Intellect Design Arena

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CHENNAI May 30, 2018 (Thomson StreetEvents) -- Edited Transcript of Intellect Design Arena Ltd earnings conference call or presentation Monday, May 7, 2018 at 5:30:00am GMT
* S. Swaminathan
Thank you for standing by, and welcome to Q4 FY '18 Investors Earning Conference Call of Intellect Design Arena Limited. (Operator Instructions) Now I would like to hand the conference over to Mr. Praveen Malik. Over to you, sir.
Thank you, operator. Good morning, and welcome, everyone. Thank you for joining us today to discuss the Intellect Design Arena Limited financial results for fourth quarter of fiscal 2017, '18 and the full year ended 31st March, 2018. 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 today to discuss this call and to discuss the results on this call. We have with us today Mr. Arun Jain, Chairman and Managing Director; Mr. S. Swaminathan, CFO; Mr. Manish Maakan, CEO of our iGTB line of business; and Mr. Rajesh Saxena, CEO of iGCB line of business. Besides there are other senior member of the leadership team today who are also present in the call.
Mr. Swaminathan will start and brief you on the results, followed by Mr. Manish Maakan and Rajesh Saxena. After that, Mr. Arun Jain will give his comments on the same. This will be followed by Q&A which will be (inaudible) by senior members of the management team.
Now Safe Harbor. I would like to remind you that anything which we say refers to our outlook for the future and is a forward-looking statement, which must be read in conjunction with the risks the company faces.
With this, I hand over the mic to Mr. Swaminathan, to brief you on business. Over to you, Swami.
S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [3]
Thank you, Praveen, and good morning, everybody. Thanks for coming on the call. Let me go through some of the highlights of performance for the quarter as well as for the year for Intellect.
On the strategy front, we have taken up agenda and see where we are. Our first agenda has been having a calibrated growth yielding predictability, so some of the numbers we'll talk about today will address this and the same area on design.
The strategy number two, in terms of what we are getting endorsement, is getting ready for Intellect being the destination for FinTech products. Our product acceptance and the large digital transformation wins confirm this particular status. We also look at revenue across the globe. We are pleased to say that we have balanced revenue between the advanced market and the gross markets each contributing similar numbers.
Let me touch upon a few numbers before going to the analysis. The year ended FY '18, we were able to deliver INR 1,087 crores revenue. That means milestone of crossing INR 1,000 crores in a financial year. This represents 19% growth for the year.
In terms of dollar, we could deliver 24% growth and the revenue reached to $168.7 million. So the rupee growth of 19% is after taking to account approximately 5% appreciation of the rupee.
We're also happy to deliver an EBITDA of INR 78.6 crores, which shows about INR 103 crores swing versus last year, remember, last year, we earned negative EBITDA. The gross margin stayed at INR 538 crores. And despite the growth we were able to deliver 19%, we were able to retain the margin level at around 50%.
The biggest element, which we are very happy about, is a license revenue inching towards the INR 200 crores mark. We delivered INR 198 crores of license revenue, which represent 27% growth. The AMC number also crossed INR 200 crores, it reached INR 208 crores, delivering 23% growth. And this year, we are able to deliver a PAT of INR 46.72 crores, versus a negative PAT of 22% -- INR 20 crores last year.
On the cash situation, we are ending the year with INR 169.5 crores cash and that [debt stands] at INR 159 crores. The collections have been quite comfortable this year. We are able to collect about INR 1,111 crores during this year. We were also able to accomplish 50 deal wins out of which 12 are transformational deal wins this year. We were able to get 53 implementation go-lives during the year. This broadly summarizes how the year went.
Let's have a look at the quarter. The quarter 4 ending March -- Jan. to March, we were able to deliver a revenue of INR 307 crores, first time crossing the INR 300 crores mark. Remember, when we got adjusted in the third quarter '14, '15, we were running around INR 150 crores mark. So we are able to see the quarter revenue doubling from where we started. That's a very satisfying [data] for us.
In terms of dollar, we were able to get $47.7 million revenue, which shows about 28% growth. And EBITDA for the quarter is INR 24.6 crores, so we're nearing the INR 24 crores mark.
We have, so far, a little better EBITDA this quarter. Our partner strategy in terms of ensuring we are able to leverage partnership network for deal wins. This quarter, we were able to get 2 deals through the partnership network, and accordingly, we also booked the partner commission into this. About INR 7.4 crores, the cost of partnership commissions have been booked into this. And after that, we are delivering INR 24.6 crores EBITDA.
The gross margin stayed at INR 152.9 crores, consistently maintaining the 50% gross margin mark. License revenue INR 66.6 crores, and AMC at INR 52 crores, both are showing significant growth over the last Q4. PAT is INR 25.9 crores.
The collection during the quarter was INR 302 crores. The DSO stands at 122 days. The investment in product development is INR 28 crores. We've been running around INR 27 crores, INR 28 crores every quarter this year. There are 11 deal wins in Q4, out of which 4 are large digital transformation deals. 13 go lives were (technical difficulty) this quarter.
Let's look at the revenue growth from the time we got [delisted]. We were at INR 577 crores level on an annualized basis in Q3 '15. Now as we end the year, Q4 '18, we are able to go to INR 1,087 crores. And we are able to have consistent growth throughout this journey.
Let's look at the CAGR growth when we talk about calibrated growth yielding predictability. We are able to deliver 21.3% CAGR on revenue from FY '15 to FY '18. Despite having 2 quarters in year '16, '17 due to global impact, we had some challenges in those two quarters. Despite that, we were able to deliver 21.3% growth. And doing the same term, the license revenue grew 32% and AMC revenue grew 24%. So the growth side on CAGR delivered -- demonstrate consistency in our growth levels.
We'll also look at the EBITDA growth during the period. As you see the revenue went up to INR 1,087 crores from INR 914 crores. And during the same period, EBITDA moved to INR 78.6 crores versus negative of INR 24.96 crores, and showing INR 102 crores swing between the last year to this year moment. Same way, the PAT, which was negative INR 22.4 crores, moved to INR 46.7 crores, which was a good sign in terms of the swing we had.
The collections continue to be important, which basically demonstrates our delivery capability in accepting the customer. And during the same tenure, we were also able to improve the DSO from 134 to [122] days. What is satisfying for us is, during the growth phase of revenue, we were able to ensure that the DSO also is improved during the same tenure.
The number table there I am not going through as I highlighted already. So just to recap, crossing INR 300 crores mark in the quarter and INR 1,000 crores a year, and EBITDA becoming INR 24.59 crores this quarter, and for the full year, INR 78 crores.
And during this period, there are certain business wins we had, and there are 4 large transformational deals we are able to win during this period. And we'll go through details about this from our CEO who will share with us in terms of how did we achieve this accomplishment.
And we also, as of now, end of quarter, chasing 32 pursuits of what we call the high-value active pursuits, 6 of them INR 50 crores plus; 9 of them between INR 30 crores and INR 50 crores; and 17 is between INR 20 crores to INR 30 crores. And this also demonstrates the traction we're able to demand with our customers, and we are chasing the pursuits that we are seeking.
We also shared deal wins in this particular quarter. You will see the 2 deals of INR 50 crores plus we could win during this quarter, which is significant for us. And we also lost one deal during this quarter. And we got deals added from the INR 30 crores to INR 50 crores bucket and another 6 between INR 20 crores to INR 30 crore buckets. Yes, and 2 of them got reclassified because its deal value came down. So they've gone to the lesser group.
In terms of order backlog, which is a number we've been sharing from last time, we added about (inaudible) of INR 890 crores on the license-based business. On the subscription base, it stands at INR 150 crores.
In terms of geography, if you look at the spread and, more importantly, this year, after 2 years of investment, we could deliver growth in Americas, which is satisfying for us. So Americas delivered 36% growth and now contributes INR 159 crores of revenue in the financial year.
Europe continued to grow, and this year, the growth has been 18%, and they now come to INR 361 crores level in terms of contribution to the revenue. India continues to sustain and they contribute INR 173 crores. The growth market also delivered significant growth for us this year. The growth remaining at 33%, and they contribute about INR 394 crores revenue. As we mentioned earlier, we are able to have very balanced revenue across the geographies.
Now I request Manish to just give us an idea in terms of how GTB performed this year and let him talk about certain transformation deals we won. Manish, over to you.

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [4]

Thanks, Swami. Good morning to everyone. So this has been a good year for GTB. We did about 10 large transformation -- digital transformation deals this year, and we've closed about 2 large digital transformation deals in Q4.
All the 7 analysts consistently rated us among #1, #2 or #3 across the market, starting from Gartner, where they rated us as the best in open banking API capabilities. Forrester rated us best in the digital banking engagement platform. Celent gave us 2 awards; Aite gave us 2 awards; IDC gave us 3 awards; Global Finance, 2 awards; and IBS ranked us in 2 areas as #1 and #3. So that's been a consistent analyst accolade of we're doing well. We've been winning consistently 2 deals every quarter on the large deals on digital transformation. And we did, like I said, 10 deals.
What's -- we talked about this a year ago that going after large digital transformation deals is how it will change our trajectory of what we are doing. It takes a lot to win these deals. I think the winning formula we're building in is like in a football game, how you pass the ball and how you run it and how you manage it. While one guy scores the goal, but it's always a team game and how we built up this is what's working very well for us right now.
Breaking into Americas is what we were expecting, and we closed one large transformation deal in U.S. And we sold a very large payment deal in Canada besides a large GTB deal in Vietnam.

So it's been a very good quarter and a very good year. I'll hand it over to Rajesh to share more about GCB.

Rajesh Saxena, Intellect Design Arena Limited - CEO of Intellect Global Consumer Banking [5]

Yes. Thank you, Manish. So I look after the Global Consumer Banking part. So let me start on Slide 18. While we have won many analyst accolades, the one which really is very meaningful for us is the recent 2018 IBS Intelligence award that we won, wherein -- where we were ranked #1 in retail banking systems, Intellect Digital Core.
And you'll recall that we had done a global launch of our IDC 17.1 version in September of last year. And subsequent to that, we are seeing a significant momentum. This is something similar to what FLEXCUBE had done -- had won in 2004 and built their business on. So we're extremely pleased to be ranked as #1 by IBS Intelligence. We were also ranked #1 on payment systems as well as ranked #2 in lending systems in terms of Intellect digital lending.
What I wanted to do was really take a couple of minutes and talk a little about a couple of deals that we have won. So as I mentioned that we had -- after our 17.1 launch in September last year, we've seen -- we are seeing significant momentum in our deal closure on the core banking piece. And in fact, in the last 2 quarters, we have closed 6 deals in this space.
The one which I wanted to talk about is the first entry that our core banking is making into U.K., an advanced market. This is a large private European bank, which is part of a large multinational bank, which has chosen to go with 17 -- IDC 17.1 for their core banking transformation.
What's great about this is that this is going to make IDC fully relevant from an open banking perspective, get us the European regulatory compliance, both PSD2 and GDPR. Also, this is a fully cloud-hosted deal that we have won in U.K. market. And our approximate issue for this deal over a period of 5 years is going to be more than $15 million. So great -- a great breakthrough for our Digital Core proposition entering advanced markets and that to U.K.
The second deal that I wanted to talk a little bit about is the deal that we have recently won in Africa. And what's so great about this deal is the sweet spot that we have, wherein we are using our -- all the Intellect effects, which is trade, core, treasury and the digital portal from the corporate banking side. And we have just won this deal for a newly licensed merchant bank, which is setting up shop in Nigeria.
It's going to be a critical deal for us because it's a deal where we have to deliver the entire suite of products in 16 weeks' time. So it's -- it talks a lot about the maturity of our product, the capability that only Intellect can bring by putting all these assets and catering to our customer segment.
So these are the 2 deals that I wanted to say. Overall, a great year, a great year, and the last 2 quarters have been spectacular from a Digital Core perspective, so just wanted to share that.
And with that, I would like to hand it back to Arun.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [6]

Hello. I'd just go to the management observations, what I see. I think I could classify these as 3 years an Intellect 1.0 journey. When we shifted to a new company from Polaris we -- any change requires changing the DNA of the company. And in last 3 years, what satisfied me is that we changed the DNA of the company to be a destination for FinTech products. And that's the most important piece, the DNA has to be changed not at top management level, but at everybody down the line level.
Taking what Rajesh mentioned, the 16-week implementation for complete core banking, trade finance, treasury, corporate banking portal, digital portal. And that can, I think, can only possible when you have a fundamental shift in the DNA.
We again took a contrarian view of our 4 lines of business when this company was small in size. Adding the 4 lines of business has given the best-in-class for each of the group's (inaudible) to have investment. But [other side], the best practice of each unit is being shared and we are learning from each other, and fast learning each other.
Now GTB was a top-of-the-class product, which we mentioned to you in earlier calls -- this call. Core banking, being rated #1 in just 17.1 release of October 30 launch in Mumbai, in just 5 months' time. I think that shows that this new product is completely very well different from existing products in the market and which validates from the winning in European market. So these are signals for seeing when the product matures to the level when it becomes a destination product.
The second point I want to say in 1.0, I think our second bold decision was investing into sales and marketing marketing. Obviously, it looked very contrarian to invest 45% of your revenue in digital marketing during '15/'16, '16/'17. Many investors didn't like it. But this is the -- it's not about 45%, it's about absolute cost, which is required to set up a sales and marketing infrastructure. We are thus now becoming the only company in the world, which has both a uniform distribution of the sales across the 4 continents: America, Europe, Asia Pacific and Middle East. And that differentiates us because it mitigates at least on one side. And we can leverage a partnership network to grow our business substantially because how we created a reference site in each of the geographies.
As Swami mentioned that, this time, the question investors were asking, when will you start using partnership network, and we were quite saying that we'll do it in '18 and '19. But last quarter, we won 2 deals through the partnership network. Maybe it is (inaudible) traditional commissions, but that is a commission where the deal value are not coming [organic] anywhere else, so that means not going [to be part of the] operational leverage.
But that's right, sales and marketing, a bold decision to look at it that we needed a new sales team, and America took some time to catch up. Obviously, America is the most difficult market in the world and the most paying market in the world. Everybody wants to aspire to do it, winning a deal and having it close to INR 160 crore revenue from the products in America market. It's a very, very large number, INR 360 crores, coming from Europe. Very few companies in the -- from India could -- able to aspire to reach this number.
And finally, I think the whole culture of the company has been now transformed, from order taking, what I mentioned about DNA, shift of the DNA. And that DNA has changed around the design thinking. I will say the way we look at the following statement from functionality to user journey has shifted the thinking process of the industry, and that's why the customers are loving us.
So our acceleration in the closure has happened because our approach of -- what Manish mentioned, our approach of how to close a deal better is to talk to their language, their user journey, their customer language, putting a right person in front of the customer who can talk about business, who can talk about technology, who can talk about implementation, who can talk about support. And I think that's -- we learned that after a long time because we understood their concern. And other customer [invest] 1.5-year, and then start declining in next 1.5 years, so that's what Intellect 1.0 is all about.
What didn't work out well? I think as I mentioned to you, our collection focus in '16, '17 was bad. We worked [tirelessly with] the sales and marketing too much. We should have kept that same lever available to us. And that is something that 2 quarters missing the guidance, which is a global event of Brexit and U.S. elections. And we [needed action] for our portfolio to go to market.
So out of the 26 products, initially, we chose 22 products initially we've chosen. We rationalized to 14 products to go to market, consolidate it, put it together under one umbrella. So when 22 products are to be taken by our sales team, their efficiency was lower. So our focus in Intellect 2.0 is -- and that's more with less -- will be us going forward in investment.
So next here, we're designing our journey for the next 3 years, between 2018 to 2021. We are here saying we are only to focus; we have the best product -- best in class product in the world. Compared to any competitor we're talking about, Finastra, we are better than Finastra in the quality of product in GTB. We have best-in-class winning against Temenos in the U.K. market, our product is far superior. We've been reaching #1 on Digital Core. That's an area which we said is a crowded market, but we wanted to come at the right time for that business.
In insurance business, signing up 7 clients on AI; machine learning; underwriting workstation, like Xponent, one of the -- really the cutting-edge product where we have a very good pipeline and that pipeline is on the cloud, and that's where the cloud revenue are going. So that businesses will be run -- the insurance business is running not only in license. We are running more on the cloud-based revenue. I think we are the first company in America -- or first few companies in the Americas where we're putting a complete product on a cloud-native platform.
Now with that in our bag of the major investments and best accolades that more areas of focus is shifting it in industrialization. So everything should be industrialized: my sales process, my delivery process, my implementation process, my global helpdesk. And then monetize it with the partners, with the direction and with the partners.
So these are our key fundamental strategies, and I think our breakthrough in digital in the end, that both 3 -- all the 3 product lines are digitally enabled, IDC, Digital Core, digital and transaction banking and digital insurance are the driving force using AI engine behind it, the Big Data engine behind it. I think we are rising for success.
We have a tailwind in our favor. We're able to demonstrate it this year about 20%, and the pipeline of $521 million, which moved for almost like it was $433 million last quarter, and so it's almost a 20% jump in the pipeline, so more traction, more full deals have started coming. We are seeing some tailwinds there.
There are customer staff coming to us for the proposals and then our sales force are growing. So it's moving from push to pull. An important point is license components have grown substantially. It's now 1:1 ratio of license to deal value. It used to be [1:3] at one point in time.
So 2 things are changing in last 1.5 years, not -- just 1 year. Our deal value, average deal value, has moved from INR 1.5 crores to around INR 3.8 crores. And license is substantially moving to 1:1 ratio, which was 1:2 ratio.
And third tailwind is the financial industry is hungry for digital, and they have a huge amount of budget sanction in 2018 to fight now the battle for FinTech players. And now they are spending their purses for digital intervention. So these are 3 points which is in our favor.
So I'll leave it at that stage, and maybe I'll ask (inaudible) platform for asking a few questions over here.

Praveen Malik, Intellect Design Arena Limited - VP of IR [7]

Operator, can you open it for the questions, please?
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Questions and Answers

Operator [1]

(Operator Instructions) The first question comes from Baidik Sarkar.

Baidik Sarkar, - Analyst [2]

Congrats on a very strong quarter of execution. A bookkeeping question for Swami. How much of the license based INR 890 crore order book should we consider will be booked into P&L over the next 12 months? And of course, the same for your subscription order book of INR 150 crores.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [3]

Yes. Out of the order backlog, what we reported was this INR 890 crores and INR 150 crores. We estimated about INR 775 crores is [deliverable] over the next 12 months.

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [4]

Not license, we were talking (multiple speakers).

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [5]

The total value, not (multiple speakers).

Baidik Sarkar, - Analyst [6]

And out of the INR 150 crores, the total?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [7]

No, I don't have the data right now. Between INR 890 crores and INR 150 crores, together, was INR 1,040 crores, we have calculated about INR 775 crores, the estimated revenue impact for the next 12 months.

Baidik Sarkar, - Analyst [8]

Okay. Sounds good. And so just help me interpret this number better. Your exit revenue for license and AMC for Q4 is about INR 120 crores, right? So at the base case should this run rate continue or is there a component of your license revenue yield that will fall off and we need to kind of rebuild that again to maintain the run rate? I'm just trying to understand how -- the quality or the characteristics of these.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [9]

So in terms of license revenue, what we saw in Q4, there's one portion with AMC which is stable revenue. And we should see more installed base coming in, which should help increase all of that. As far as license is concerned, major part of the license we have to go and win and earn. So that is [not in our bag], we still have to earn a portion of that.

So -- but we expect, based on the license revenue we are seeing, we're able to see that, every year, we are able to see license growing -- license [revenue] growing together much higher than our overall revenue growth. That we have been seeing for the last [shareholder report] as well as our year-on-year report.

Baidik Sarkar, - Analyst [10]

Sure. So could you just help us once again with your revenue recognition number for license? Is it in the quarter of implementation or like how does it phase out?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [11]

So there are 2 aspects as for the accounting standards, which we have to follow globally. One portion talks about we're able to have a contract where the performance obligations license is independent on delivery of the license on the contract terms, you can recognize revenue. If (inaudible) contract where we had, [let's say], bundle, it goes on what we call (inaudible) [combination] based on milestone certification. One market dominantly goes on the (inaudible).

Baidik Sarkar, - Analyst [12]

Sure. And what's the R&D that stands capitalized in your balance sheet today, the portion that you don't write off? And the (inaudible) policy for (inaudible) fees?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [13]

Let me give you 2 data points here. This quarter, the amounts which are under capital work in progress is INR 28.3 crores. For the year, it's INR 111 crores. During the year, we have [calculated] from (inaudible) put into use is about INR 53 crores, which was amortization over a period of 5 years. That's the point.

Baidik Sarkar, - Analyst [14]

Okay. INR 53 crores and that's written off over 5 years, right. And my last question for Manish and team, just (inaudible) congrats, great quarter of execution. Your bid pipeline today is in excess of $0.5 billion. How could you break this out for us further for a little more level of granularity? Whatever the P1, L1 parlance in your industry is, how would you kind of break that out into immediately achievable numbers?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [15]

Manish, you are there?

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [16]

Yes, I'm there. As you see, Swami answered that in his Slide 16, we've got different various deals, buckets in the size of the deals. And then the way we measure it, how many deals are -- stages of the deal are they in a P1, P2, P3, P4, P5.

P1 to P2 are what we [clear] as qualified deals and P3 to P5 are what we call as qualified opportunities. There are a number of these deals right now at the P3, P4 stage and a couple of them are at the P5 stage for the coming quarters. So there's a healthy distribution of products as well as geographies across this market.

I think one good thing that's building up is the geography revenue, geography funnel and the product revenue and the product funnel is quite well distributed across all geographies. So exposure to one individual geography has been minimized.

Baidik Sarkar, - Analyst [17]

My last question before I get back in the queue. Have our annualized SG&A spends peaked or with growing revenues do we want to maintain a certain percentage, which is not a [average] number?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [18]

Let me answer this question. This quarter, we achieved 28% growth, and that is very different from the planning which we did for 30% growth. So we designed the sales infrastructure for 30% growth.

So some costs will go up and some partner's commissions will come in in the S&M cost in the future because now the partnership network we want to expand more on success of 2 deals in this (inaudible) S&M cost itself. So that is the 2 things we're aware of, change can happen. So if we are pushing for the larger growth numbers, we may lead into some of the S&M costs.

Operator [19]

The next question comes from Shyamal Dhruve.

Shyamal Dhruve, - Analyst [20]

Congrats on a very good set of numbers. My first question is on the partnership network, which you mentioned in your opening remarks. So can you just give some little bit information on like if you can name the partner or how this network will work, the products, I'm sure it will be exclusively developed by the Intellect.
But what this sales -- whether it will be a joint sales effort between Intellect and the SI partner or it will be a separate team from SI, what would be marketing our products in the market?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [21]

Yes, so (inaudible) partner, one kind of partner is SI partner who is a global SI partner where you see IBM or Accenture. So that's the onetime major partner. Second major partner is the global sales -- the global sales partner. Each country-wise we have a country-specific partner who has a network office footprint, he understands the bank and he understands the political system there, so they are a sales partner. And third is the global implementation partner, which is a stage 3.
So we are now working on the first 2 stages as a partner, one is a global SI partner. We'll be announcing one partnership maybe in this quarter. It's about (inaudible) on SI side. And these 2 partners, is what Swami has mentioned about it. They are coming, they're a country specific partner.
So there's one partner in Nigeria and one partner in Vietnam who will enable us to get 2 large deals. We are working with these 2 partners over the last 2 years. We educated them about our products, and now they are able to talk about the product in their ecosystem. So that's our sales partner.

Shyamal Dhruve, - Analyst [22]

Okay. So that means with the increased deals coming from SI partner, we might see some increased SG&A cost going ahead (inaudible)?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [23]

That's right.

Shyamal Dhruve, - Analyst [24]

Yes. And the -- my next question is on the deal front. So in this year, we signed around 50 deals, and out of it, 10 were in GTB. So that means 40 would be GCB front and treasury insurance. So what is driving this increased deal from non-GTB front? It is like that the new -- more new deals coming in the market? Or is it our winability has improved in these deals?

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [25]

So I think GTB has more deals than that. We are not announcing number of deals in a business-wide scenario. It's -- the GTB [10] deal which it's talking about in the transformation, (inaudible) major large deal. GTB also received a smaller deal also. That's one part of the story.
Second one is totally, yes, our GTB business now, (inaudible) business and (inaudible) business not taking off. So we have -- Rajish mentioned 6 deals in 6 months are on core banking, which is supposed to be the forte of Temenos and Finacle and others, so we are able to dent into their market. Similarly, treasury deals and broker deals are coming up which we mentioned about last time.
We had a very large [brokerage] deal in Philippines market. And a new deal is coming now in this market. So those are definitely creating traction. Now this year, we'll be investing more money with our team to give them an equal management team capacity. What we've given to GTB and GCB earlier. So it's a year-by-year agenda.

Shyamal Dhruve, - Analyst [26]

Okay. And one clarification like whether we have booked any revenue or expense on GM front in this quarter or it will start from Q1 '19 onwards only?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [27]

There are some small revenues we have recognized and some portion in Q3 and to Q4. There are also investments there for creating the infrastructure. So some costs in infrastructure will get spent over the period of revenue which is a 5-year term. I don't give the number right now.

Shyamal Dhruve, - Analyst [28]

So this would be...

Arun Jain, Intellect Design Arena Limited - Chairman & MD [29]

It's just at the very initial stage right now.

Shyamal Dhruve, - Analyst [30]

So should we expect some uptake on GM revenue and expenses on Q1 '19 onwards, sir?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [31]

Expenses, no; revenue, yes. It's a minor expense. Some will be increased anyway.

Shyamal Dhruve, - Analyst [32]

Okay. My next question is on the R&D expense out. So in the last 3 quarters, we are at almost similar levels of INR 19 crores. So any guideline for how much would be R&D expenses for FY '19, or whether we should expect the similar run rate or there should be some uptick depending on...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [33]

I think it's more or less a constant, but for some inflation minus 5% variations. We don't expect any major shift of that yet.

Shyamal Dhruve, - Analyst [34]

Okay. And in the last quarter, you had announced the order backlog of around INR 950 crores. So how much of that was executed in Q4? Any ballpark number?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [35]

I don't want [to say the] reconciliation, but what we would say is after (inaudible) and after adding new, we stand around 1,040 so you can make your number. So the net is the increase.

Shyamal Dhruve, - Analyst [36]

And just a small clarification. So in last quarter, we just announced this INR 951 crores of order backlog, and this time, we are giving 2 numbers, one is 9 -- INR 890 crores and another is subscription. So this INR 915 crores earlier quarter was including of subscription in (inaudible)?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [37]

Yes, we made one more disclosure this time of splitting it into 2 components. So that's so that we get (inaudible) and investors get better informed as well.

Operator [38]

The next question comes from Mohit Jain.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [39]

First is on the cost structure. I think you explained it in the previous question, but what should we expect in terms of SG&A as a percentage of revenue? Like can it give you like 3, 4 percentage points benefit in '19 or in '20? What is your thought on the [piece]?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [40]

Basic cost is the same. Some of the commission is going to go up and there is better part of the license this year as we also need a guarantee SG&A. So it's not something which is worrisome for the investor because it will grow to [328%]; I think is a good news for everyone.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [41]

All right. If you have to look at third quarter versus fourth quarter, the incremental is because of the partnership deals which is one is it?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [42]

That's right, that's right.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [43]

The cost structure for us is steady. If you don't win those revenues, you will not pay out anything?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [44]

That's right, that's right.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [45]

Okay. And can you quantify like what percent of incremental revenue was through this partnership?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [46]

I don't do the revenue side. If you want to be precise on the costs, we have accrued about INR 7.4 crores in our costs for that.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [47]

INR 7.4 crores.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [48]

Yes, in our costs.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [49]

And they're the onetime costs, right?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [50]

Yes. If and when you get a deal from the partner, it will have some cost.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [51]

No, what I mean to say is like next quarter also, if you have revenue, this cost will not be there?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [52]

That's right. When the deal is booked this quarter, so that cost is also booked.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [53]

Okay. Second, sir, what should be your tax rate for FY '19 and is it a one-off in the fourth quarter '18?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [54]

On the tax you're saying?

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [55]

Yes.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [56]

Yes. See, as far as India is concerned, we have enough carryforward loss to adjust, but, however, you're subject to MAT. So we have to pay MAT and we have 10 years from the time you pay the MAT to adjust back. So we expect from Indian perspective the net effect will not be there for definitely next year. But globally, in the U.S., we carry forward some loss. Other places, when you have tax then you will have it. If you want exact update, you may (inaudible) confused, we have a very small number.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [57]

So when I look at '19, could it be like closer to 19%, 20% or like?

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [58]

Less than that.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [59]

Much less than that because India component against MAT relief for whatever (inaudible), it get released because it's adjusted over a period of time. And we have carry forward loss also. I'll (inaudible) my estimate looking at (inaudible). It's much lower than what you're thinking.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [60]

Okay. Second, sir, on the -- because we are a [product] company and we assume [it is back to the cost recovery] more or less will be fixed compared to other companies. So in terms of currency benefits, have you done any calculation on what the amount will benefit of inflow to the EBITDA?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [61]

I didn't get that question.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [62]

(multiple speakers)

Arun Jain, Intellect Design Arena Limited - Chairman & MD [63]

(multiple speakers) which is a benefit.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [64]

The cost structure is in rupees.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [65]

(multiple speakers) in rupees and dollar, so how much will it show...

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [66]

What benefit should we have in other companies because you are on the product side not on the services side?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [67]

70% cost is Indian cost -- or 65% cost is Indian cost.

Unidentified Company Representative [68]

(inaudible).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [69]

70% of the cost there?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [70]

(multiple speakers) 60 -- it's in the range of [65% to 75%] and it'll be India cost for us. So most of the (inaudible) major cost is outside.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [71]

And most of the revenue will be denominated in USD is it or India?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [72]

U.S. is the dominant currency, but we have equal number in GTB also which is India specific.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [73]

GTB would be the highest, sir?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [74]

Which one?

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [75]

GTB.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [76]

No, it will be the second in size in terms of value.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [77]

The first one?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [78]

USD.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [79]

So the (inaudible) smaller business in U.S., it's still within USD mostly is it?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [80]

No, no. For example, all the India exports on building your own is done in USD; In Dubai the level around all Middle Eastern countries are billed in USD. U.S, of course, billed in the U.S. So (inaudible) USD beyond the U.S. country, other countries also.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [81]

So 70% is in rupees, therefore -- and there's no question of renegotiation in any contract price, et cetera, because it is a product.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [82]

That's right. That's right.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [83]

So if the rupee goes to [17], even then you are pricing in...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [84]

And just to give us some comfort, we have some hedging done and if you need something, I can share with you some numbers. We have some hedging done to take care of the currency because you're committing costs for a longer period of time for consistency in the cost estimation and forecasting we do have some hedging.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [85]

Hedging at what price?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [86]

For example, you're asking question for '19, '20 -- sorry, for FY '18, '19 we have about 28 million hedged.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [87]

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28 million at what rate, please?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [88]

For '19, '20, we're hedged about 24 million and 69 million. I'm talking figures as of March 31 and 2020 when we have already about 17 million at 71.3.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [89]

So for '19, '20, 24 million at what rate?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [90]

19, '20, 24 million at 69.02. That's my hedging.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [91]

Okay. And anything on the other income? Like this time, it was relatively higher than what it was last quarter, so anything there?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [92]

If you're doing a quarter-to-quarter comparison, between Q3 and Q4, this year -- this last quarter, there are 4 components in the other income, 1 is basically my interest expense, which has been a reduction. Second is the exchange impact if any. The exchange impact this time is no negative. Last time there are some negatives. There's also sale of some assets (inaudible) is more or less same over 4, 5 quarters (inaudible) every quarter I'm getting. The impact of the associate companies will also be a little positive.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [93]

See, that (inaudible) shorter (inaudible) for that area. Sir, the other thing...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [94]

What it shows is a minority interest that was bought from the JV what we have -- one of the JVs we have in Bangladesh.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [95]

Minority and associates both together, right?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [96]

Yes, yes, associated part of this. And ultimately, (inaudible) because they also become positive and (inaudible).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [97]

Any asset sales you are looking for in FY '19?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [98]

Yes, there will be some.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [99]

Any amount that we can quantify?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [100]

We are talking about 2 effects which could happen next year, the financial year, in the range of about [INR 48 crores, INR 45 crores each].

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [101]

[INR 45 crores] For FY '19?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [102]

Yes, that is a sales price [impact].

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [103]

So it will not entirely flow through other income (multiple speakers).

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [104]

(inaudible) because they're all [gold] assets.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [105]

And sir, how many active clients did you have this time, FY '18?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [106]

Close to 245 (multiple speakers) basically (multiple speakers).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [107]

Was there a decline compared to last year?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [108]

Yes, our focus is not too many clients. I think our focus is to go deeper into our relationships now. Because our total market size is 1,000 so number of clients is not too much focus right now. Deeper is the [last] focus.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [109]

The last time -- last time it was around 275, is it?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [110]

Yes, 275 we are showing it. I think that there's some small clients here just getting out right now. Last quarter, we are seeing if a client is not paying (inaudible) from a license perspective we have 275. But on (inaudible) perspective, we want to keep it around (multiple speakers).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [111]

And 275 will have the overlaps between divisions; so actual number could be 240, 230?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [112]

Yes, we are trying to look at it those 2 clients, [paying] some Indian clients sitting at paying INR 2 lakhs, INR 5 lakhs for the year and we want to get rid of there (inaudible).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [113]

Okay. So that, sir, we should expect this to continue rest of the year?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [114]

So don't measure the metrics of the client, I should measure the metrics of it, but 2 focus we are changing Mohit; 1 is, I think, per deal value -- average per deal value and second is per customer revenues.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [115]

Trying to tell from that, I mean, it's (inaudible).

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [116]

So that's the focus on our journey for now, yes.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [117]

The 2.0 journey.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [118]

So to correct -- just for the record, sir, like last year you had 300 clients, now you moved to 245?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [119]

Yes.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [120]

Okay. And lastly, how many employees are there now?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [121]

4,000 plus.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [122]

4,000 plus (inaudible).

Arun Jain, Intellect Design Arena Limited - Chairman & MD [123]

Yes. We don't really mismanage the clients' employees, so...

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [124]

No remediation required for FY '19?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [125]

Will be required; if we are growing at the same rate, it will require delivery teams will require to grow in a proportion, not the license side, but it will be...

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [126]

And partnerships will also be there and product companies typically have 5,000 employees at the last year?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [127]

So really, have increase of 300 or 400 not in proportion to what you are seeing in a service company.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [128]

Correct (inaudible). Listen, one thing more from you, sir. Why this capitalization more varied every quarter, [right]?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [129]

No, this year, all the quarter has been 27, 28 -- 27, 28, (inaudible).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [130]

For the full year, it was supposed to be 26 then 27, 28, 28, 27?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [131]

But also because some of the development and (inaudible) also are expecting impact into that. But INR 2 crores, INR 3 crores..

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [132]

(inaudible) India right, or do you do it...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [133]

We also have some development in U.S. and some in U.K. we are doing. So -- and some work in Canada. So those are also there.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [134]

So the execution is only on account of currency is it?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [135]

Well, some minor (inaudible) INR 1 crores or INR 2 crores, we can't predict very clearly because some -- they're buying something, an activity company we have. But all the people that come around are more or less the same.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [136]

What is your number for next year, INR 26 crores quarterly or there's some increase in there?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [137]

No, no we are seeing INR 118 crores are (inaudible) beginning of the year. We ended around INR 111 crores.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [138]

I'm sorry, can you repeat that?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [139]

Sorry?

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [140]

Can you repeat that number?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [141]

In the beginning of the year, we're estimating our product -- new product development cost at INR 118 crores. We ended with INR 111 crores, one hundred and eleven.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [142]

And what is the outlook for '19?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [143]

Similar.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [144]

Similar.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [145]

Similar.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [146]

(inaudible) and GeM is included here or that will be separate?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [147]

You mean GeM?

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [148]

Yes.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [149]

(inaudible) because that is still in the process. And that is somewhat like a moderation of some prepaid bill costs. (inaudible) number last time over a period of 4 to 6 quarters could be in the range of INR 25 crores to INR 40 crores (inaudible).

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [150]

INR 25 crores to INR 40 crores capitalization.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [151]

Yes, some small amount in terms of [the green funds] because we are earning some revenue right now.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [152]

Okay, and the cost impact of GeM is fully there or first quarter will be the one then the ramp-up will (inaudible)?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [153]

Again, let me just take GeM as a separate thing, Mohit. GeM (inaudible) for the online investor, it has a potential of up to INR 500 crores revenue in the next 5 years. So we signed up the guarantee which gives it a forecast with the government to give us INR 800 crores revenue in next 5 years -- 5 years, 10 months. That's a total revenue size. So that could be a major upswing possible.

The total of GeM portal over the period of time has grown its public figures. Now they have in last quarter -- their sales per quarter has gone up to INR 3,000 crores in the quarter. So INR 1,000 crores a month start happening on GeM portal as of now. And it's expected to move up to INR 30,000 crores, INR 40,000 crores in this year. That's what their internal forecast is. We are seeing INR 20,000 crores, but we estimate INR 30,000 crores, INR 40,000 crores. And in next 2 years, it will go up to between INR 100,000 crores is the kind of the forecasted number.

Now the initial set of cost of setting up a telecom and [structure] provider, the call center cost, the marketing cost, the education cost to the government department, the portal and design which is long-term, 26th of January, was completed. The project has gone live 6 weeks ahead of schedule on 26th of January. We started booking the orders in the February, March.

Now it's moving -- some major costs have incurred but infrastructure cost, which is clear from initial infrastructure cost, we are still going to be incurring because this will not be in a linear proportion. Upfront costs will be higher. We are settling down our higher cost on technology and higher cost on support and services.

So that's where the exact [position] of the number is we know more when we plan the project. We know first 18 months by December. We said INR 35 crores to INR 40 crores will be our cost. Then it is getting incurred is the shifting on quarter-on-quarter. So that's the overall outlook of the GeM project.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [154]

INR 35 crores to INR 40 crores will come somewhere in FY '19 but we do not know which quarter?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [155]

Yes, which quarter. So we said -- not FY '19. We are seeing from September when we started until December 2019. And this cost will be charged over the period of that contract period, yes.

Mohit Jain, Anand Rathi Financial Services Limited, Research Division - Analyst, Technology [156]

So it has not come in the fourth quarter, for sure.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [157]

I think a small revenue and small cost as well, because as the revenue starts, some costs will get incurred. The major components come maybe a couple of quarters from now.

Operator [158]

The next question comes from [Ankur Jain].

Ankur Jain, - Analyst [159]

I have one question, which is this introduction of Ind AS 115 which is going to be effective 1st of April, 2018, and the company is evaluating some possible impact on revenue recognition. So could you throw some light on what are the kind of changes which Ind AS recommends and how will it impact the revenue recognition for the company?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [160]

We are still studying the impact so we need some more time to comment for the information. This is a standard which is globally impacted in April and meantime, for people to understand a little less or (inaudible), we are discussing with the auditors.

Fundamentally, the contract, basically, 2 major elements are coming into fore subject to a more detailed study is that it will have an impact in terms of the contractual terms, the performance obligation, timing of revenue recognition [there will be some] impact. So we're just trying to study to see whether we'll get impact or not. We'll need probably some more time before comment on it. It could not -- it will not affect the revenue early, there could be some impact on timing of the revenue being recognized.

Operator [161]

The next question comes from Rahul Jain.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [162]

Congrats on good number. Sir, if you could share in terms of what were the total daily wins across business in calendar -- or fiscal '18 and what was the same number for '17?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [163]

Just a minute, sir. This year, we won 50 deals and including 11 in this quarter. And we also mentioned that out of 50, 12 are large transformational deals. Is that the information you're looking for?

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [164]

Yes, and similar number for the previous year?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [165]

I need to spend some time.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [166]
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51 deals.

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [167]

I think approximately 51 deals we won last year.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [168]

Okay. So if I see -- though I mean, not from a value perspective but from account perspective, similar to last year and same as the situation for the total banking transformation deal cumulatively what the IBS typically publish.

So I mean, do you see that overall from a new win perspective going into '19 would also be a function of how many banks are going for transformation? Or we would now, going forward, be alienated from that and maybe able to deliver far better number of closure versus what may happen on a cumulative industry basis?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [169]

I think this deal value we may increase to some extent, but more important, deal value. So what you are monitoring, you need to look at it last year-on-year. Our brand and the size of the component we can bundle into the deal. That is going up. So my deal value per order, which was close to INR 1.5 crores, INR 1.6 crores has moved to INR 3.8 crores. So more deal value size is important now as we go into the mature product markets.

So since we are now seen as the best-in-class FinTech product, our average deal value, as you said, 32 deals are there which is more than INR 20 crores. So we are getting more and more larger deals. And that is more important now. So in Intellect 2.0 in monetization, we are looking to have a deal value higher and deeper deepening the customer relationship.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [170]

Okay. And the European deal that you spoke about, I mean, this looks pretty significant given the kind of -- the nature of the deal is. But if you see the TCV of it, given the market we are operating in, where the client is, how do you see this shaping up from a total potential perspective? Or you think for the scope of this business, this is the ideal ticket size for the deal?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [171]

I think -- we just entered into this with the IDC. This deal we need to evaluate carefully in next 12 months to implement successfully because this is against my arch rival Temenos. And these kind of values can be there in Europe. So look just from that perspective, you want to benchmark those deals.

This will be $10 million plus deal possible in Europe marketplace for 2019. From that perspective, it's quite okay. But we will like to calibrate our growth and we are conservative in ensuring that our quality of delivery is far better than our competition. So that '19, '20 would be the great year for us.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [172]

Okay. And we didn't spoke much on the insurance business. What is the situation there from an overall perspective?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [173]

The insurance business has won 7 clients in first 3 quarters, and that's where they are in implementation phase. It's the first of its kind on full digital cloud native AI and machine learning platform. So the traction on Xponent, which is underwriting orchestration, the pipeline is going very well.

Last quarter, there was no win from the insurance business. Cautiously, we are looking now to implement it carefully. So again, these are the calibration which we keep doing it. Sometime, we go aggressive on (inaudible) like first 3 quarters, 7 clients we won, and then we slow on the winning.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [174]

Right, so here, where we see the traction in from a going forward perspective? Is it more P&C, L&A? Any particular subsegment within the modules?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [175]

Underwriting decisions P&C. I mean (inaudible) and digital in LIC. So LIC deal has gone live so that we would like to take to other countries. LIC is live on digital so there are 2 levers on insurance, one is digital, second is underwriting. Underwriting is P&C and digital is life and P&C together.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [176]

Okay. For the S&M thing, we have seen this number look quite steady if you see full 6 quarter number. I mean, first, we were pretty conscious (inaudible) and then it again started moving up.

So 2 aspects there. One is that how we see the overall construct from a going-forward perspective. And our key partner kind of thing, what is the number for this quarter, the expenses that we have booked in this segment? And also, is it related to success fee or is it something which we need to incur on a recurring basis as well?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [177]

Okay, so partner is still -- partner is on a success basis, I think part of the question. On S&M cost, is that here proportional to, if there's commission income, it will go directly to the bottom line. Immediate costs today is around 36.3% is a last quarter S&M cost. So I think that it will vary between that number if we look at it. In (inaudible) -- so it's not going to go up substantially.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [178]

So my question is more is it like we had this number of INR 376 crores, is this the number that we try and budget it because percentage of revenue obviously will keep on varying? So this -- is this that key, look is the money I have spent, and this is the minimum growth I need to put in?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [179]

That's right, for 20% growth, that number is okay. If you're going more than 20% growth, then this number will [work].

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [180]

So you mean to say what we closed for FY '18, this run rate is good enough for us to grow at 20%?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [181]

That's right.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [182]

Okay, so that means if we do actually a 20% growth next year, this number remains flat itself, would give a couple of hundred basis points?

Unidentified Company Representative [183]

You are pushing the number. What I'm saying is we can't have so much (inaudible).

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [184]

We always do the planning in terms of quantum, not as a percentage. Quantum new country opening and new (inaudible) supplementary opportunities. So it's more quantum-based planning. We do -- we don't expect any major changes happening costs, but there'll be some plus/minus (inaudible).

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [185]

Right, and the R&D number that you said...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [186]

That will be constant.

Arun Jain, Intellect Design Arena Limited - Chairman & MD [187]

That will be around the same number, just (inaudible) plus/minus.

Unidentified Company Representative [188]

(inaudible) percentage increase.

Rahul Jain, Systematix Shares & Stocks (India) Ltd., Research Division - VP [189]

No, no, so the INR 53 crore number that you said, is it the number which we -- has incrementally gone into the amortization base, is it?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [190]

No, no, there are 2 things. The new product development costs, what we have been putting on the capital work in progress, out of that, we said INR 53 crores were capitalized and start [suffering] amortization, that's what I meant.

Unidentified Company Representative [191]

Maybe just tell investors calling, so media (inaudible)...

Arun Jain, Intellect Design Arena Limited - Chairman & MD [192]

Yes, you can have a call (inaudible)...

Unidentified Company Representative [193]

(inaudible)

Arun Jain, Intellect Design Arena Limited - Chairman & MD [194]

So we'll take some more calls if we can.

Operator [195]

The next question comes from (inaudible).

Unidentified Analyst [196]

Just wanted to understand are we -- from a cash burn perspective, are we neutral right now or are we still burning from an operational cash flow perspective?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [197]

Yes, I can have some separate calls shared with you, but as you see, we made a cash profit in P&L but we need some money from the capital new product development as well. I'll check the numbers with you separately.

Operator [198]

The next question comes from [Amit].

Unidentified Analyst [199]

So just wanted to know that as you said that the SG&A expenses is now sufficient for a 20% growth. So just wanted to know that how is your SG&A like focused? So it's like separate team of salespeople, spread for a particular geography or it's based on a particular product? So for example, you're focusing now on the U.S. (inaudible) and it's a highly competitive market. So maybe you will require a separate sales team there or the existing sales team can sell the existing products in the U.S., so how it will work?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [200]

Sales team are on this geography-wise, so this is a very standard practice that every area region has a sales team. So these numbers are accounting the salaries and compensation for those sales team in Asia-Pacific and Middle East and Europe and Americas and they sell all the products what is available in that -- it's not product aligned. So your question is, is it product aligned or geography aligned? It's geography aligned.

Unidentified Analyst [201]

Okay, so a single sales guy will sell all the 4 products that you have or...

Unidentified Company Representative [202]

Yes.

Unidentified Analyst [203]

Okay, okay. So there's no specific -- no...

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [204]

We have worked on presales. So we have a presales team which are product (inaudible) and done by a team of people and (inaudible) is done by the salespeople. We also have what we call presales but (inaudible) support from is called the line of business. So they are product specialists.

Unidentified Analyst [205]

Okay. And I'm just asking this question because as your focus shifts more to Europe and U.S. regions, will they require like different kind of salespeople who can like know (inaudible) -- like really well-connected to (inaudible)?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [206]

That's right. That's right. But we have already created over the last 2, 3 years investments we have made and created infrastructure in terms of people over there. We already have them. In the supplement we have them, yes. Thank you.

Unidentified Analyst [207]

And sir, you also earlier had said that 20% of the total products is under monetization and 80% is under development. So what's the current status as of now? Because what we have been seeing that we are investing INR 25 crores, INR 28 crores constantly every quarter on the product development part. So still, like we are -- still, we are like developing a lot of new products, so it's -- how that plays out now?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [208]

I think they're spending very small money compared to the global function. We said $18 million is the product road map. So as a digital company with 14 products, $18 million means $1.4 million per product for the year for keeping it current. And that's the lowest cost possible in the world. So we are most efficient. Product investment, which is required for product company. So that INR 25 crores to INR 28 crores, I think we should look at it from the perspective of keeping the 14-product doing cutting edge and best-in-class in a destination for fintech products. It's a very, very small investment from that perspective. R&D -- but this quarter, (inaudible) from your perspective and the investor perspective, the beauty there is that this cost what same when the company was INR 600 crores and the same cost is there when company is now INR 1100 crores, but this cost is constant. That's the way the operating leverage will come in.

Unidentified Analyst [209]

Okay, so are we expecting a new product in the iRTM space because that's (inaudible).

Arun Jain, Intellect Design Arena Limited - Chairman & MD [210]

It's still inclusive into this. This project is all-inclusive.

Unidentified Company Representative [211]

All (inaudible).

Unidentified Analyst [212]

Okay. And some is around the -- on the collections part, so the collection has [been] robust last year. So is there any further scope to improve that or we are still at the optimum level?

Arun Jain, Intellect Design Arena Limited - Chairman & MD [213]

We always say (inaudible) improve, but then you have to balance it. We are very close to what the global customers went there. We looked at some of the competitive people where we are. So look, we are reasonably in control. And obviously, we'll have some tenders here and there will happen every quarter, depending on the new deals entering which market. But I think we are at least reasonably stable side right now.

Unidentified Analyst [214]

So can we expect it to come below 100 this next 2 years?

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [215]

No, I would not like you to count that. I think if you are doing some estimation around current levels would look good. That's a good number, 120 is a good number (inaudible).

Operator [216]

The next question comes from (inaudible).

Unidentified Analyst [217]

Sir, my question I had, sir, the split of strong revenue growth and development expense is still in 50% of revenue (inaudible) for many quarters. When can we start seeing improvement in (inaudible)

S. Swaminathan, Intellect Design Arena Limited - Executive VP & CFO [218]

Yes, I think 50% of the operating margin is a good number to look at it. You're seeing it to start moving up, the more and more you are up in America business will grow. It'll start moving up the margins.

Unidentified Analyst [219]

Okay, sir, till the time our geographic mix doesn't shift towards those developed markets, we will be in this range?

Manish Maakan, Intellect Design Arena Limited - CEO of Intellect Global Transaction Banking [220]

That's right.

Operator [221]

The next question comes from [Amit].

Unidentified Company Representative [222]

Okay, I think let's close.

Unidentified Company Representative [223]

Yes.

Unidentified Company Representative [224]

Yes. [Amish or Amit]?

Unidentified Company Representative [225]

[Amit] anyway (inaudible).

Unidentified Company Representative [226]

Yes, so we are first -- I think we're right on time. Probably we can have one more and close (inaudible).

Unidentified Company Representative [227]

Anyone else is there over on the line?

Operator [228]

No, sir.

Praveen Malik, Intellect Design Arena Limited - VP of IR [229]

Okay, thank you.

Operator [230]

[Mr. Sharma] has asked again. Shall I take the question?

Unidentified Company Representative [231]

[Sharma], can we have an offline call, if you don't mind?

Unidentified Company Representative [232]

Because we want to close, [Sharma].

Operator [233]

Okay, sir. Shall we conclude the call?

Unidentified Company Representative [234]

We can conclude the call. Thank you, everybody, for participating in the call. In case any other questions of any of the other departments are there, please do call me. Thank you very much.

Unidentified Company Representative [235]

Operator, now you can close the call.

Operator [236]

Okay, sir. That does conclude our conference for today. Thank you for participating on (inaudible) conference. You all may disconnect now. Thank you all.

Unidentified Company Representative [237]

Thank you.