition is getting slightly off track. Temenos is looking for private equity investors.

If private equity buys them out, they will squeeze the research and R&D dollar out of the window. We have seen FINASTRA going down that route when their private equity investor has taken the money. So, with that, competition gets under pressure of doing and cutting the costs and no R&D investment. We are quite bullish about the future because there are not too many companies which have this strength. Not too many there. We don't see any single company in the financial technology space which has got a complete suite of 900 APIs, 300 PBCs and ability to compose and Manish has iZoom methodology of six months implementation. It's a very, very different space that we are looking for ourselves and that's why we want to be calibrating. That's why we don't want to make any single mistake in this journey which will topple our Engine, whether it's a security, whether it's extreme security, the investment in security, investment in performance of the technologies, so those are things that would become very, very critical. So just to answer your question, I think Design Thinking Is helping us in building a culture. Culture itself is a Moat. A big Moat for any competition to come in, because when I say execution capital when we do the implementation Nishid, we talk about work packet level, 4 hour work packets, so we are breaking down like a Toyota work packet on assembly line operation, how each work package gets executed. We are breaking down the implementation into those work packets. We have sheets running into our project plan sheets, running into PGM 110 to PGM 120 to PGM 130. And that's how the six month implementation can be done for the large bank in Malaysia. And that is a very very different Moat. If you can cut down the delivery cycle time by half, I think, World is yours.

Prabal

And the point which he left unstated. It is essentially that what he just mentioned is that we are trying for the first time in the IT industry of essentially, doing what Toyota did in the manufacturing setup, we are now trying to do it in the IT industry. So, it's really a very very big fundamental move and we're able to do it over the next few quarters, you will see the results and such results are already evident. So just keep that in mind. It's a really, really seismic shift.

Nishid

My next question is on the GCB side. I mean, how is the consumer banking space shaping up and the competition and how are we winning? How is the pipeline there?

Arun Jain

We just explained all the pipeline. I think we have a good pipeline. We have over $ 725 mn. Pipeline. Dustin deals are growing, strategic deals are coming up. So overall this is looking to be good.

Nishid

No, particularly global consumer banking.

Arun Jain

Global consumer banking - Rajesh do you want to comment?

Rajesh

Sure. I think when you look at global consumer banking, there are really 4 product lines that we talk about.

One is our IDC proposition of flagship product IDC, lending, our leadership product, which is the quantum central banking, and now the credit card platform.

Let me just spend a minute on each of these product lines so that you'll get the granularity on what we are seeing. I think on central banking Arun talked about the large deal win that we had on RBI. Besides RBI, we also closed two very large deals on central banking and we had closed one deal in the previous year, so we are seeing humongous momentum in the central banking space and in fact as a leadership product, we are now seeing us being called rather than us going to these clients. Clients are calling us and asking us to participate. So central banking we're seeing good momentum. Many central banks are going through this process of modernizing their core banking system.

IDC, we are seeing some very good traction in Europe. Unfortunately, Arun talked about one of the banks, the German direct bank, the deal which we lost because it had Russian ownership. The bank had Russian ownership. But we are seeing very good momentum. We are in the last two or three in many large deals in Europe and that journey in Europe and other parts continues.

Cards, we talked about the recent launch. I think you may not have noticed it, but Bajaj FinServ and DBS came together to launch the first Co-branded credit card. This credit card is not only managed by us from a technology perspective, but also from an operations perspective. The way this platform has been designed, it’s a low touch, no touch with a lot of empowerment from a customer perspective. So a customer can do a lot of operations. It's a game changing platform that we have put together, along with the IP of both Bajaj FinServ and DBS. So, we are very hopeful that this platform which is now online in India, will be able to take it. So from a market perspective as I go and meet a lot of clients, I see a lot of opportunity. I see a lot of opportunities where I see banks sitting with a lot of legacy and I think we are there with ours. The one more point that I have to make, What is the tailwind that we, that I'm seeing? I see that the cloud technologies that we invested in our architecture, our API-first architecture and our product being cloud ready, whether it's Azure, whether it is AWS that is giving us the flip and that is a competitive edge that we have today.

Nishid

Arun, I have a small question on Microsoft. The tie up with Microsoft. When do you see the results coming in, in terms of order flow coming in? And are we increasing the bandwidth to take care of the orders that can come flowing?

Arun Jain

It will take 2 to 3 quarters. I think by January we can expect some order flowing from that, nine months from now and we have time to take care of that.

So that's why we need to plan for the next round as soon as we reach $ 75 mn, we need to plan for some additional capacity in the third quarter or fourth quarter to be added that time to make it $ 90 mn.

$ 50 mn is a good bucket quarter on quarter we run. That is working very well, Nishid. This $ 50 mn bucket size to increase the capacity is not too much, not too less.

Nishid

That's all from my side. Thank you and all the best.

Praveen Malik

Thank you Nishid. Next, we have Mr. Utkarsh Solapurwala from Damos Capital

Utkarsh

I have two questions. First one is what is the current status of AIF that we are looking to create on investing in the ecosystem.

Arun Jain

We are still waiting for approval. We have applied in SEBI. SEBI is taking time and asking some questions. So as soon as it is through. As for strategy, it is the same strategy. We are looking for those small ecosystem players to invest into the IDC marketplace. So that is a 23-24 agenda. So, by that time this should be completed.

Utkarsh

Second question is, as we scale up from $ 60 mn to $ 90 mn and potentially $100 mn in the next 2-3 years, are we ready with the management bandwidth for the top leadership positions that we might need to create as the revenue is inching higher?

Arun Jain

We have very high quality leadership capital. We have 50 partners in the company. Very rich capital available and close to 365 VP+ leaders with more than 25 years' experience. This is a highly rich organisation. Expertise is required. So that's what I think we invested up front. And that's what we are leveraging.

Utkarsh

Thank you.

Praveen Malik

Thank you Utkarsh. Now, we have the next question coming from Mr Harshil Shethia from AUM Fund Advisors. Harshil, please ask your question.

Harshil

Yeah, so I had a question on, currently our deal pipeline is of around $ 725 mn, so what is the timeline of the deal? Do we have more on the shorter end of the deals or longer tenure deals.

Arun Jain

Yeah, so this deal pipeline we qualify as Destiny deal. This destiny deal we are reporting separately in the deck on the slide. If you go to the slide where some of the decision of 61 deals, some 10 or 12 deals are decided in a quarter. We win two out of three deals. Typically, the ratio is coming to 65% to 70% win rate in those destiny deals with us. So that's one forecast we can look at.

And they are, as I mentioned, that we learned the art of having larger deals like RBI. We had $ 50 mn deal. So now we have a capacity to get $ 1 mn deal to $ 50 mn deals so obviously, the quarterly impact comes from the major deals, while $ 1 mn deals are also important for us to keep our cloud running over there.

Harshil

Sir, actually my question also on the same slide which I guess page #35. You mentioned that our final pipeline is $ 725 mn, correct and so what is the timeline of the deal? So basically, is it so that the majority of the deals are like 3 year deals or 5 year deals? If you can tell me.

Arun Jain

Maybe two questions you're asking. Are you asking the duration of the deal when it closes or size of the deal for which the Deal will be.

Harshil

Duration is my question.

Arun Jain

Duration of the deal. Once you sign it, it's a 10 year deal. So, once you sign with any customer. It's a 10 year deal. Nobody changes the license.

Harshil

OK.

And secondly, I had this question with Microsoft. So what products are we going to sell with Microsoft? Or are we working with Microsoft for our platforms? How is it? Can you just elaborate?

Arun Jain

Yeah, so we are working on all the GTB products suite, cash, cloud payments. They are exclusively signing with us and for other products they are working with us. So, GTB products are exclusive, which I mentioned. Other products will be there, so that’s a current arrangement.

Harshil

OK, thank you.

Praveen Malik

Thanks, Harshil. Next, we have Mr Ankush Agarwal from Surge Capital

Ankush, please ask your question.

Ankush Agarwal

Yeah, hi sir, thank you for taking my question and congrats on a great set of numbers. So firstly, you know Temenos in the recent Capital Markets they have said that going forward from 2022 they will stop selling licenses and subscription would be the standard offering for new and existing deals. So you know, wanted to know your thoughts on how does this impact the industry. You know if the market leader shifts to a permanent subscription based model, how does Intellect look towards this.

Arun Jain

It's good news for us. If somebody says that he doesn't want to sell him on-premise license and we are selling it and the customer wants an on-premise, it's good news for us.

Ankush Agarwal

OK. Intellect, doesn’t internally have any plan to move to a permanent subscription based model?

Arun Jain

Why should I do it? My customer focus is there. I want to look at it. What is right for the customer. If a customer wants to invest upfront for the capital cost, I want to pay him that cost and if the customer wants to have an operating cost model I would like to give him. So as a design thinking, I am all about the customer. Customers in the centre and run around the customers.

Why should I tell a customer what he should be doing ? I cannot tell the customer that he should wear a blue shirt or white shirt. Let him wear whatever he wants.

Ankush Agarwal

Right, right. No, the question was such that you know if the industry leader is moving to such a model. Do you think the overall industry dynamics will shift more towards the subscription based model? Or you don’t think it won't make that much of the difference from the industry perspective.

Arun Jain

It's a customer. Industry doesn't have anything. Customers drive the industry. What the customer asks, we have to do it and I think what your question is right that if the leader is moving toward it's good for us. We also have cloud revenue, grown 112%. We would love to sign the Cook Cloud deal because Cloud deal has a 10 year more than you can grow the revenue a year on year on the cloud. So we always want to sign the deal, but never want to say to the customer that we only sell one thing, not sell other things.

Ankush Agarwal

Got it so something on the similar lines so you know our license revenue growth has been quite tapered here. Even though it's understandable that you know the SAAS revenue has grown like 100%, so you know incrementally a lot of deals are coming on SAAS which doesn't have a license component, but from here onwards, what do you think? Do you expect the license will again start growing at double digit or do you think that your funnel is such that you know a larger part of our growth will depend on SAAS deals and such that you know SAAS will lead the growth and license would be more or less at the similar levels?

Arun Jain

I think from the investor perspective, you should only understand license linked deals. You track only one number which is 57% of revenue is license linked deals. It's a means of winning the deal. Whether I win as a license or win as SAAS. It's the last choice given to the customer. When a customer selects our product then his CFO and Procurement department come into play and they start saying oh give me this rate, give me that rate, give me this proposal, give me that price. So then we are quite flexible on giving those proposals which are best suited for the customer.

Ankush Agarwal

Yeah, that's understandable that you know you are more focused on the customer though. You know SAAS gives the business model more predictability. You know in Temenos, the entire thought process about them going confidently for subscription was the same. So I'm just trying to understand if our deal funnel is such that you know a larger part of it is SAAS but got it that way.

So lastly you know, for quite some time we have been talking about this directional margin towards 30% right, but given that some of the comment you made you know that given that we have to enter three more countries and there we have to invest in additional R&D plus on the sales front as well with the given Microsoft deal, you have to invest. So do you think that target is, you know like on the back burner for a couple of years.

Arun Jain

It's not a back burner. I think if a $ 4 mn deal comes in then we would have $ 30 mn this quarter itself. So the focus is $ 30 mn and we remain 30%. We don't want to go beyond 30%. Now 25%, 27%, 24% are quarter to quarter game. Obviously, for the next two-three quarters if we get some good wins, may be able to come closer to 30%. Otherwise it may be 27% or 26%. We are not so much hung up on the margin that has to be 30%, but directionally we are in the same direction and that's what our attempts are.

Ankush Agarwal

Right, lastly, so just a little bit clarification on this Microsoft deal. You said the iGTB products would be exclusive. So it would be exclusive on the Microsoft end to sell this product or from our end, only Microsoft will sell this.

Arun Jain

No, not from our side. I think we have a joint Go to Market plan with Microsoft. Microsoft has a Banking Finance team who has selected this product after a lot of evaluation.

Ankush Agarwal

OK, OK so Microsoft in this area of products will sell only our product.

Right and again similarly on this. You said that this guidance of 20% growth is there, but this Microsoft deal should add some tailwind, so this is over and above this 20% is what we are.

Arun Jain

As of now, just keep it 20%.

Ankush Agarwal

Right, thank you so much for answering.

Arun Jain

I want to clarify, it's not guidance. We say we designed the company for 20% because we can't give guidance as a product company. We told two years back we don't give guidance. But that's why we never give 25% guidance or something. It happened, it happens.

Ankush Agarwal

Well, thank you.

Praveen Malik

Thanks Ankush, Next we have Mr Nandan Madiwala from Punctilious One Capital.

Nandan Madiwala

Yeah, thanks for taking my question and Congrats on the quarter. Just one quick question on the GeM platform. Till when is that deal going to go on? Because I remember somewhere around FY17 or FY18 is when we won the deal. It was some five year deal or so. Is it going to come up again for rebid ? If you can just clarify.

Arun Jain

Yeah, so this deal is up to 2024. December 23 to be exact, and this is coming for two years. Extension is a part of the proposal. So we are looking forward that it deal being extended by another two years on the deal.

Nandan Madiwala

You mean beyond December 23, right

Arun Jain

That's right.

Nandan Madiwala

OK thanks, that's it. And all the best.

Praveen Malik

And then next we have Mr. Amit Chandra from HDFC securities.

Amit Chandra

Am I audible, Sir?

Arun Jain

Yes, Amit. After a long time, I'm hearing your voice.

Amit Chandra

Thanks for the opportunity. So my simple question is on SAAS and subscription revenue. So, currently we are at 20% SAAS subscription, but you know, in terms of margins, how different it is, because typically SAAS or subscription is a high margin business. But as we are increasing our SAAS subscription in our revenue mix, that is not being reflected in the EBITDA margins. So one thing is that the non SAAS revenue like margins are coming down. So is it the right way to look at it or will we see the benefit of increasing SAAS subscription on the margins going ahead.

Arun Jain

Yeah, so Amit, the SAAS revenue on a full operating model or in a stable state of operation is around 70%, which is rightly estimated that it should be around 70% on a fully operating model.

But since we are in the enterprise cloud, if you look at this first statement we made - enterprise grade solution in the cloud. So what does it mean is that we will take a full client on cloud. They will pay us $ 2 mn to $ 4 mn per year on the cloud depending upon what services he is consuming. It may vary from $ 500,000 per year to $ 2 mn, so it's different from a smaller cloud client like Freshworks signing for $500 or $5000 per client per year. So that's the difference that we want to sign up with big enterprises. For that, initial investments are large, so when we are building up the entire business, we have to build up a higher capacity, higher investment and this margin will come to 70%. So those contracts will become into operating stage. They will come in to 60% to 70% to 80% level. So, that's the current level there on margin. This margin level of 23% to 25% level is not on an annualised basis. 25% level which is reasonably good and I mentioned some deals, like 3-4 mn deals move here and there; left and right. That shifts our margin.

Amit Chandra

OK, so this 70% rule or this 70% gross margin rule for a subscription revenue is, you know, is it true for all contracts or the like there is a range, which is, you know, very big in terms of margins that we engage with now with enterprises on the SAAS side.

Arun Jain

I'm saying this is the full mature stage here. GEM, we don't have that kind of a margin. Government e Marketplace will not have that kind of a margin. That is a much lower margin, we operate at in the Government e marketplace. But in any global marketplace, those kinds of market norms between 60% to 70% are there or established.

Amit Chandra

On the free cash flow conversion, what is our estimated or our target range where you want to operate in terms of, you know, the FCF to cash conversion.

Arun Jain

From EBITDA to cash conversion last year we converted INR 322 Cr on a EBITDA of INR 450 Cr. So it's close to 70%-75%. So our target will be around 80%. 70% is a good number, but 80% should be our target.

Prabal

Here also Amit if you see, if you compare over the last six quarters or so, you would see that it used to be in the range of 35%-40%, and we've steadily been increasing that. So on an annualised basis, Arun just gave the figures, you're already at 70%-75%. Maybe another 5% here and there is possible and I think we're on the right trajectory, right?

Amit Chandra

OK Sir thanks and all the best.

Praveen Malik

Next, we have Mr. Ashish Kabra from Fair Deal.

Ashish Kabra

So first, congratulations on a great set of numbers. So Sir, I just wanted to ask from a three year perspective, is this $ 100 mn, $ 100 mn Revenue per quarter, can we make that? or that will go beyond three years.

Arun Jain

Yeah, I mean that's what we are working on. Not beyond three years. That's what we are working for.

Ashish Kabra

OK, thank you Sir.

Arun Jain

There are a few questions here?

Sanjeev Agarwal from global holdings.

Going forward what is going to be the dividend policy?

Arun Jain

As of now the Board is just evaluating what should be the dividend policy that we'll be looking at based on 2-3 years of sustained cash flows and the market scenarios. So we'll come back to you as soon as we define the policy over there.

Somebody asked a question about the tax part.

Tax part will be 26% plus. Around 26% - 27% will be our overall tax number for the next year. But our effective cash tax rate, which the company will be paying, will be at a MAT rate because we have MAT credit available to us. Our payout will be on MAT rate and that will be 18% of the number.

The third question is from **Srinidhi Adiga**

There are few lost deals from the pipeline. Could you please let us know what is the likely reason for those.

Arun Jain

Obviously 70% conversion of winning ratio is always good. You can't win all the deals which are there for you. So we all want to have all the IPL matches to be won by one team, but there are other teams also to play.

Which are the products that will reach the monetization Phase? In 23-24?

I think we have IDC, Payments, iKredit360, Wealth and Underwriting - all the five products are in the race for monetization.

Out of five, 3 should be doing well in 23-24

What is the impact of losing the Russian banking deal?

There is no impact. We have not booked any revenue. So there is no impact at all. It was about to be signed. We didn't sign. If you would have signed, maybe we would have a positive impact, but no negative impact on this deal.

There was **Amit Kasat** asking about Gem revenue of 1 lac crore. Can it move to 1.5 lac crore.

Arun Jain

Lot of things are happening in the government because there are some discounting also available for GeM. So based on that, predicting revenue of GEM is not 100% there.

From **Ravi Mehta, Deep Financial -** Was it a conscious step to let go the Russian deal or can we relook at that opportunity.

Arun Jain

It's not about letting go. It's just a situation that reached that point of dead bank opportunity in Europe. Because no Russian bank will be allowed to open their branch in Europe. As of now, sanctions are there, so it will not be there.

Praveen

Thanks, Arun, one last question. We can take it from Gaurav Singh from Sarath Capital.

Gaurav Singh

Thank you for the opportunity, Sir. So since you mentioned that you want to not push the margin lever too much and you also mentioned that you are working on methods to reduce the implementation time cycles. So if you are not increasing the margins or not making a conscious effort to increase the margin, shouldn't that not be compensated for in a higher revenue growth? So on the revenue side you're saying you want to go calibrated but you're also saying that you don't want to push the margin too much. Isn’t that completely in a sense.

Arun Jain

I'm saying margin is the outcome. Margin is not a driver. If we have a lower cost of implementation, margin will naturally grow.

But we don't run the business for the margin. That's what I wanted to convey. So the meaning is different. Meaning is not that we don't want a margin. Meaning is that whether we focus on margin and that we take a deal that's not the whole question around it.

Gaurav Singh

Right, because there's a marketing cost side angle as well to the margin, so you could make your marketing cost reduce and grow your revenue, right? So it should translate to a higher revenue growth, right?

Arun Jain

Yeah, that's right, that's right. So this year, instead of 20%, we did 25% revenue growth. So it happens in a product business that sometimes when we are focusing on a deal for two months or three months and we win the deal like RBI, it's a big plus and most of the RBI accruals have not happened. Those will flow into the next year. Most of the revenue will flow into the next year. So,these are the few positive sides of this trajectory. Over 30% is our baseline. I'm saying we designed the company for 30% EBITDA, 20% revenue growth. That's the design parameters.

It can become 25%, 33%. It happened this year, it happened 33% and 25%, which is better than what we designed the company for. So whatever the guidance we've given to the Board, approval that we have taken for the investment. Still, based on those investments we were able to generate 25% growth.

Gaurav Singh

Right, but since you want to, you know you calibrated it for 30% EBITDA growth. If you want to do that and if 20% is the revenue, you have to grow your margins, right?

Arun Jain

That's right. That's what we are looking for. I don't put myself in a box saying everything is committed. Then there is no management flexibility available. Yeah, we need to play the ball.

Gaurav Singh

Thank you so much for answering my question.

Praveen Malik

Thanks Gaurav, so now we are closing the call. In case you have any further questions or want to have a follow up call, please do write to us or call us on the details given on our website. Thank you for joining us today. Thank you to the Management Team, Arun and Prabal.

Arun Jain

Thank you for the deep questions.

Praveen Malik

Thank you everybody.