Stock Idea

IT & ITeS

February 03, 2021

Intellect Design Arena Limited

Designing the Future

Sharekhan
by BNP PARIBAS

Powered by Sharekhan's 3R Research Philosophy

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Intellect Design Arena Limited

Designing the Future

IT & ITeS	Sharekhan code: INTELLECT	Initiating Coverage

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

Reco/View	
Reco:	**Buy**
CMP:	**Rs. 361**
Price Target:	**Rs. 500**

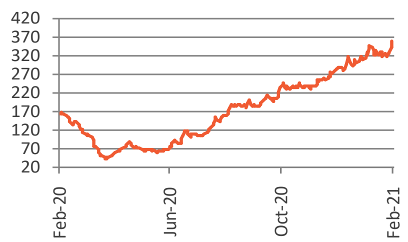
Company details

Market cap:	Rs. 4,795 cr
52-week high/low:	Rs. 363 / 44
NSE volume: (No of shares)	3.2 lakh
BSE code:	538835
NSE code:	INTELLECT
Free float: (No of shares)	9.1 cr

Shareholding (%)

Promoters	31.3
FII	26.4
DII	7.4
Others	34.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.7	56.3	124.4	120.8
Relative to Sensex	12.7	33.7	89.6	95.9

Sharekhan Research, Bloomberg

Summary

- We initiate coverage on Intellect Design with a Buy rating, with a PT of Rs. 500 as it is well-poised to gain market share given its future-ready products with flexible modules.
- Stock trades at reasonable valuation of 16x/12x its FY2022E/FY2023E earnings. Favorable industry tailwinds, anticipated improving financial metrics to aid re-rating of stock.
- The company focuses on increasing license-linked revenues, which is expected to improve profitability. Company turned net cash positive of Rs. 124 crore in Q3FY2021 from net debt of Rs. 102 crore in Q3FY2020.
- Huge addressable market, strong traction for mature products, rising annuity revenue, and improving margins would help company to clock revenue and earnings CAGR of 14% and 27% respectively over FY2021-23E.

Intellect Design Arena Limited (Intellect Design) is recognised as one of the global leaders in financial technology because of its wide spectrum of products for banking, financial services, and insurance. With significant investments in R&D (over Rs. 800 crore since 2014), the company has created a portfolio of ~12 products (contrary to many global software product companies which focus on 1-3 product lines) across its four lines of business units to de-risk its portfolio, enhance chance of winning more deals and increasing deal sizes. The company's flagship products under Global Transaction Banking (iGTB) and Global Consumer Banking (iGCB) business (both contributed ~ 70% of revenue) have matured (reduce the implementation timeframe), which would boost the company's annuity revenue and profitability going ahead. This is evident from increasing revenue contribution of annuity revenues (AMC + SaaS/subscription) to total revenues, improved to 30.5% in Q3FY2021 from 24% in Q1FY2020. Though the company's profitability and cash generation remained volatile despite a revenue CAGR of 14% over FY2014-20, there is a remarkable improvement in profitability (EBITDA margin at 25.5% in Q3FY2021 versus 0.9% in Q3FY2020) and operating cash flow over the last three quarters. We assume that increasing annuity revenue and profitability would improve the company's operating cash flow to Rs. 401 crore in FY2023 from Rs. 44 crore in FY2020. Management aspires to achieve 30% EBITDA margin over the next four quarters on the back of revenue growth, sharp focus on cost optimisation, favourable revenue mix, and lower R&D expenses (due to product maturity). Order booking stands at Rs. 1,203 crore (up 6.9% y-o-y and book-to-bill of 0.79x). We believe the company would continue to deliver strong revenue and earnings CAGR of 14% and 27% over FY2021-23E, led by strong deals win momentum, robust order bookings, healthy deal pipeline, increasing average value of license component in a contract, and sustained traction in the iGCB business.

Our Call

Valuation: Intellect Design is well-placed to capture the opportunities from rising spends on digital technologies by financial institutions, increasing demand for third-party banking software products, and higher addressable markets. With corrective actions and higher focus on advanced markets, the company could manage to lower DSO days (124 days in Q3FY2021) and improve cash flows. Improving cash flows helped the company become net cash positive of Rs. 124.2 crore in Q3FY2021 from net debt of Rs. 102 crore in Q3FY2020. At the CMP, the stock is trading at a reasonable valuation of 16x/12x its FY2022E/FY2023E earnings. With favorable industry tailwinds, future-ready product portfolio and possibilities of improving financial metrics, we believe there is a big-room for re-rating of the stock. Hence, we initiate coverage on Intellect Design with a Buy rating and a PT of Rs. 500.

Key risk

(1) Slower adoption of its products, 2) Introduction of superior products by peers or technology disruptions, and 3) Higher DSO days impacting working capital.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,449.6	1,346.9	1,494.6	1,720.9	1,973.3
OPM (%)	9.6	5.3	23.7	26.2	29.0
Adjusted PAT	131.3	16.0	245.2	293.8	394.0
% YoY growth		*(87.8)*	*1,433.8*	*19.8*	*34.1*
Adjusted EPS (Rs.)	10.2	1.2	18.4	22.2	29.7
P/E (x)	35.6	296.3	19.6	16.3	12.2
P/B (x)	4.7	4.6	3.7	3.0	2.4
EV/EBITDA (x)	34.5	69.8	13.5	10.2	7.6
RoNW (%)	14.1	1.5	21.0	20.4	22.1
RoCE (%)	9.2	0.2	19.0	21.4	23.4

Source: Company; Sharekhan Research

Executive Summary

3R Research Positioning Summary

- **Right Sector:**
  Higher spending on digital transformation would drive the banking software industry's growth for the next few years.
- **Right Quality:**
  Intellect Design has a full spectrum of technology products across sub-segments of the BFSI vertical. iGTB has a leadership position among global peers.
- **Right Valuation:**
  The stock trades at a reasonable valuation (12x FY2023E EPS), given possibilities of strong revenue growth, margin improvement, and strong cash generation.

Valuation and return potential

- USD revenue/earnings expected to grow at a 14%/ 27% CAGR over FY2021-FY2023E.
- Stock trades at 16x/12x its FY2022E/ FY2023E earnings.
- We initiate coverage on Intellect Design with a Buy rating and price target of Rs. 500 (based on 17x its FY2023E).

Catalysts

Long-term triggers

- Improving large deal win rate
- Robust cash generation
- Reduction in DSO days

Medium Term Triggers

- Increasing annuity revenue
- Improving margins
- Strong traction for products

Key Risks:

- Slower adoption of its products
- Introduction of superior products by peers
- Higher DSO days impacting working capital

Earnings and Balance sheet highlights

- US Dollar (USD) revenue has reported a 14% CAGR since 2014, ahead of average industry growth rate.
- License-linked revenue contribution improved from 41% in Q1FY2020 to 54% in Q3FY2021
- EBITDA margin expanded to 25.5% in Q3FY2021 from 0.9% in Q3FY2020. Both cash flows and net cash turned positive.

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Why we like third-party packed software space – Growing at a faster pace

We believe fintech companies will continue to grow at a faster rate as financial services have been focusing on providing enhanced digital experience to customers. There is a huge addressable market for financial software product companies as financial firms have sharpened their focus on providing seamless, real-time, and hyper-personalised banking experience to their customers. Further, the industry has been witnessing favourable trends for "Buy" versus "Build" ¬– indicating that clients are purchasing third-party solutions - across the board.

Industry overview

Technology spends remain resilient among large financial services firms

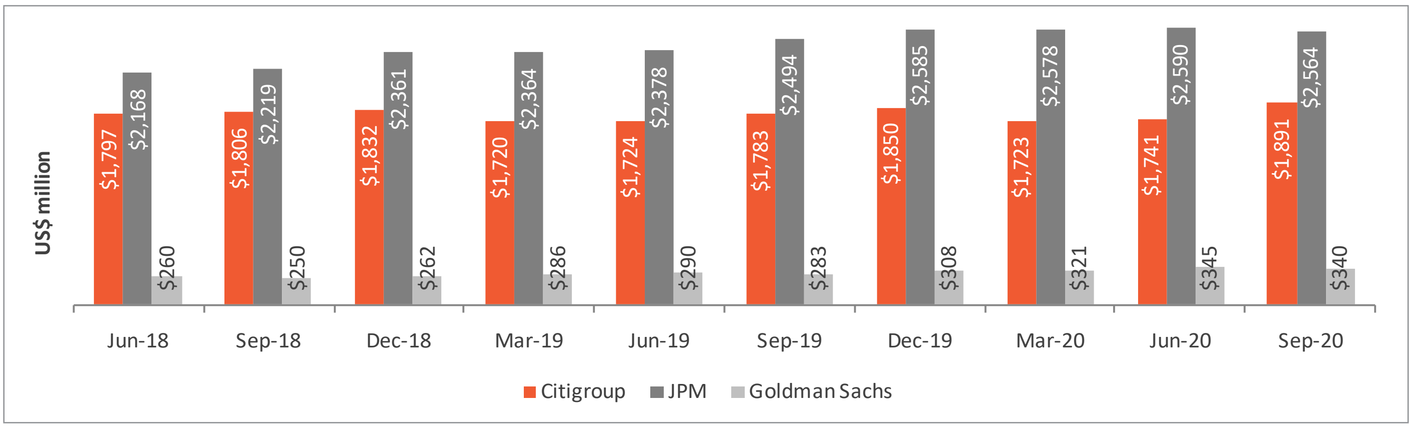
Implications from the outbreak of the pandemic have accelerated digital activities among large global enterprises, leading to increased spending on workplace transformation and collaboration tools, cybersecurity, and higher cloud migration. As technology is seen as a source of competitive differentiation in every industry, we believe technology spend is expected to remain at an elevated level in the next 3-5 years even after the situation normalises. Further, increased online activity is driving higher technology spends in developed markets, which would drive outsourcing growth in India as the Indian IT industry has remained far more resilient as compared to global competitors and captive units of large enterprises and talent diversity. Large global enterprises have increased spending on Cloud and Cloud-related technologies, workplace transformation and collaboration tools, and cybersecurity.

Despite the recessionary environment, most managements of IT companies also indicated higher spending on transformational works in the BFSI vertical, led by large stimulus programmes in developed markets and increasing fund distribution activities. Industry analysts such as Gartner estimates IT services spending would grow at 5%-8% over CY2021-CY2024E compared to average of 4.2% achieved in CY2010-CY2019. Forecasts indicate higher demand for cloud infrastructure services, potential increase in specialised software, potential investments in transformation projects by clients, and increased online adoption across verticals.

The BFSI portfolio has been resilient for Indian IT companies, supported by increased tech spend despite slowdown in enterprise revenue. BFSI tech spends are expected to be driven by (1) investments on digital channels and platforms, (2) infrastructure modernisation or migration to hybrid cloud, and (3) investments in security.

Banks are the highest spenders on technology. Despite tough period, technology spends by major US and UK banking clients remained strong during the quarter ended September 2020. Adoption of online channels by end-users accelerated investments in digitalisation by BFS firms across developed markets. Banks are leveraging technology for both cost reduction and improving customer experience. Large BFS firms are now more inclined to increase investments in new technologies to manage the adoption of higher digital channels by customers. However, we believe banks may not increase overall spends on technologies given low interest rate environment and potential risks to economic recovery. Hence, rising investments on new technologies will be funded by the extent of cost take out in the legacy technology and cost savings from operations. Indian IT is well positioned to capture opportunities in this space because of its strong relationship with large global BFSI firms, strong digital capabilities, superior execution, and customer-centric approach. We expect healthy growth in the BFSI vertical for Indian IT companies in CY2021, led by ramp-up of large transformational deals, market share gains, and higher outsourcing.

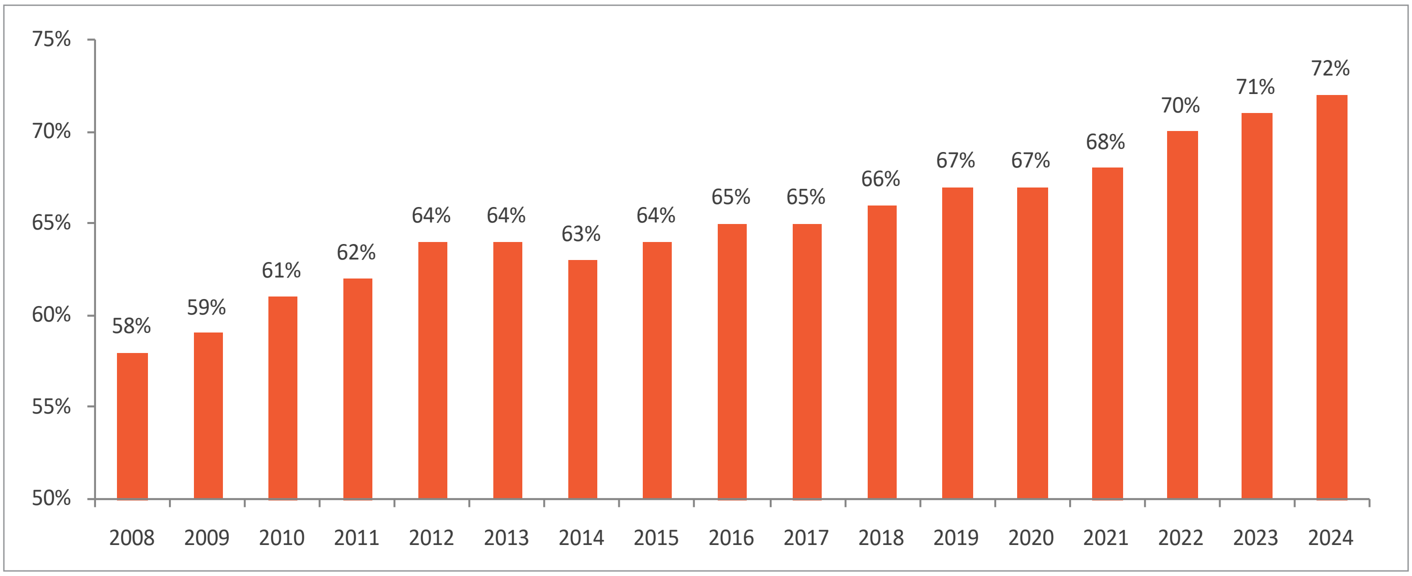
Technology spends remain resilient by large banks over the past few quarters



Source: Company, Sharekhan Research

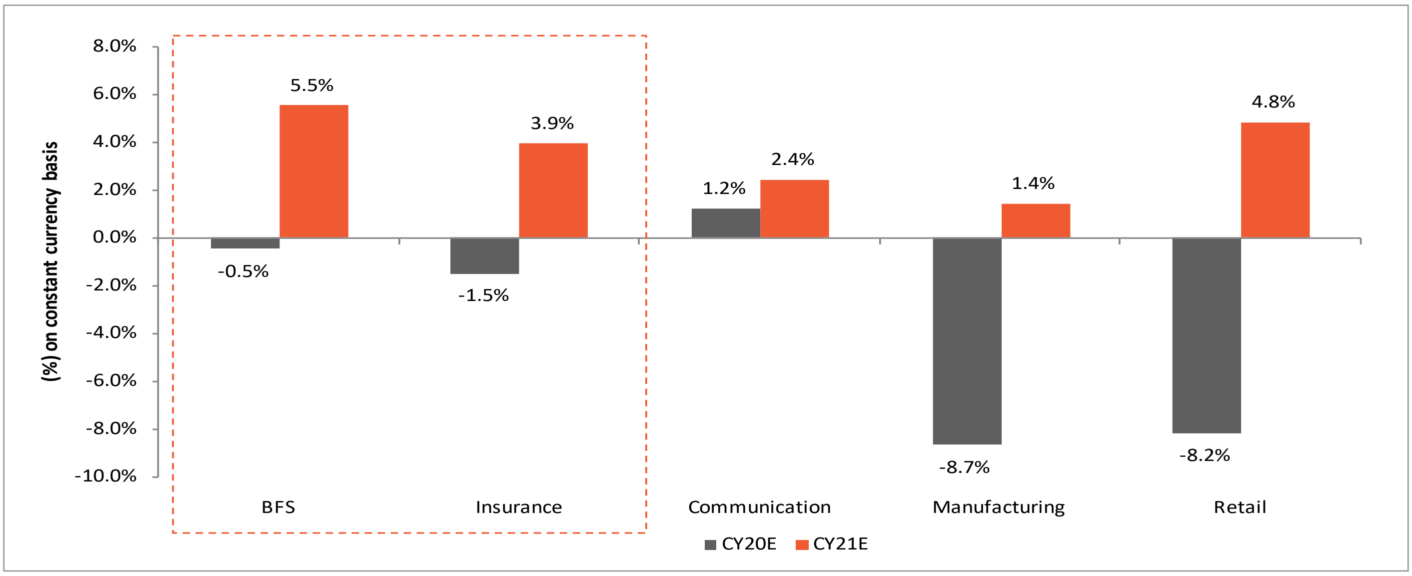
The financial services industry represents the greatest market opportunity for outsourcing with an increasing penetration rate and higher average spend. Financial service clients have been scaling up the digital transformation initiative to stay relevant to customers. Similarly, the insurance vertical has one of the best outsourcing penetration growth rates among all verticals. These large insurance firms have been capturing data and building analytics capabilities to understand customer preferences for their product development.

IT outsourcing likely to pick up



Source: Gartner, Sharekhan Research

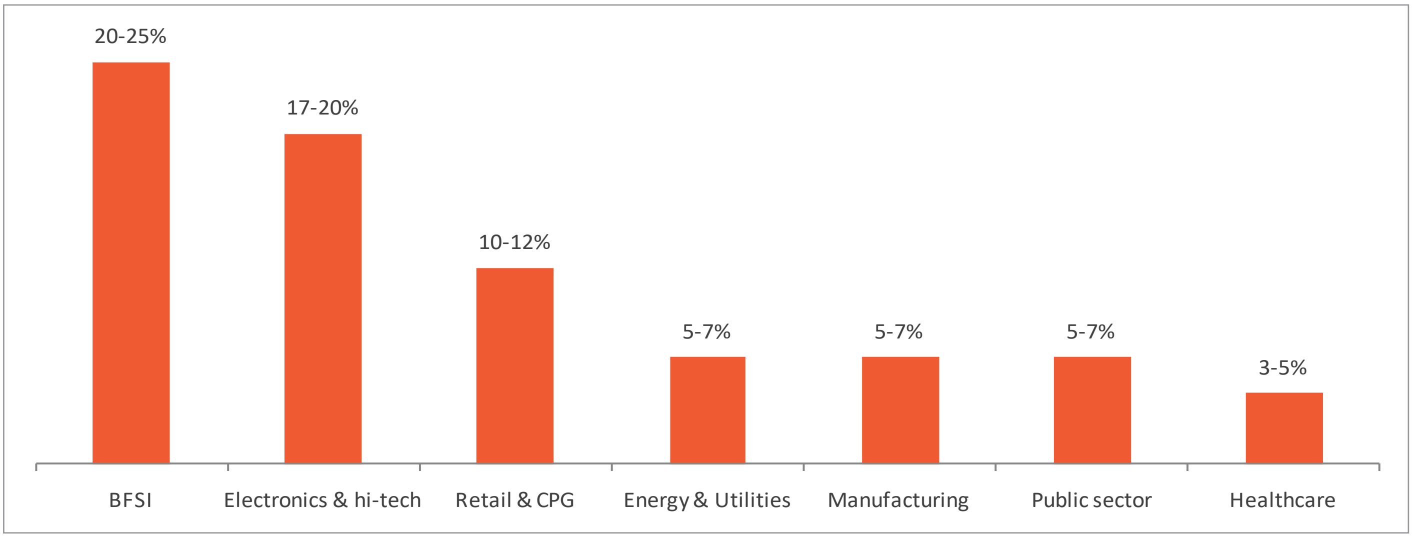
IT service spend growth by BFS & insurance vertical



Source: Gartner, Sharekhan Research

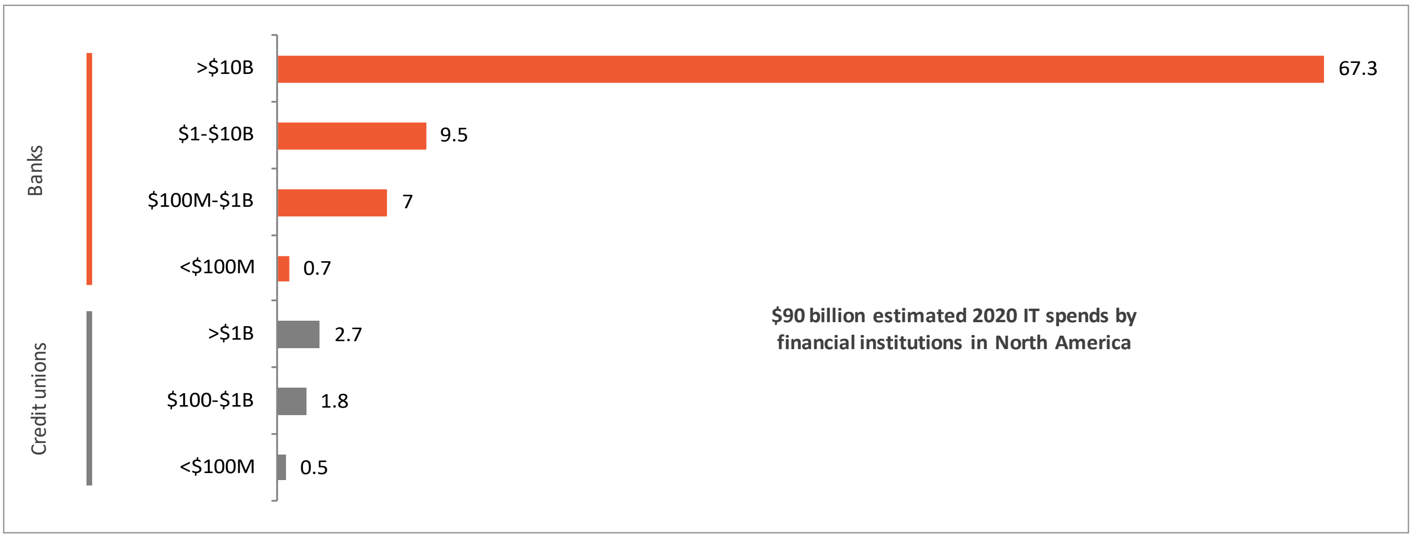
In terms of digital services adoption, a recent survey (of 295 global firms) by the Everest Group highlighted that consumer-facing sectors (including BFSI) and technology companies were leading digital services adoption as of 2019.

BFSI leads in terms of adoption digital technologies



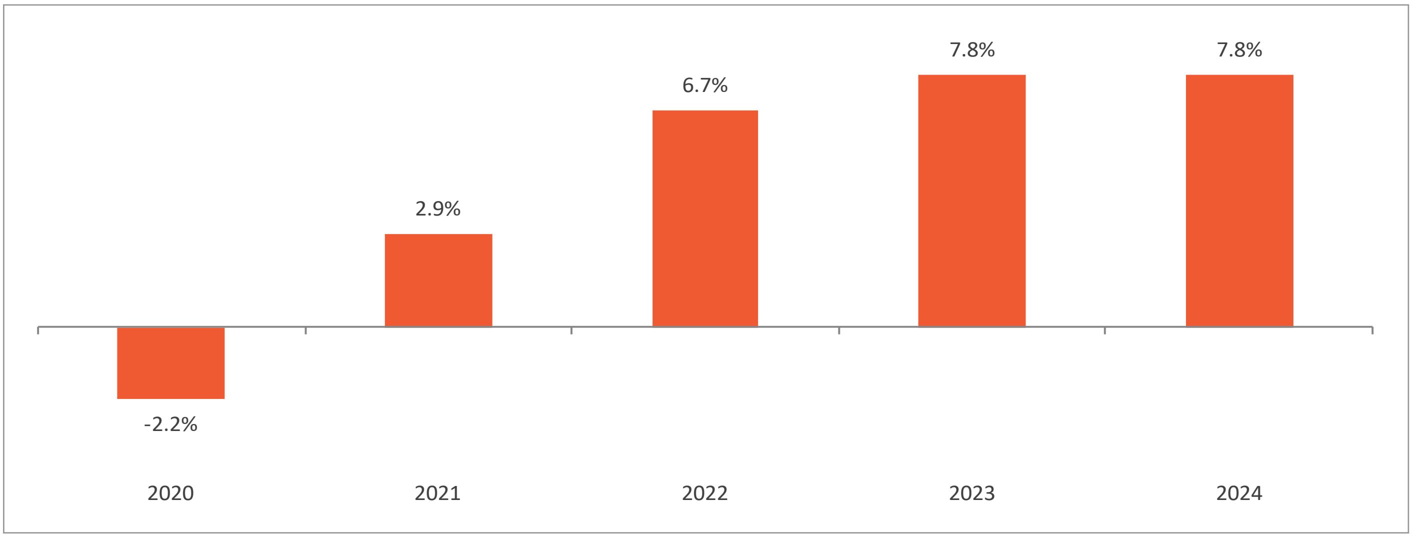
Source: Everest Group #% of respondents (n=295) as in 2019

Financial Institution IT Spend by Asset Tier



Source: IDC Financial Insights, North American IT spend

Estimated growth in IT spends by BFSI firms



Source: IDC Financial Insights, North American IT spend

Digital adoptions: Not a choice, but a necessity

The financial services industry is on the cusp of adopting digitisation, new-age technologies and products as these firms have sharpened their focus on providing a seamless, real-time and hyper-personalised banking experience to their customers. Further, the outbreak of COVID-19 has forced financial services firms to transform their operating models and focus aggressively on online digital channels and costs. This has resulted in increasing spends on digital channels and products and platforms among financial services firms to stay relevant to customers.

Fintechs have become an integral part of the financial industry. Enhanced customer services continue to be pivotal among financial services firm. The outbreak of crisis has exacerbated the need for digital solutions, video-based interactions, and omni-channel experiences. Investments on technologies by financial institutions have been rising because of rise of challenger banks, innovation in online payments, the changing market around lending and insurance, and the launch of cryptocurrencies. We believe fintech will continue to grow at a faster rate as financial services have been focusing on providing enhanced digital experience to customers.

Fintech covers

Lending	Marketplace lending and underwriting platforms
Blockchain/Crypto	Blockchain technologies for financial services
REGTECH	Audit, risk, and regulatory compliance software
Personal Finance	Bills and personal and/or credit accounts
Payments/Billings	Payments processing, and subscription billing
Insurance	Selling digitally or providing data analytics for (re)insurers
Capital & markets	Sales and trading, analysis, and infrastructure tools
Wealth management	Investment and wealth management platforms
Money Transfer	International money transfer and tracking software
Mortgage	Mortgage lending, digitization, and financing platforms

Source: CBINSIGHTS, Sharekhan Research

A number of technology trends are driving change across the banking landscape and influencing the approach banks take for their IT renovation. We expect financial institutions to invest their transformational budgets in the five most important areas in 2021.

Top Digital Banking Transformation Trends for 2021

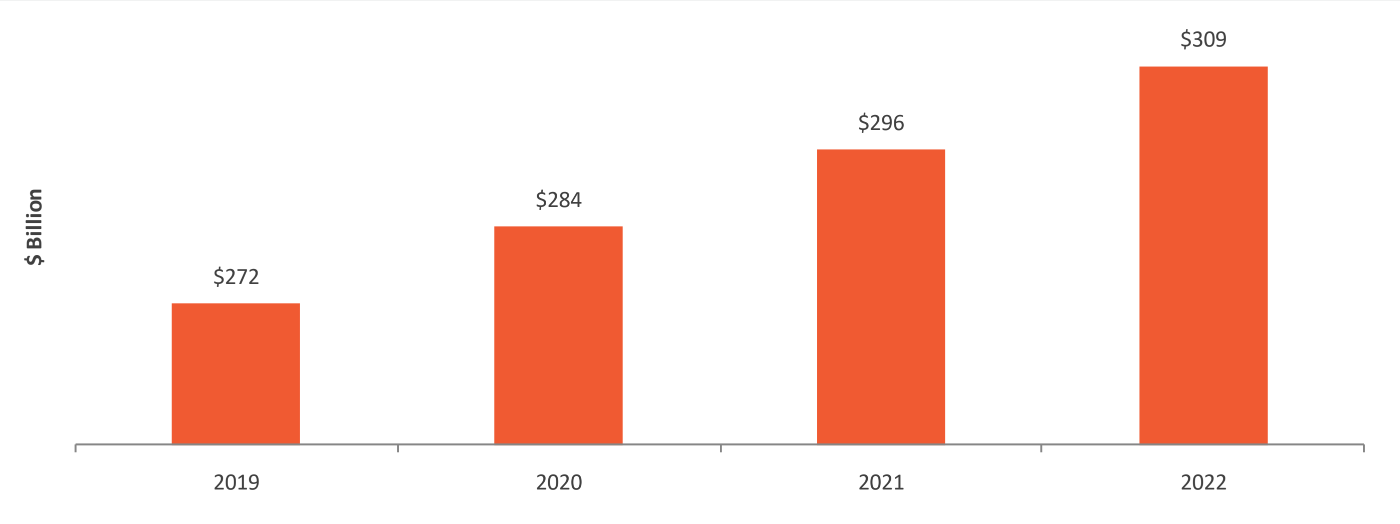
Trends	Remarks	
Next generation banking automations	Gartner predicts that sales from robotic process automation software cloud reach $2 billion in 2021	01
Moving toward the cloud	On average, financial institutions spend $18.5 million annually to combat cybercrime.	02
Open banking innovation	Open banking also reduces the cost of acquisition for financial institutions.	03
Data analytics	Analytics make it possible for financial institutions to turn data into real time interpretations	04
RegTech	RegTech is one of the fastest-growing elements of fntech/fnancial innovation.	05

Source: Industry Research, Sharekhan Research

The global financial technology market is expected to post a CAGR of 22% over 2020-2025, reaching a market value of $305 billion by 2025. Growth of the fintech industry is expected to outpace revenue growth expectations of the overall financial sector. Growth of the fintech market includes high investment in technology-based solutions and products by global financial institutions. The AI-focused fintech market is expected to report a CAGR of about 21% in the next five years.

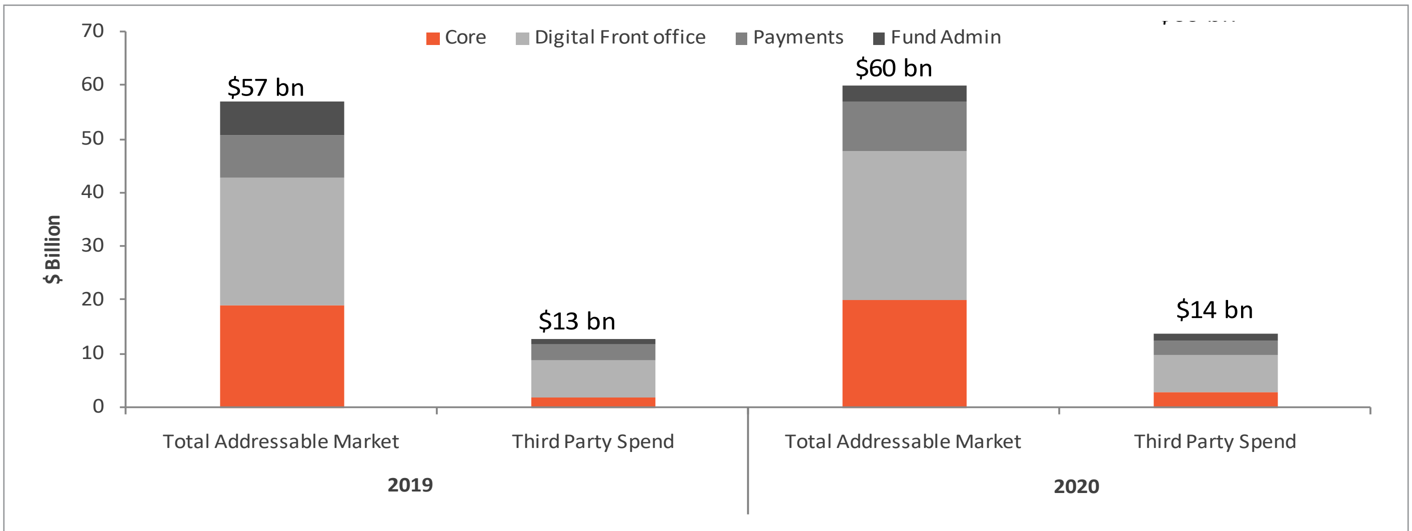
Overall bank IT spends are expected to grow around 4% per annum over 2019-2022, while spend on third-party packaged software would grow at 8%. This shows that banks are recognising the need to embrace change and rethink their business models. Core banking is expected to post a 7% CAGR, while the digital front office would report an 8% CAGR. Payments are expected to register a 10% CAGR over 2020-2022. Product business is expected to post a 14.5% CAGR over 2020-2022.

Projected IT spending for banks* ($ billion)



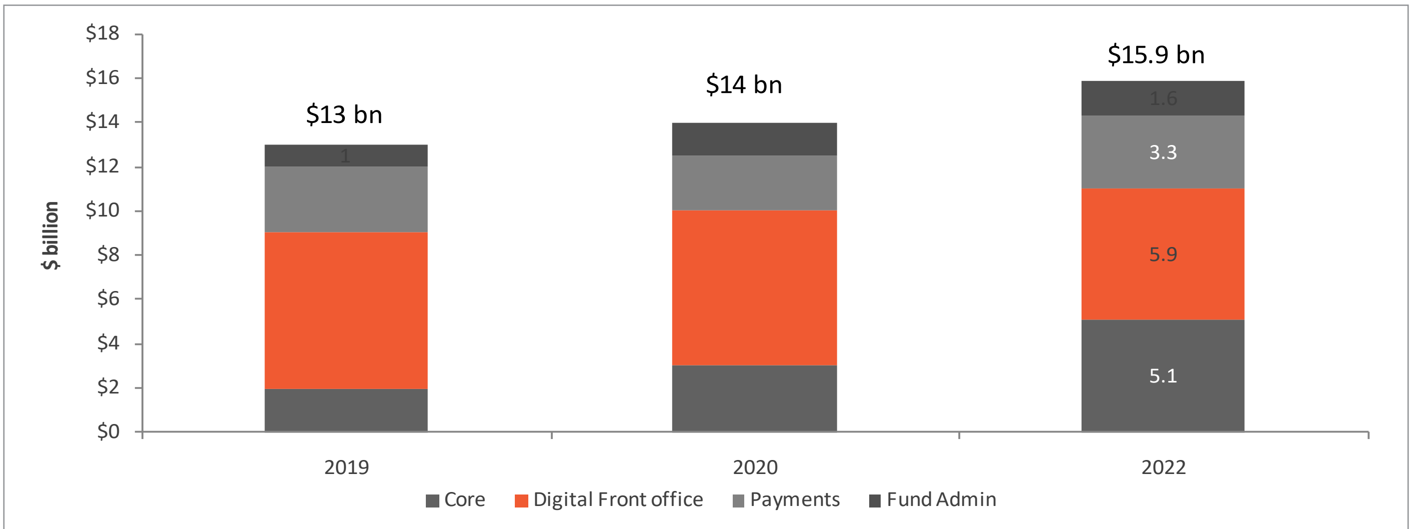
Source: Celent, Sharekhan Research
**IT spending patterns of banks in North America, Europe, Asia-Pacific, and Latin America.*

Third-party packaged software growing at a faster rate



Source: Industry research, Sharekhan Research

Expect growth momentum to continue in third-party packaged software



Source: IDC, Celent, Ovum, Sharekhan Research

The core banking software (CBS)

COVID-19 crisis has acted as the catalyst for accelerating demand for core banking packages as banks have been adopting digitalisation strategies to stay relevant to customers. CBS typically includes deposit, loan, and credit processing capabilities, with interfaces to general ledger systems and reporting tools. Major players in this space are EdgeVerve Systems, Oracle, TCS, Temenos, while Intellect Design and Mambu have been strengthening their position this space. Intellect Design has its CBS product i.e., Intellect Digital Core, IDC 20. Intellect Design's customer base is mainly universal banks in the small-to-midsize-bank tiers. IDC 20 is a comprehensive contextual banking suite across core, lending, treasury, trade finance and cards. Designed around the powerful Digital 360 approach, IDC 20 presents banks with the best of both worlds i.e., customer experience (Digital Outside) and operational efficiency (Digital Inside).

We observe some large banks have been reluctant to embark on core systems replacement as they are not well equipped for this change given the limitations of their aging legacy systems.

Gartner's magic quadrant for global CBS

Source: Gartner, Sharekhan Research

Digital Transaction Banking (DTB)

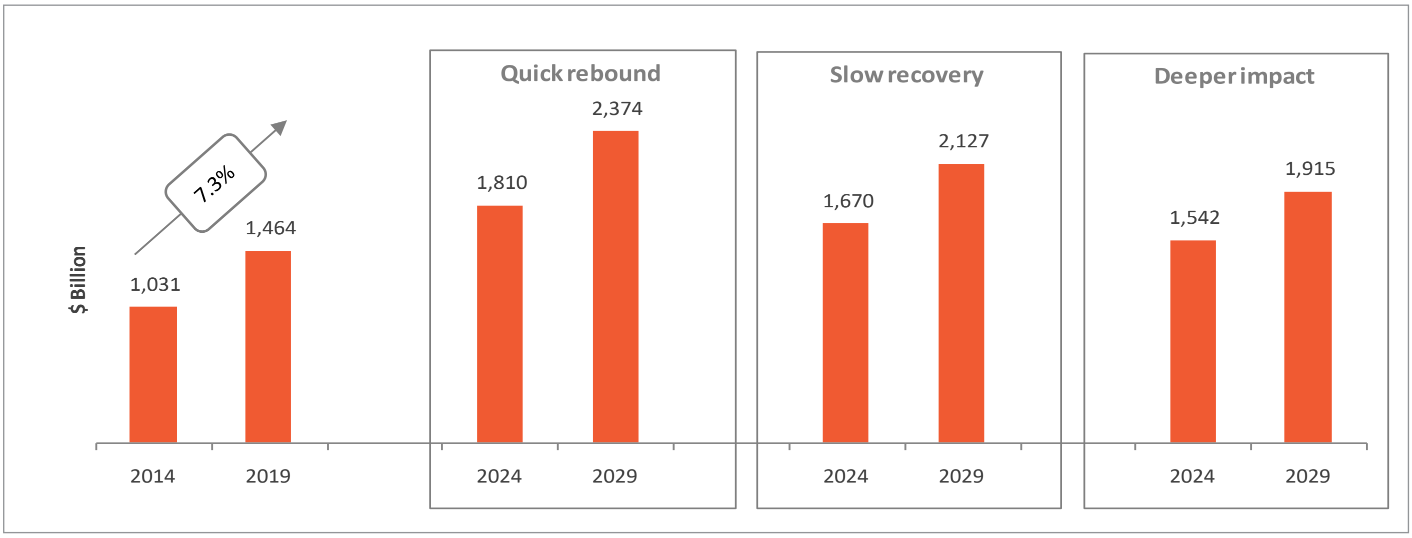
Digital transaction banking enables banks to be disruptive in the digital financial industry through its fully integrated transaction banking platform. With this platform, banks can build solution ecosystems that deliver seamless digital experiences across the corporate financial supply chain. Transaction banks invest into technology platforms to primarily optimise capital and maximise ROA (and fee income), improve product cross-sell, distribution channel effectiveness, support SME franchise, and growth sectors and ensure full regulatory compliances.

DTB is usually API-enabled and fully integrated solutions powered by rich analytics. DTB primarily includes transaction banking, liquidity management, customer onboarding, cash flow forecasting, virtual accounts, payments, client money management, cash management, payments, account services, collection & receivables, trade and supply chain.

After a year of massive disruptions in supply chain owing to COVID-19 crisis, there was a significant recovery in global business to business transaction volumes. As per Tradeshift's analysis of digitised invoicing and ordering data, the number of transactions between buyers and suppliers in the US grew by 29% in Q4CY2020, which is 2x of growth seen globally during the period. Trade activity in the Eurozone rose by 22% on a sequential basis.

Corporate banking income of global banks posted an 8.2% CAGR over the past decade. According to Boston Consulting Group, annual global payments revenue could reach $1.8 trillion under a quick COVID-rebound scenario. Under a quick-rebound scenario, global payments revenue pool will expand at a CAGR of 4.4% over 2019-2024, reaching $1.8 trillion in 2024.

Global payments revenue likely to reach $1.8 trillion by 2024



Source: Global Payments Model 2020, Sharekhan Research

In the transaction banking category of wholesale category, Intellect iGTB of Intellect Design emerged as the market leader.

Ranked based on new customer deals in transaction banking (Wholesale Banking)

Rank	Product	Vendors
1	Intellect iGTB	Intellect Design Arena
2	Fusion Trade Innovation	Finastra
3	FinnAxia	Nucleus Software
4	Finacle Cash Management Suite	EdgeVerve (Infosys Finacle)
5	Vtransact Ecollect	MindGate Solutions

Source: IBS Intelligence 2020, Sharekhan Research

Payment systems

The current trend of integration of payment services into different kinds of products and services will continue, further fostering growth in the payment sector. This will also continue to be a promising area for providers of white label banking services. As banks are becoming more customer-centric, they are adopting newer technologies to provide frictionless payments for customers. Moreover, investing in an efficient payment system has become important as it reduces the risks of money laundering and fraudulent activities.

Ranked based on new customer deals in payment systems (Retail Payments)

Rank	Product	Vendors
1	Temenos Payments	Temenos
2	UP Retail Payments Solution	ACI Worldwide
3	SmartVista	BPC Group
4	Finacle Payments	EdgeVerve (Infosys Finacle)
5	Intellect iGCB	Intellect Design Arena

Source: IBS Intelligence 2020, Sharekhan Research

With the growing number of cross border payments and rising activities in the business sector, the wholesale payment ecosystem has become more diverse. This category of payments is required for maintaining strong corporate relationships and maintain a steady global trade flow.

Ranked based on new customer deals in payment systems (Wholesale Payments)

Rank	Product	Vendors
1	UP Real-Time Payments Solution	ACI Worldwide
2	VolPay Ecosystem	Volante Technologies
3	IMS Enterprise Messaging Hub	ECS
4	Fusion PAYplus	Finastra
5	SWIFT	ECS
6	GPI Module, Compliance	ECS
7	IMS- Corporate Payments	ECS
8	IMS Enterprise Payments Hub	ECS
9	Finacle Payments	EdgeVerve (Infosys Finacle)
10	Fusion Global PAYplus	Finastra
11	Intellect iGTB	Intellect Design Arena

Source: IBS Intelligence 2020, Sharekhan Research

Risk management

Risk management software has gained importance because of growing complexities and competition within the banking sector. Further, the risks need to be predicted and mitigated on time to prevent large scale losses. The number of deals in risks management has increased in deals in recent years.

Ranked based on new customer deals in risk management

Rank	Product	Vendors
1	Temenos Risk and Compliance	Temenos
2	MX.3	Murex
3	Credit Risk Management Platform	Actico
4	AXIS	Asseco
5	Fusion Risk	Finastra
6	Intellect Risk Management	Intellect Design Arena

Source: IBS Intelligence 2020, Sharekhan Research

Ranked based on new customer deals in compliance management

Rank	Product	Vendors
1	Univius Anti Money Laundering Solution	Infrasoft Technologies
2	Univius FATCA CRS Solution	Infrasoft Technologies
3	AMLOCK	3i Infotech
4	Intellect Risk Management	Intellect Design Arena

Source: IBS Intelligence 2020, Sharekhan Research

Retail Banking

Retail banking focuses on the acquisition of new customers and increasing wallet share from existing customers. Hence, operating model of the retail banking industry is changing intensely to stay competitive and improve customer experience. Retail banks have been replacing their legacy organisation structures, processes, and go-to-market propositions with a more customer-centric operating model that is simpler, leaner, more flexible, and able to quickly adapt to changing market and regulatory requirements.

Intellect Design's retail banking product helps in intelligence-driven routing of fund movements, payment processing, and balance consolidation for corporate customers, apart from the workflow and document management with trade partners. Intellect Design is ranked #1 in retail banking by the IBS Annual Sales League Table 2020 and is a leader in the Gartner Magic Quadrant, the fully integrated digital solution caters to retail, corporate, and SME banking segments.

Competitive landscape

Intellect Design's product suite is a full spectrum banking technology product for banking, financial services, and insurance. Intellect Design's product spread spans across global transaction banking, consumer banking treasury, and capital markets and insurance. Intellect Design products compete with global players such as Temenos, Oracle Financial Services, Finastra, FIS, FISERVE, ACI Worldwide, and Indian competitors such as Infosys and TCS along with few regionally available solutions providers in different geographies. The competition is spread across various segments of the BFSI sector based on the offerings and the company competes with different players across various product line.

Competitors across its offerings

Product	Competitor
iGTB	Finastra, ACI Worldwide, CGI, Chinasystems, Dufftail, Clear2pay, Infosys and Bottomline
Consumer Banking	Temenos, Finastra, TCS, Finacle, Oracle, Mambu and nCino
Lending	Newgen, Nucleus, Indus
Risk, Treasury and Markets	Calypso, Murex, Finastra, FIS, Fidessa, Flextrade, Vermeg, TCS
Wealth	Temenos, Avaloq, Misys, Additiv, Edgeverve, Sage
Data/Insurance	Carpe Data, Planck, Guidewire, Fineos and iPipeline

Source: Company, Sharekhan Research

Medium-term catalysts: Margin expansion, new logo addition, traction for its mature products

Long-term triggers: Improving large deal wins rate, traction for products under iRTM and Intellect SEEC

Why we like Intellect Design – Diversified product portfolio; Leadership position in transaction banking space

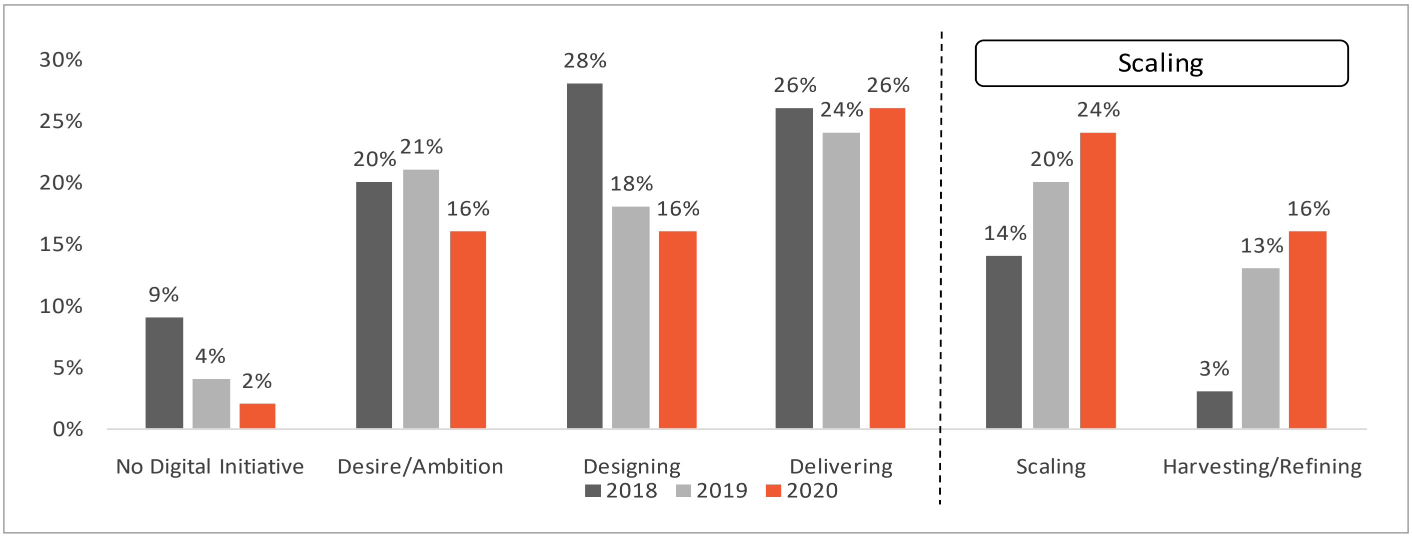
Intellect Design has a full spectrum of future-ready products/solutions with flexible modules across sub-segments of the BFSI vertical. The company's iGTB is a market leader in advanced markets, given its model bank approach to tailor its solutions based on buyer's needs, powerful risk mitigation modules, and burden of adapting to regulatory agendas at the local and broader level.

Investment arguments

Structural drivers: Digital is getting mainstream in the BFSI vertical

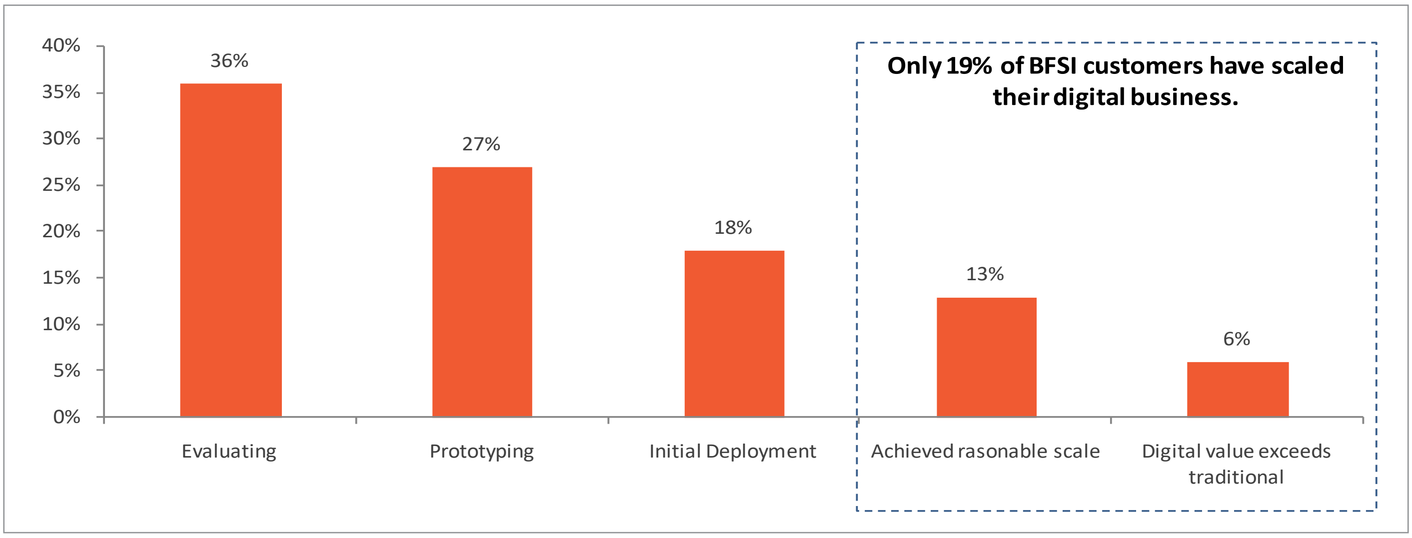
COVID-19 crisis and the adoption of digitisation have accelerated technology demand across sub-segments of BFSI verticals. Large financial firms have accelerated investments around digital technologies in a massive way, owing to higher adoption of digital channels by customers, migration to cloud, and disruptions due to AI and ML. Though the low interest rate environment has impacted BFSI revenue (net interest income), measures from the government/regulator towards the pandemic, including fiscal stimulus, have supported the sector as they have been conduits for broader economic support. Intellect Design has a full spectrum of technology products/solutions across sub-segments of the BFSI vertical. The company builds, maintains, expands, and extends superior technology infrastructure for sub-verticals of the banking industry, such as 1) retail banking, 2) corporate banking, and 3) risk, treasury, and capital markets and the insurance industry. Hence, we believe Intellect Design is well placed to participate in the transformation journey of financial institutions across the world.

Digital projects have gained significant scale over the past 12 months



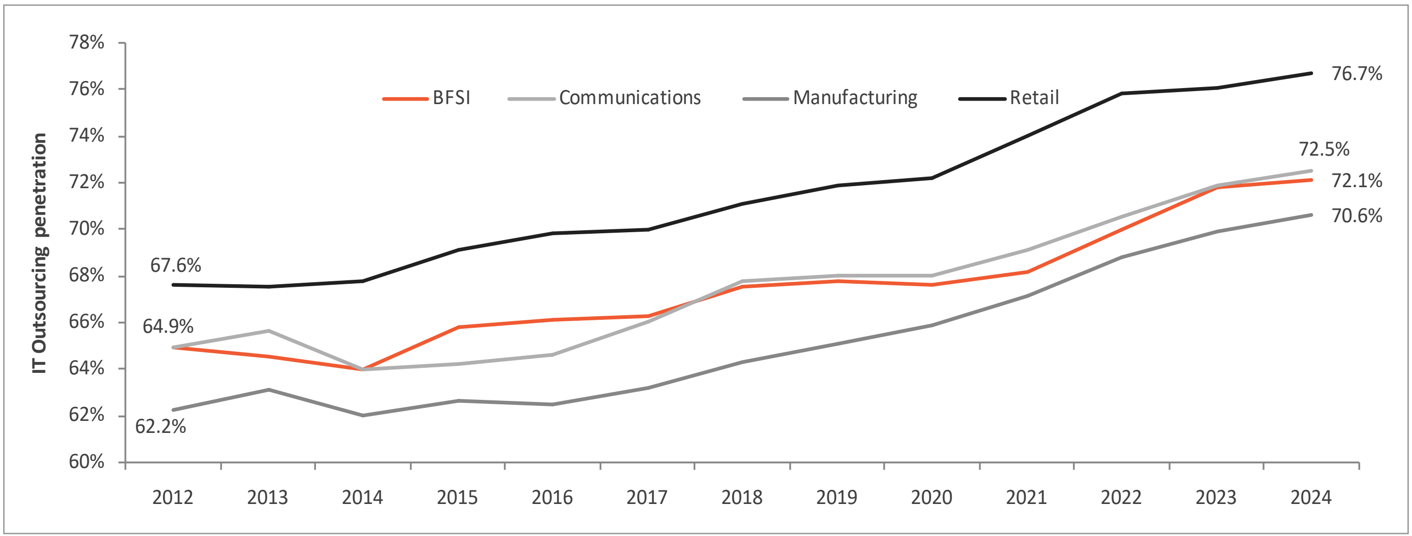
Source: Gartner

> 20% BFSI clients have scaled digital business



Source: Gartner, Sharekhan Research
**% of respondents (n=67) as of Sep-2018*

BFSI – IT outsourcing penetration to accelerate



Source: Gartner, Sharekhan Research

The company addresses global technology requirements of banks (corporate and retail), financial institutions (central banks, non banking financial houses), capital markets (mutual funds, brokerage houses, and custodians), and insurance carriers.

Comprehensive suit of products across sub-segments of BFSI

Industry	Products in each sub-segments	
Corporate Banking	▪ Digital Transaction Banking ▪ Liquidity Management Solution ▪ Trade & Supply Chain Finance	▪ Payments ▪ Contextual Banking Experience
Retail Banking	▪ Digital Wealth (Wealth Qube) ▪ Retail Banking (CBX Retail) ▪ Central Banking	▪ Digital Core ▪ Digital Lending
Risk, Treasury & Capital Markets	▪ Brokerage Solution (Capital Alpha) ▪ Treasury and ALM (Capital Cube)	▪ Asset Servicing (Capital Sigma)
Insurance	▪ Underwriting (Xponent) ▪ Risk Analyst	▪ Magic Submission

Source: Company, Sharekhan Research

A full spectrum of product suite for BFSI, industry-leading position in transaction banking

Intellect Design has a strong full spectrum product suite for banks, financial institutions, and insurance companies. In the full-spectrum suite of products, the company offers digital banking solutions under four focused line of businesses – 1) Global Consumer Banking (iGCB), 2) Global Transaction Banking (iGTB), 3) Risk, Treasury and Markets (iRTM), and 4) Insurance (Intellect SEEC). iGTB is the global transaction banking platform that offers a comprehensive solution that covers the entire corporate financial supply chain from payments to treasury management in a fully integrated manner. Transactional banking products suite is the largest contributor to the company's revenue as products are designed based on the specific requirements of banks in advanced markets. The company's iGTB is a market leader in advanced markets, given its model bank approach to tailor its solutions based on buyer's needs, powerful risk mitigation modules, and the burden of adapting to regulatory agendas at the local and broader level. The product is fast capturing market share across countries and finding adoption from both mature banks as well as aspirant entrants to transaction banking. The transaction banking has over 91 customers, with multiple product installs and multi-country roll-outs. The business has a strong deal pipeline at the end of FY2020. The other three strategic business units have been progressing well among customers.

Global Transaction Banking (iGTB)

iGTB is an integrated and vertical solution that enables banks meet their ambition to be the principal banker to corporate customers. iGTB provides full spectrum, fully integrated products that run in over 85 financial institutions, across 91 countries. The acceptance of its products under the digital transaction banking space was due to its early investments into artificial intelligence, machine learning, go-to-market strategies, and talent capital. A category leader in growth markets, this product is fast capturing market share across countries and finding adoption from both mature banks as well as aspirant entrants to the transaction banking business.

iGTB is the largest contributor to its revenue and has a leadership position across markets, given its strong traction among customers, brand positioning, and potential cross-sale opportunities. This segment primarily focuses on the complete transaction of the banking platform and has products to manage corporate cash, liquidity, and trade and supply chain finance leveraging machine learning and predictive analytics. iGTB is considered as central to a bank's digital transformation journey to simplify and automate its customer journey. With iGTB, corporate/transaction banks can successfully optimise capital, maximise ROA and fee income, improve product cross-sell and distribution channel effectiveness, support SME franchise, growth sectors (through working capital provisioning and advisory services), and ensure full regulatory compliance for large to very large corporates.

iGTB is a leading fintech brand trusted by leading corporate banks in the world. This business unit's revenue has nearly doubled from $53 million to $100 million between FY2017 and FY2019. This business has significantly gained market share in both advanced and growth markets over the past two years. Slowdown in the iGTB business and shift to the subscription model have impacted its FY2020 top-line growth. We believe growth of this business unit will be driven by shifting from physical distribution to digital distribution, rapidly expanding APIs into corporate banking business, simplicity of onboarding, array of features for SMEs (such as mobile on boarding, insta-banking, shorter receivables cycles, etc.) and consumerisation of commercial banking.

Major products under iGTB platform

- **Digital Transaction Banking:** Digital Transaction Banking (DTB) is an integrated platform that prepares transaction banks to provide for every client and every sector's needs, with a configurable and an intelligent platform. Leveraging the platform, banks can build solution ecosystems that deliver seamless digital experiences across the corporate financial supply chain. It provides integrated cash management and trade and supply chain finance solutions to clients. Several implementations of DTB went live in FY2020, some of them securing awards to their respective customers

- **Contextual Banking Experience (CBX):** CBX is built to enable banks to run lean, experiment, and operate with speed and agility, while focusing on technology resources on innovation. The product supports a comprehensive set of user journeys across corporate banking and enables recommendations to customers, driven by an AI/ML engine that generates predictive analytics. With its leading edge user interface, the product has established a significant footprint in both advanced and growth markets and is a recognised category leader. The market leading CBX cash management platform is widely installed and addresses all the objectives of any bank's digital transformation initiatives.

- **Payments Services Hub (PSH):** It is a centralised solution that enables payment initiation, processing, orchestration, execution, and end-to-end visibility of all transactions through pre-defined, intelligent workflows. This offers advanced cash management for corporate banking through the loosely coupled, workflow connected channel aggregation and orchestration and end-to-end payment processing. It has processed more than one million payments per hour. Intellect Design has done significant work around payments with a large bank in North America and is looking to replicate that success story in other accounts.

- **Liquidity Management Solution (LMS):** iGTB's latest liquidity management solution (LMS) is the most powerful platform in the market, empowering corporate treasurers with not just pooling, sweeping, and intercompany loans, but also with policy-driven automated investment sweeps, cash flow forecasting, and real-time funds checking. Crucially, it includes features for Basel III compliance as well as handling local or regional regulatory and tax options to ensure operational compliance and strong corporate governance. With 23% of the world's sweeping structures passing through LMS from iGTB, the product is licenced by 40+ banks, including JPMC, ANZ, Lloyds, and others. The product was launched recently in the cloud native, API-driven version, won a deal in North America with a very large global bank and had a strong deal pipeline at the end of FY2020.

- **Intellect's Trade and Supply Chain Finance:** This platform integrates traditional trade and contemporary supply chain finance across a single common modern architecture. Fully digitalised modules extend across the integrated trade and supply chain platform, cutting through the clutter and delivering easy-to-use value-added services to end users. The front-to-back digital platform reduces the paperwork and simplifies the processing of all trade and supply chain finance transactions. Intellect Design has implemented this product for a large customer in Europe and is going live in phases for a multi-country implementation in Asia.

Well-positioned with strong product offerings: Banks are trying to make corporate transactions that include liquidity, trade and supply chain transactions. Intellect Design is one of the product companies that has single architecture-based solution (iGTB) with all these above features. Intellect Design is well placed in this business, given its flagship products, strong leadership team, and large client base. Management believes the top three products (digital, payment, and liquidity) have leadership positions in advanced markets. Notably, this segment's revenue grew 2x over FY2017-FY2019 and now it contributes around 45% to total revenue. This segment's gross margin (around 60%) is at the highest among its four LOBs. Management is also witnessing tailwinds in terms of shifting from 'Build' to 'Buy' and from product implementation to platform adoption. Out of 57 deals in the market place over the past four years, Intellect Design has won more than 24 deals in this space, while the second player has won only five deals. iGTB now has 11 clients in the US out of Intellect Design's portfolio of 25 in North America, reinforcing its position as partner of choice. Overall pipeline continues to remain healthy for the next few quarters.

Company's clientele in iGTB

Clients
HSBC, Barclays, Bank of Montreal, ANZ, JPMC, Banco Santander, SEB (Sweden), Mashreq Bank (UAE), Emirates NBD, QNB, Hong Leong Bank, ADIB, Bangkok Bank, First Abu Dhabi Bank, Societe Generale (India), Westpac, Raiffeisen bank, CIBC, NAB, Techcom Bank

Source: Company, Sharekhan Research

Global Consumer Banking (iGCB)

The iGCB solution spans business processes across retail, private, and corporate banking, capital markets, and asset management. A key functional advantage of the iGCB platform is its ability to co-exist with legacy systems while supporting the road map for future modernisation. Under iGCB, the company provides a full-spectrum suite of consumer banking products spanning core, lending, wealth, mobile and internet banking, cards, and central banking.

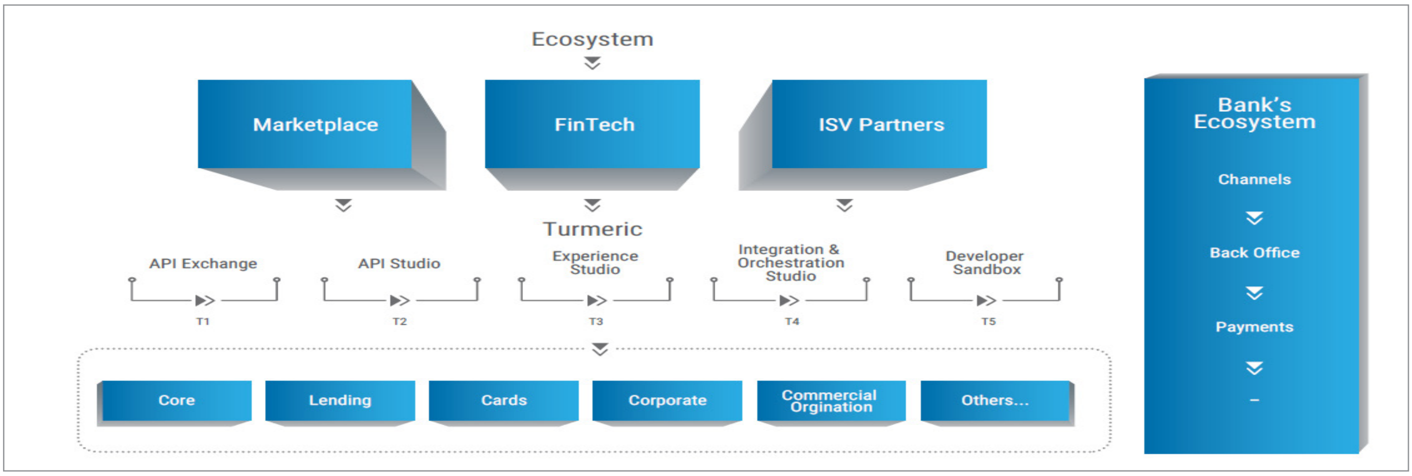
Major products under iGCB platform

- **Intellect Digital Core:** Intellect Digital Core, IDC 20, is a comprehensive contextual banking suite across core, lending, treasury, trade finance, and cards. Designed around the powerful Digital 360 approach, IDC 20, presents banks with the best of both worlds i.e., customer experience (Digital Outside) and operational efficiency (Digital Inside). IDC harmonises the power of digital technological platforms such as Canvas and offers comprehensive core banking solutions that touch customers through various channels. The product has gone live in a Cloud deployment model in the UK, an assertion of the company's ability to meet regulatory, data privacy as well as advanced market demands. The product is available both on on-premise and Cloud model. The company has recently been rated #1 in the IBS Sales League table for retail banking. The company has several deals for this product in the pipeline across geographies.

- **Intellect Digital Lending:** Intellect Lending is a specialised suite that addresses the lending cycle end-to-end commencing from origination to disbursement, loan life cycle management, collection management, dispute management, and credit history management. Powered by Purple Fabric, Intellect's artificial intelligence/machine learning platform, this suite builds real-time intelligence in credit decisions and collection decisions. This product is adopted by banks that seek more sophisticated lending capabilities than that offered by a core banking platform apart from those catering to niche segments such as corporate and SME lending or non-banking financial institutions, development finance organisations, housing finance banks, and co-operatives. The product has won several deals in growth markets in FY2020.

- **Intellect Digital Wealth:** Intellect's digital wealth management solution, Wealth Qube, offers end-to-end capabilities to manage the complete life-cycle of asset management. Wealth Qube is an API-based, scalable omnichannel solution for private banks, wealth management firms, advisory firms, and broker-dealers. It is a full stack digital solution capable of managing the complete lifecycle of Wealth management. Intellect's Wealth Qube is targeted at wealth managers, private bankers, advisory firms, and independent financial advisors. The product places the role of the relationship managers at the centre and addresses their priorities of better engagement with and providing intelligent advice to their clients through a 360-degree view, apart from the ability to transact across exchanges, currencies, and asset classes. With a promise of 20% higher productivity and 20% higher revenue, the product has established a footprint with key clients in growth markets and is targeting specific countries based on current wins and implementations. The product went live in multiple countries in Asia in FY2020, adding to the existing installation base in India and the Middle East.
- **CBX-R:** Intellect CBX Retail 20 provides contextual experiences to clients' customers by bringing together AI, data analytics, agile architecture, and core-agnostic integration. Implemented across Asia, Africa, Middle East, and Europe, the product is recognised leaders in Celent's Worldwide report on Channel Banking Platforms and recognised for 'Strong Performance' on The Forrester WaveTM Digital Banking Engagement Platforms.
- **Central Banking:** Intellect Quantum Central Banking Solution is designed specifically for central banks aimed at reducing complexity, built on an underlying technology design driven by four parameters - Real-time informed decision-making and risk management, unmatched configurability for speed and ease of change, tightly integrated analytics and uncompromising security. This product enables central banks meet their unique governance responsibilities such as currency management, treasury role for the government, managing governments' payments and receipts, acting as the government's debt manager and so on. The company's wins and implementations across continents spanning diverse regulatory regimes prove the versatility of this product. Opportunities for this product exist with other central banks, modernisation projects initiated by agencies such as world bank, cross/up-sell opportunities with existing customers and individual product opportunities such as debt management, payments/receipts engine with government departments, and state governments. As category leaders, the company continues to win deals and go live with ongoing implementations in FY2020.
- **iTumeric:** The company's recent launch, iTumeric is cloud-ready, API-first, microservices-based, low-coding platform, which is a great enabler for banks that are still challenged with legacy platforms, hampering them from participating in the experience economy. With the API-first architecture iTurmeric, a first-of-its-kind enterprise integration, cloud native, microservices-based platform enables banks to progressively modernise and participate in the experience economy. Today iTurmeric platform already has retail banking, lending, origination, corporate banking APIs, and iTurmeric API manager to create new and relevant user journeys on the fly. The company will continue to add additional APIs. Intellect design arena has introduced iTurmeric FinCloud on IBM public cloud, aiming financial and banking services customers.

iTumeric – A seamless integration across the bank's ecosystem



Source: Company, Sharekhan Research

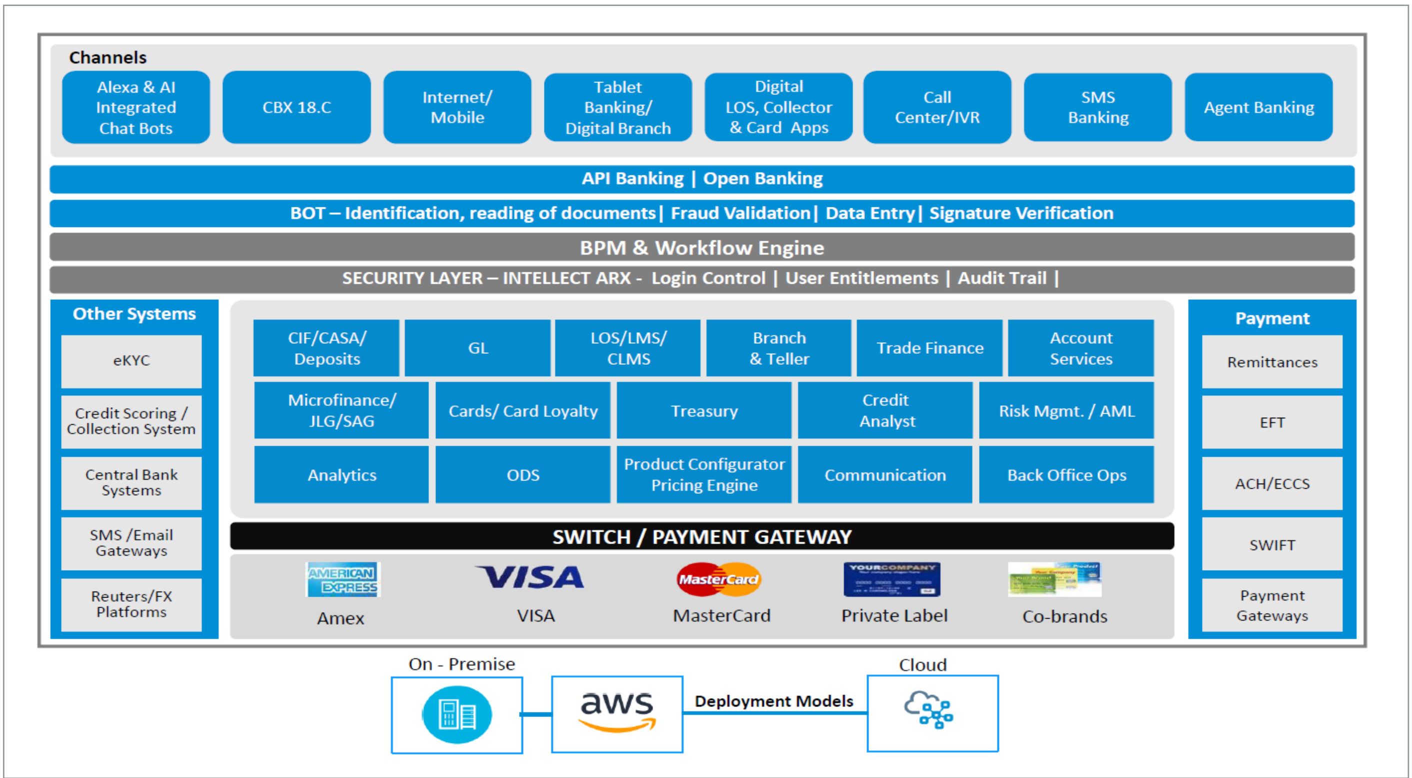
Headroom for accelerated growth: There has been rising demand for the third-party core banking system because of regulatory compliance, contextual products, incremental focus on personalised offers, and intelligent cross sell/up sell. The company would launch IDC 21.1 in 2021 with open API, full microservices, fully scalable, and Cloud Native solution. Management believes this upgradation will position IDC as one among four global vendors with this architecture. The company closed four deals, including a large multimillion-dollar upgrade deal for Navarre, which had decided to upgrade itself to the company's core banking and lending solution in Q2FY2020. This product has a strong position in European, Middle East, and South-East Asian markets. This segment contributes around 30%-35% to total revenue, with margin at the company's level. The company is building a good funnel in Europe on GCB.

Company's clientele in iGCB

Clients
Bank of Mongolia, Central Bank of Papua New Guinea, CTB, Busineess Bank, SHB, FAB, Cater Allen, Consolidated Bank, Shinsei Bank, Westpac, NAB, Nova Bank, Ithaka, Janata Bank, Bangkok Bank, Barclays, Abu Dhabi Commercial Bank, First Gulf Bank, Tisco Bank, St James's Place, El Taamir, Central Bank of Armenia

Source: Company, Sharekhan Research

IDC – Comprehensive core banking solutions



Source: Company, Sharekhan Research

iRTM – Risk, Treasury and Markets

iRTM is a cross asset, high performance platform that covers the complete trade cycle. It functions via a user configurable straight-through-processing (STP) mechanism across the front, middle and back office, which improves the efficiency of trading functions by eliminating redundant manual processes. iRTM's adaptability to evolving customer requirements enables banks to usher in new products using the company's Smart Build Methodology. iRTM supports various asset classes over a highly configurable and scalable platform. iRTM is designed to seamlessly tie-in with the client's existing technology landscape. Liquidity risk, treasury, and capital markets solutions provided through the iRTM platform are equipped with comprehensive regulatory reporting capabilities, which can be customised to various regulatory environments such as Basel III and treasury trading policies and controls, MiFID. Intellect Design plans to monetise this segment in FY2022.

Major products under iRTM platform

- **Capital Alpha:** Capital Alpha is the solution for capital markets that combines the functionalities of front, mid and back office of retail and enterprise broker houses and offers the combined benefit of speed, leverage, risk management, and analytics. The product integrates with and supports other capital market functionaries such as custodians, registrar and transfer agents, and mutual fund participants.
- **Capital Cube:** The bank treasurer has to address multiple complexities of monitoring liquidity exposures, managing balance sheet volatility, maintaining capital buffers, and complying with a slew of regulations. Capital Cube is an Integrated Treasury and Asset and Liability Management (ALM) solution that aids the treasurer to strategically manage the balance sheet, adapt to regulatory regimes, optimise liquidity, and leverage risk to maximise the bank's profits.

Company's clientele in iRTM

Clients
WestPac, Citi, RBI

Source: Company, Sharekhan Research

Intellect SEEC (Insurance and Data)

Intellect Design is one of the foremost providers of insurance software. The insurance software under the Intellect SEEC platform has extensive portfolio covering distribution, underwriting, and claims. Intellect SEEC addresses the digital and data needs of insurance carriers both through products and by offering data as a service. The company has been developing innovative insurance solutions for clients to lower operating costs and increase premium volumes and margins. Xponent, an underwriting workstation that is powered by AI/ML and advanced analytics and delivered in Cloud model, enables underwriters to come up with sharper quotes by providing them intelligence from both structured and unstructured data sources. The product has been adopted by leading insurers in the US, a strong endorsement of its superior functionality. Intelligent Data Exchange (IDX) integrates data capturing, validation, and enrichment, thus eliminating human intervention and enabling straight throughput. These products are implemented in a true cloud native, API-led open architecture.

Intellect SEEC provides differentiated solutions in claims, life claims, distribution, underwriting work station, business apps and components. The products have been designed with a view to enable insurance companies to focus on their strategic imperatives and enhance customer experience. The company has developed an AI and ML molecule in the underwriting space. The business is poised to expand its footprint to more carriers in the US and foray into the UK on account of its SaaS (Software as a Service) based solutions, open-source technologies, and less customisation. Further, Intellect SEEC platform is a partner of Snowflake and uses Snowflake for faster processing of the data layer. The Intellect SEEC platform is a partner of Snowflake and uses it for faster processing of the data layer. Management cited that it witnesses good traction for its Intellect SEEC platform across markets, especially India, Australia, and US.

Company's clientele in Intellect SEEC

Clients
St. James Place, London, Nation Wide (US), StarStone, RBC, Liberty Insurance

Source: Company, Sharekhan Research

Government e-Marketplace (GeM)

Intellect Design operates the Government eMarketplace portal (GeM) as a managed service provider along with its consortium partners and earns a fee based on transaction value. The company won this contract in 2017, and it would expire in 2024. The platform was fully operational in FY2020 and underwent several enhancements to meet market requirements. The company has invested Rs. 40 crore in its GeM project and expects gradual revenue momentum in subsequent years with the increase in value of business transacted on the portal. Management cited that the portal is set to scale much higher values of Gross Merchandise Value (GMV) in subsequent years, as more state governments, departments, and public sector enterprises are onboard and commence transacting on the portal. Value of orders placed on GeM increased from Rs. 23,747 crore to Rs. 46,320 crore during FY2020, implied 110% growth in average daily value of orders (Rs. 48.3 crore in December 2018 to Rs. 101.48 crore in March 2020). Net profitability of this project remains below the company's average rate.

GeM statistics as on January 2021

GeM Data	As of January 2021
Transaction value (Rs. billion)	802.4
Orders (in million)	5.5
Buyer organisations	49,727
Seller and Service providers	9,86,539
Products	21,35,356
Service Offerings	71,449
MSE Sellers	445,552
Order value (MSME %)	57.8

Source: Company, gem.gov.in, Sharekhan Research

Increase in quality of revenue (AMC + SaaS/Cloud) to improve profitability

Intellect Design has been focusing on increasing the licence component in the total deal TCV as a higher license revenue earning has a downstream impact on higher AMC revenue, which would improve the overall lifecycle revenue from the engagement. Notably, AMC's revenue is often a percentage of the license component. The company had signed new licence deals of around $110 million over FY2018-FY2020, which is expected to add around $20 million in incremental AMC revenue in FY2020-FY2022. Management expects AMC revenue to post a 15%-17% CAGR over the next 3-4 years.

Implementations of the product business across the verticals have been deployed over the Cloud, either Private Cloud or Public Cloud. These installations are through the subscription model, where the customer pays for the license, maintenance, as well as infrastructure by way of annuity fee over the life of the contract. We believe this may lead to higher contract value compared to enterprise model and adds to predictable revenue streams. Subscription revenue has a potential upside, as it has been linked to the business metrics of its customers, such as quantum of transactions, number of accounts/customers or revenue numbers. Cloud/SaaS model is win-win for customers and Intellect Design as well.

Illustration: Cloud model is more positive for the company's perspective

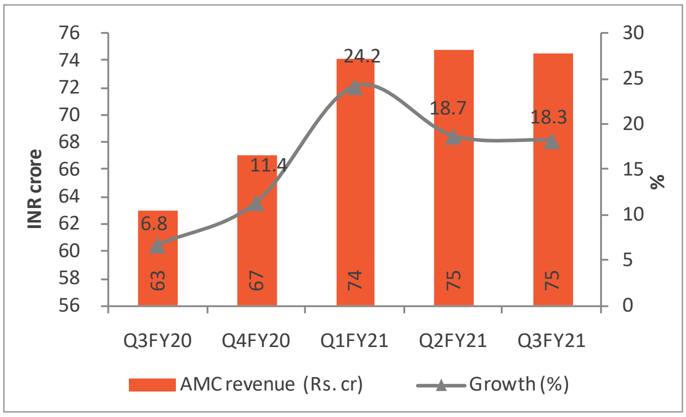
Particular	Enterprise Model	Cloud Model
Fees	One-time license of $1mn + 20% AMC p.a.	Zero license fee, annual subscription $0.4 mn
Growth Drivers	• Change requests – small value and require new sell and delivery cycle each time • New releases full sales and implementation cycle, often 5 – 7 years between major upgrades	• Transaction-based pricing in growing banks • New functionality/modules charged as additional subscription with low friction sales • Revenue per customer increases with adoption, while cost per customer decreases
10-year Customer LTV	• License + AMC: $1 + (9*$0.2) = $2.8mn • Implementation: $1mn • Total LTV: $3.8mn	• Subscription: $0.4*10 = $4mn • Implementation: $0.5mn • Upsell 1 and upsell 2: $2.4mn • Increase in volume: $1.5mn • Total LTV: $8.4mn

Source: Company, Sharekhan Research

During FY2020, revenue through the cloud deployment model/subscription mode moved up from 5.7% of revenue to 10.7% of revenue. The company has been focusing on subscription/SaaS-based billings model rather than the enterprise model. During Q3FY2021, the SaaS/Cloud-based revenue contributed 11% to total revenue. Management indicated that cloud revenue would grow from current annual run rate of Rs. 167 crore to Rs. 200 crore in FY2022.

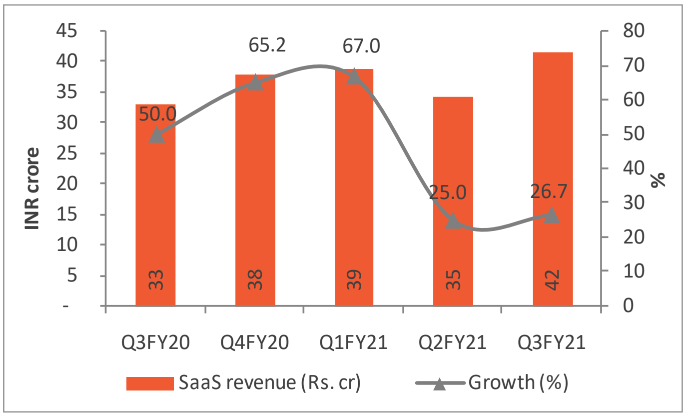
The company's annuity revenue (AMC+ SaaS) contributes around 30% to total revenue and is expected to post a 20% CAGR over FY2020-FY2022E. Improving contribution of annuity revenue would help the company to drive its profitability and lead to cash flow generation as well. We believe increased license wins, increase in average license component, and higher adoption of subscription/SaaS model would drive the company's overall profitability and revenue predictability going ahead.-

AMC revenue to accelerate in FY2022



Source: Company, Sharekhan Research

Focus on SaaS-based offering

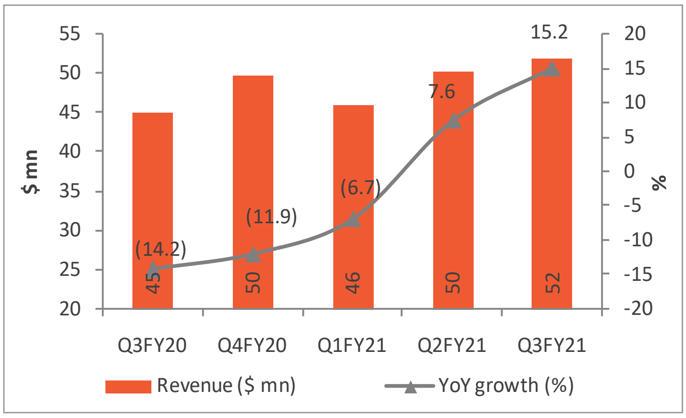


Source: Company, Sharekhan Research

New deal signings and healthy deal funnels provide revenue visibility

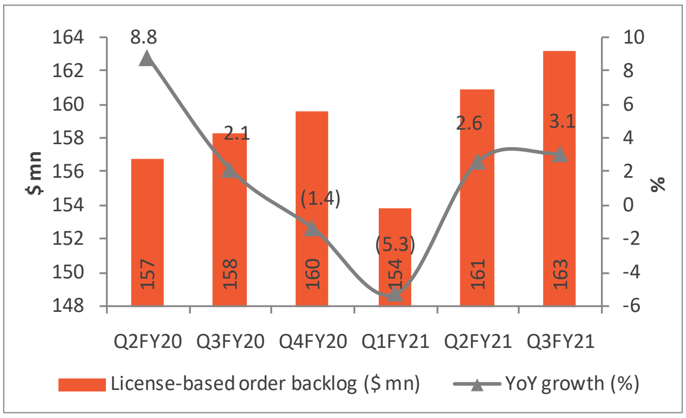
The company is expected to deliver strong revenue growth in the next couple of years because of strong deal win momentum, strong order bookings, healthy deal pipeline, and sustained traction in iGCB business. The company's order bookings grew by 6.9% y-o-y to Rs. 1,203 crore in Q3FY2021, with a book-to-bill of 0.8x. Further, the company has been consistent in deal wins (10 deals in Q3FY2021, with 6 large deals). Further, the company has $565 million of opportunity as an active pursuit, with the average deal size $2 million+. Destiny deals (Deals > Rs. 20 crore) stood at 42. Deals in > Rs. 50 crore stood at 8, Rs. 30 crore – 50 crore deals stood at 15, and Rs. 200 crore – 30 crore deals stood at 19. The company offers warranty period of 90/180 days to clients before AMC revenue kicks in. Given new deal signings, consistent in large deal wins, healthy deal pipeline, improving iGCB revenue, and gradual gain in AMC revenue, we assume the company would report revenue CAGR of 14% over FY2021E-FY2023E.

Revenue ($ mn) & growth (%)



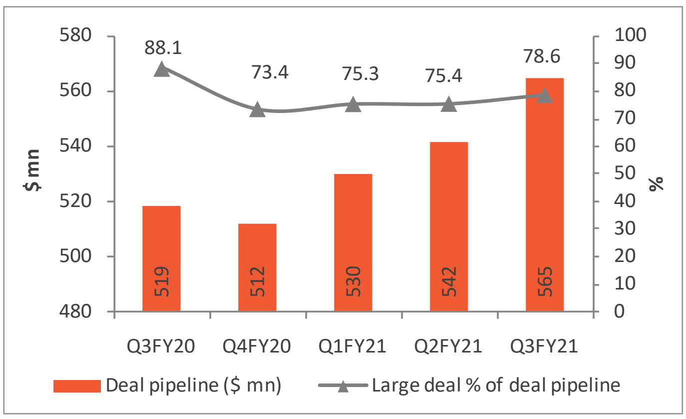
Source: Company, Sharekhan Research

Strong orderbacklog provides revenue visibility



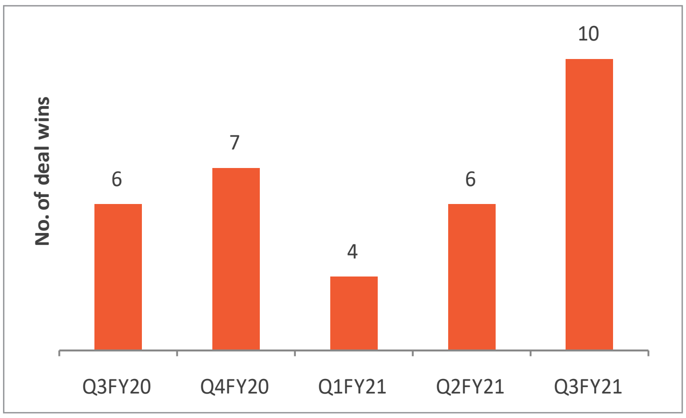
Source: Company, Sharekhan Research

Healthy deal pipeline continues



Source: Company, Sharekhan Research

Number of deal wins remains strong

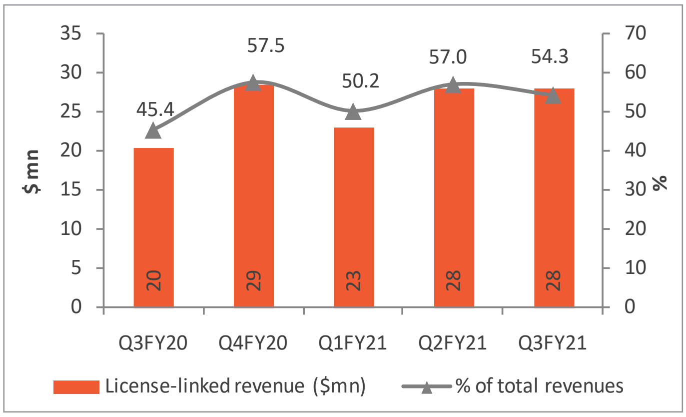


Source: Company, Sharekhan Research

Scope for margin improvement; Management aspires for 30% EBITDA margin

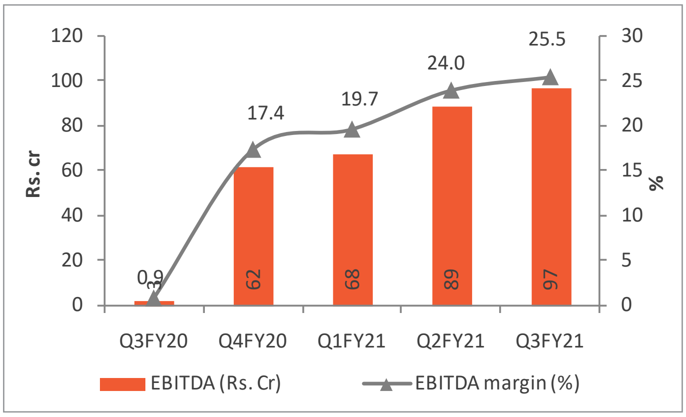
The company's cost optimisation programme with focus on rationalisation of S&G expenses and tighter R&D spends and its efforts to increase the license-linked revenue helped to enhance the company's margin profile over the past few quarters. The company's EBITDA margin improved from negative 1.8% in Q2FY2020 to +19.7% in Q1FY2021, +24% in Q2FY2021 and +25.5% in Q3FY2021. The company managed to reduce its overall operating costs by 14% y-o-y versus 5% y-o-y increase in revenue during 9MFY2021. On q-o-q basis, operating expenses declined by 10% versus 15% increase in revenue in Q3FY2021. Further, the contribution of license-linked revenue increased to 54% in Q3FY2021 compared to 45% in Q3FY2020, which has better margin profile. The company spent around Rs. 1,200 crore in R&D expenses in FY2020, which is expected to reduce below Rs. 1,000 crore in FY2021E, given maturity of its products. Management aspires to achieve EBITDA margin of 30% over the next four quarters on account of revenue growth, sharp focus on cost optimisation, favourable revenue mix, and lower R&D expenses due to product maturity.

Annuity contribution inching up



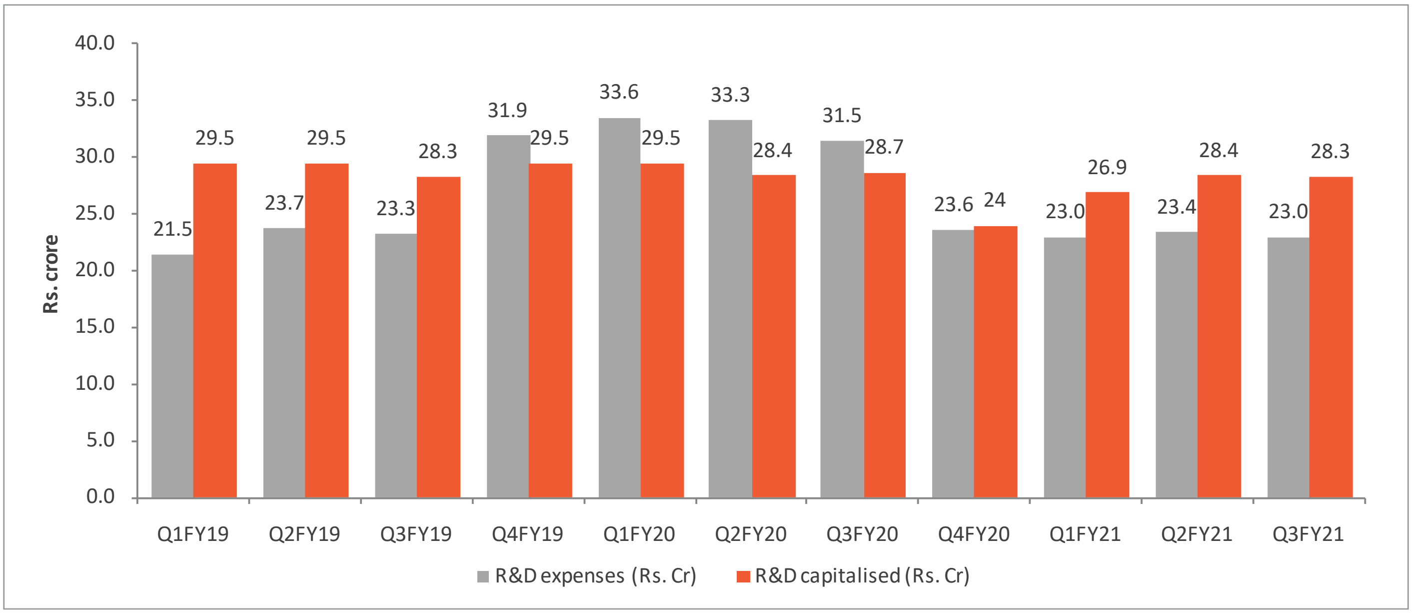
Source: Company, Sharekhan Research

Tight cost control drives profitability



Source: Company, Sharekhan Research

R&D cost to remain stable

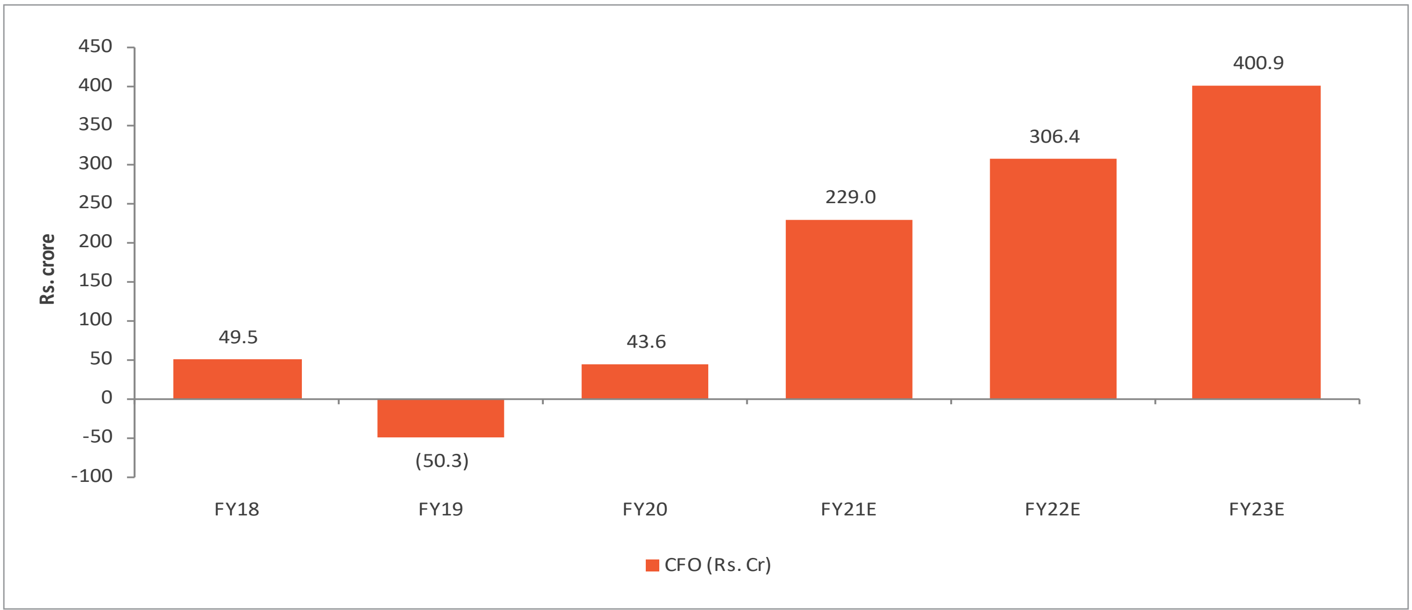


Source: Company, Sharekhan Research

Expect cashflow generation to improve

The company had higher debtor days in the past owing to delay in collections, which led to high working capital requirements and equity dilution. The company has taken corrective action in terms of modification in incentive structure and shifting its revenue base to advanced markets (lower DSO days) to improve collections. As a result, DSO days have declined to 124 days in Q3FY2021 from the level of 150 days. Management believes DSO days will be sustained at this level in the subsequent quarters. Lower working capital and improving margins would benefit the company in terms of strong cash generation and deleveraging of its balance sheet. Notably, the company's net cash turned positive to Rs. 124 crore in Q3FY2021 versus net debt position of Rs. 121 crore in Q4FY2020.

Expect operating cash flow to improve



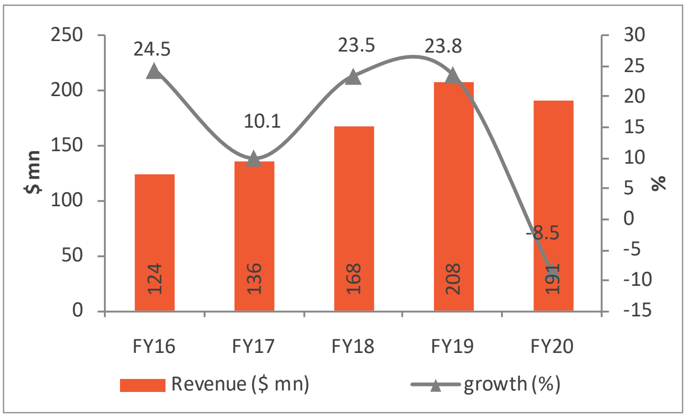
Source: Company, Sharekhan Research

Financial Analysis

Post a strong revenue CAGR of 14% in USD terms over FY2014-FY2019, Intellect Design's USD revenue declined by 8.5% y-o-y to $191 million in FY2020. In rupee terms, revenue declined by 7.1% y-o-y to Rs. 1,346.9 crore. The weakness in revenue was due to slow down in GTB business due to postponement of large deals in the advance market and shifting of certain deals to the subscription model and deferment of certain deals in other businesses. Further, market share of the advanced market declined in FY2020 as many clients in these markets moved to cloud offerings where subscription revenue replaced much higher licensing revenue.

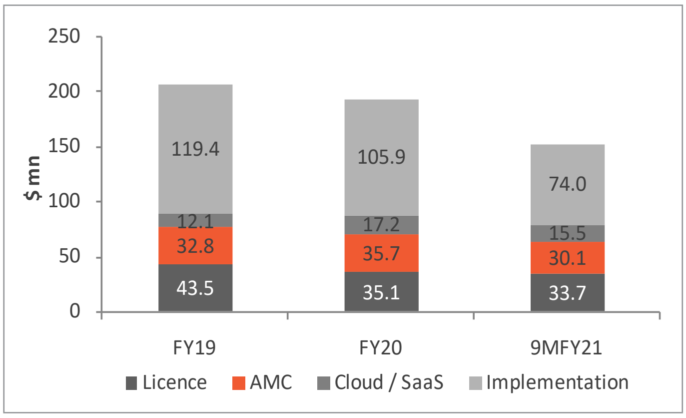
In terms of service lines, AMC and Cloud/SaaS revenue grew by 11% and 46%, respectively, in FY2020, while license and implementation revenue declined by 19% and 14%, respectively. The contribution of license-linked revenue (License + AMC + subscription) contribution increased from 42% in FY2019 to 46% in FY2020.

Revenue ($ mn) and growth (%)



Source: Company, Sharekhan Research

Service revenues ($mn)



Source: Company, Sharekhan Research

Revenue mix by service lines ($ mn)

Particular	FY16	FY17	FY18	FY19	FY20
Licence	19	24	31	44	35
AMC	22	26	32	33	36
Cloud/SaaS	NA	NA	NA	12	17
Implementation	82	87	105	119	106

Source: Company

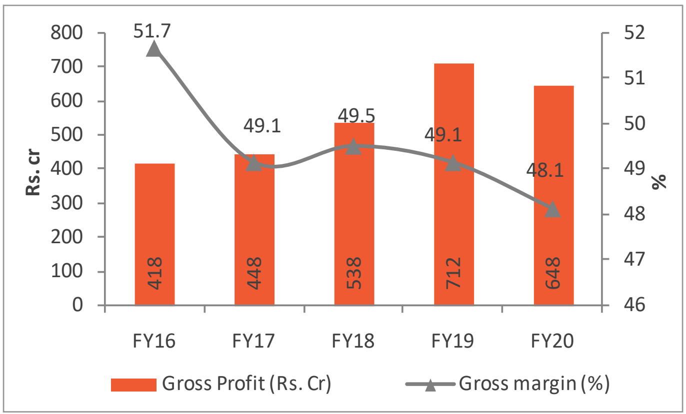
Revenue growth (%) by service lines

Particular	FY16	FY17	FY18	FY19	FY20
Licence	45%	23%	31%	41%	-19%
AMC	31%	17%	25%	1%	9%
Cloud/SaaS	NA	NA	NA	NA	43%
Implementation	30%	5%	21%	14%	-11%

Source: Company

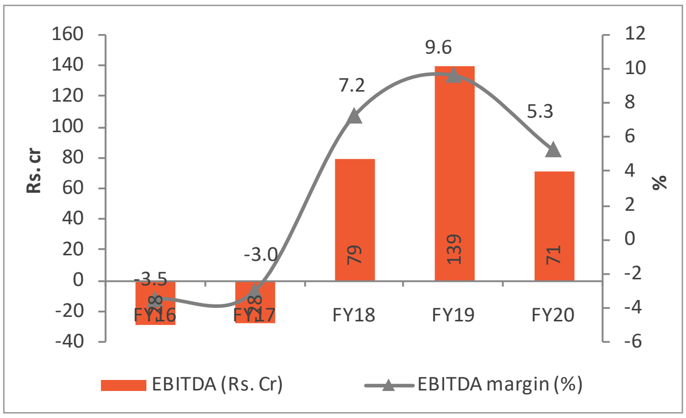
The company has taken cost-optimisation measures to drive profitability. As a result, the company's employee expenses declined by 3% in FY2020 owing to reduction in the number of employees. Further, the company was able to increase the pricing of its products over the past couple of years. This has translated into higher license value in the TCV. As AMC is linked with license, this has improved the overall lifecycle revenue from the contract. With the increase of license and AMC components in the contract, gross margin of the products improves, given limited expenses attached to license and AMC elements. Further, gross margin of GTB is approximately 60% as it is a matured product. The company's gross margin declined to 48.1% in FY2020 from 49.1% in FY2019, while the gross margin has improved to 56% in Q3FY2021. EBITDA margin contracted to 5.3% in FY2020 from 9.6% in FY2019; however, EBITDA margin improved to 25.5% in Q3FY2021 from 17.4% in Q4FY2020.

GPM declined in FY2020, improved to 56% in Q3



Source: Company, Sharekhan Research

EBITDA margin declined in FY2020



Source: Company, Sharekhan Research

Q3FY2021 results

Intellect Design reported a revenue growth of 15.2% q-o-q to $51.8 million in Q3FY2021, while EBITDA margins improved by 2,463 bps y-o-y to 25.5%. Net profit came at Rs. 80.3 crore (versus negative Rs.11.4 crore), led by higher revenue and operating profitability and lower tax provision. The management remains confidence on the revenue growth on the back of strong deal wins (license signings at $12 million) in Q3FY21, order backlog (up 6.9% y-o-y) and nine implementations 'go-lives', which would induce gradual gain in AMC revenue traction.

Intellect Design won another supply chain deal in Vietnam and won another deal for digital transaction banking in Jordan under its iGTB during the quarter. Under iGCB, company has entered into North America with its first cloud subscription deal for a mid-tier bank in Canada. The management expects revenue would grow in double digits in subsequent years, while net profit could grow more than 30% on the back higher profitability.

Q3FY2021 results Rs cr

Particulars	Q3FY21	Q3FY20	Q2FY21	% YoY	% QoQ
Revenues ($ mn)	**51.8**	**45.0**	**50.1**	**15.2**	**3.4**
Net sales	**382.2**	**319.5**	**371.8**	**19.6**	**2.8**
Software development expenses	168.2	171.1	163.5	-1.7	2.9
Gross Profit	214.0	148.4	208.3	44.2	2.7
Selling & marketing and General & Administrative expenses	93.6	112.2	91.8	-16.6	2.0
Research & Engineering expenses	23.0	31.5	23.4	-26.9	-1.7
Provision for Debts and Write offs	0.0	2.0	4.0	-	-
EBITDA	**97.4**	**2.7**	**89.1**	-	**9.3**
Depreciation & amortisation	18.9	17.1	19.4	10.7	-2.6
EBIT	**78.5**	**-14.3**	**69.7**	-	**12.6**
Other income	3.0	11.3	-0.8	-	-
Finance cost	1.3	4.8	2.5	-73.1	-48.0
PBT	**80.2**	**-7.8**	**66.4**	-	**20.8**
Tax provision	6.0	2.8	6.9	111.3	-13.0
Net profit	**80.3**	**-11.4**	**59.2**	-	**35.6**
EPS (Rs)	**6.1**	**-0.8**	**4.4**	-	**37.7**
Margin (%)					
EBITDA	25.5	0.9	24.0	2,463	152
EBIT	20.5	-4.5	18.7	-	179
NPM	21.0	-3.6	15.9	-	509

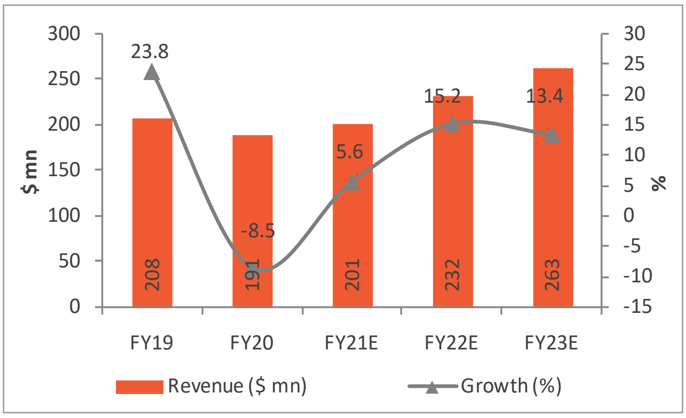
Source: Company; Sharekhan Research

Growth and margins - Our assumptions

Intellect Design has delivered a 14% CAGR over FY2015-FY2020. With sustained traction for its GTB/GCB products, strong deal conversion, rising license value per deal, and structural tailwinds in the industry, we believe the growth momentum would continue going ahead. Further, management remains confident on delivering growth in the coming years because of strong deal wins, healthy deal pipeline, and traction in AMC revenue. The company's current pipeline stood at $565 million, while current order booking stood at Rs. 1,203 crore (up 6.9% y-o-y). We expect revenue to register a CAGR of 14% over FY2021-FY2023E.

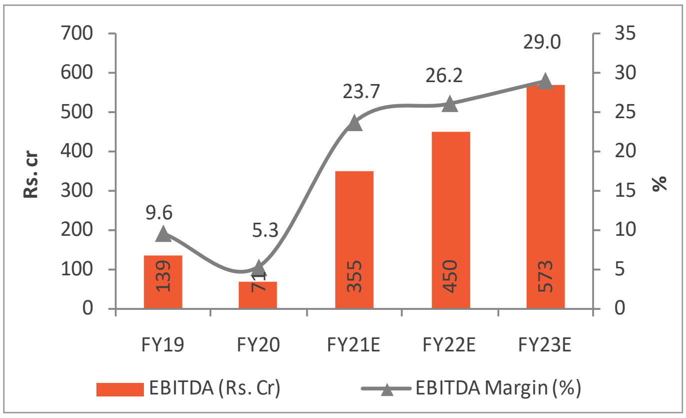
Management believes the company's EBITDA margin would continue to improve from higher revenue contribution from high-margin iGTB business, increasing contribution from annuity revenue, and lower R&D expenses as key products have reached their maturity phase and rationalisation of S&G expenses. Operating profitability is expected to improve in the subsequent quarters. Management aspires EBITDA margin to reach 30% over the next four quarters. We expect earnings to report a 27% CAGR over FY2021-FY2023E.

US$ revenue to post a 14% CAGR (FY21-FY23E)



Source: Company, Sharekhan Research

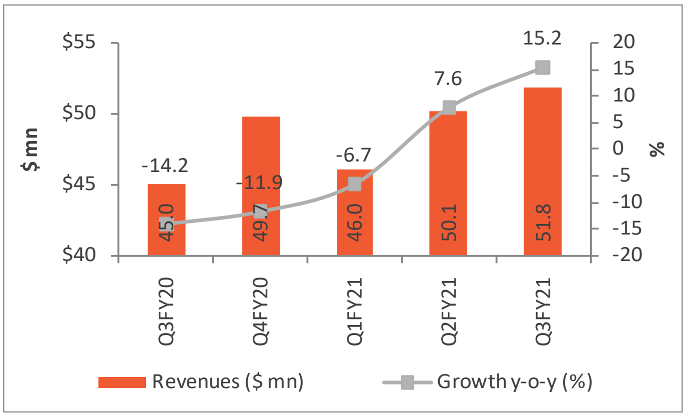
EBITDA margin likely to improve



Source: Company, Sharekhan Research

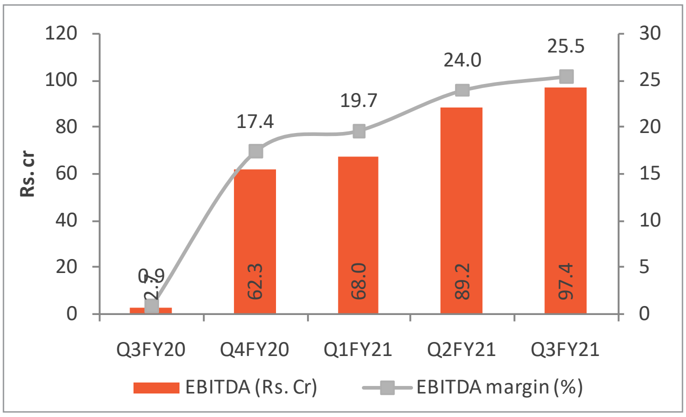
Financials in charts

Revenue ($ mn) and y-o-y growth (%)



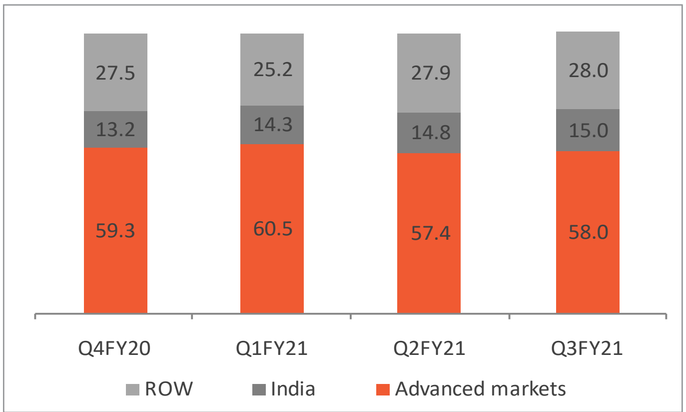
Source: Company, Sharekhan Research

Margin expansion continued



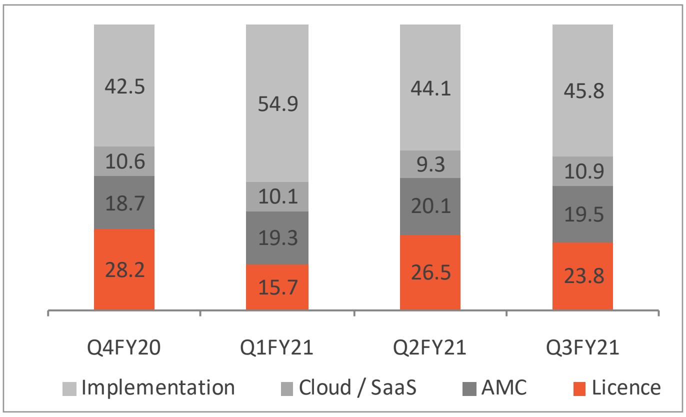
Source: Company, Sharekhan Research

Geography-wise contribution



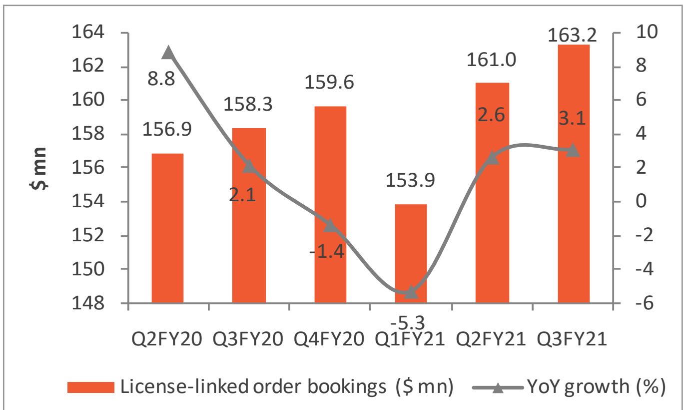
Source: Company, Sharekhan Research

Service lines-wise contribution



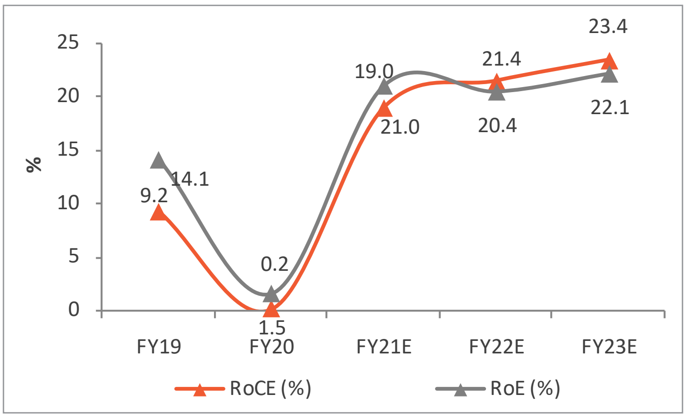
Source: Company, Sharekhan Research

Order bookings ($ mn) and y-o-y growth (%)



Source: Company, Sharekhan Research

RoE and RoCE trends (%)



Source: Company, Sharekhan Research

Valuation – Risk-reward remains favourable

Huge addressable markets, strong traction for its iGTC products, improving annuity revenue, stabilisation in R&D expenses (owing to product maturity), cost rationalisation initiatives, and expectations of high cash conversion would drive its earnings growth going ahead. With favourable industry tailwinds, future-ready product portfolio and possibilities of improving financial metrics, we believe that there is a big-room for re-rating of the stock.

Sector View – Higher adoption of digital technologies across sub-segments of BFSI

The financial services industry is on the cusp of adopting digitisation, new-age technologies, and products as these firms have sharpened their focus on proving a seamless, real-time, and hyper-personalised banking experience to their customers. The global financial technology market is expected to register a 22% CAGR over 2020-2025, reaching a market value of $305 billion by 2025. Growth of the fintech industry is expected to outpace revenue growth expectations of the overall financial sector.

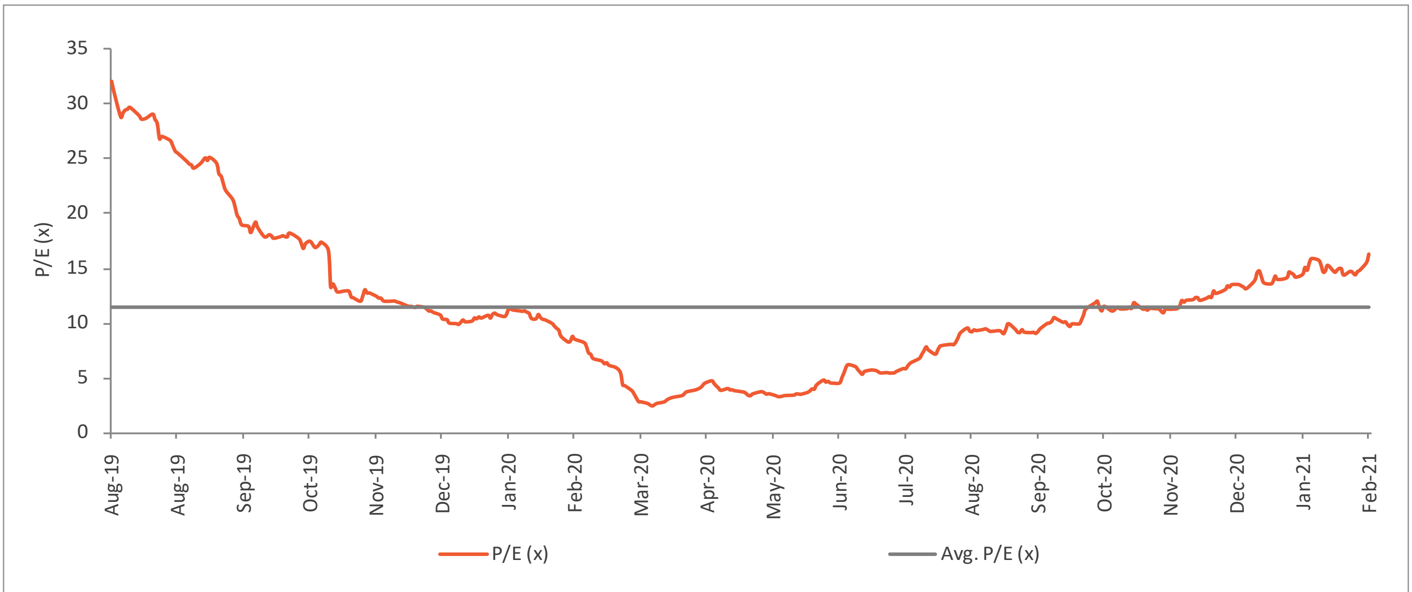
Company Outlook – Quality of revenue to drive profitability and cashflow

Intellect Design has been focusing on increasing the license component in the total deal TCV as higher license revenue would lead to higher AMC revenue. This, in turn, would improve overall lifecycle revenue from the engagement. The company's annuity revenue (AMC+ SaaS) contributes around 30% of total revenue and is expected to post a 20% CAGR over FY2020-FY2022E. Improving contribution of annuity revenue would help the company to drive its profitability and cash flow generation as well.

Valuation – Designing the Future

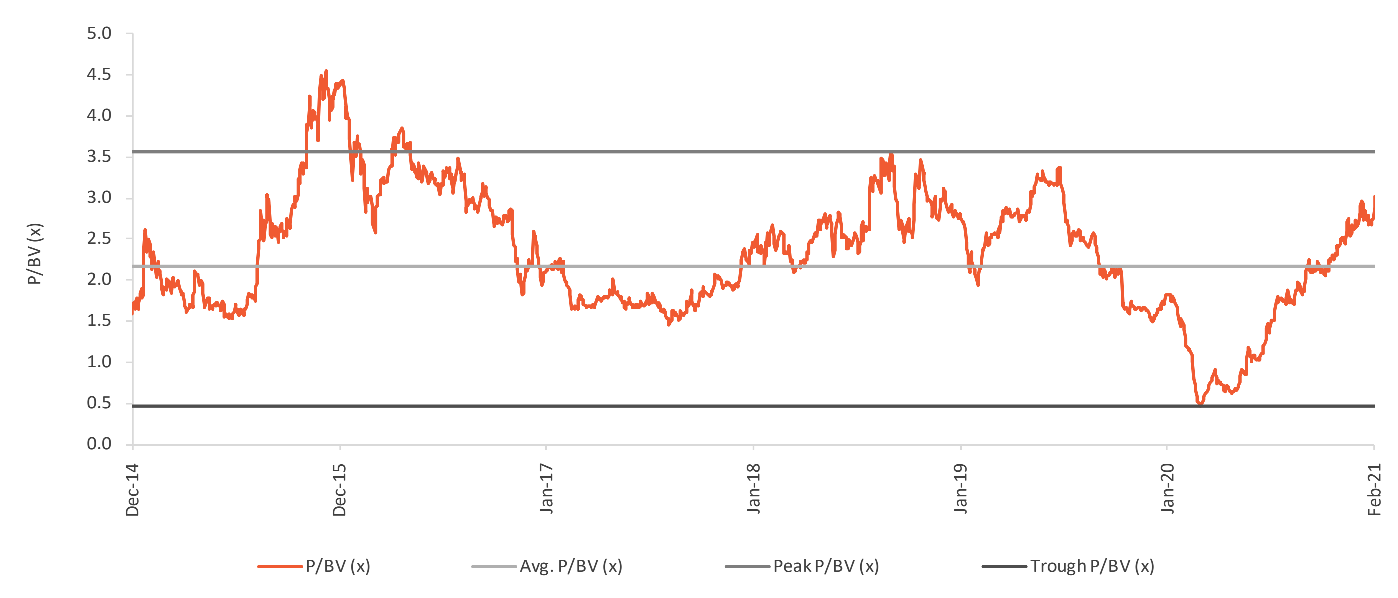
Intellect Design is well-placed to capture the opportunities from rising spends on digital technologies by financial institutions, increasing demand for third-party banking software products, and higher addressable markets. With corrective actions and higher focus on advanced markets, the company could manage to lower DSO days (124 days in Q3FY2021) and improve cash flows. Improving cash flows helped the company become net cash positive of Rs. 124.2 crore in Q3FY2021 from net debt of Rs. 102 crore in Q3FY2020. At the CMP, the stock is trading at a reasonable valuation of 16x/12x its FY2022E/FY2023E earnings. With favorable industry tailwinds, future-ready product portfolio and possibilities of improving financial metrics, we believe there is a big-room for re-rating of the stock. Hence, we initiate coverage on Intellect Design with a Buy rating and a PT of Rs. 500.

One-year forward P/E (x) band



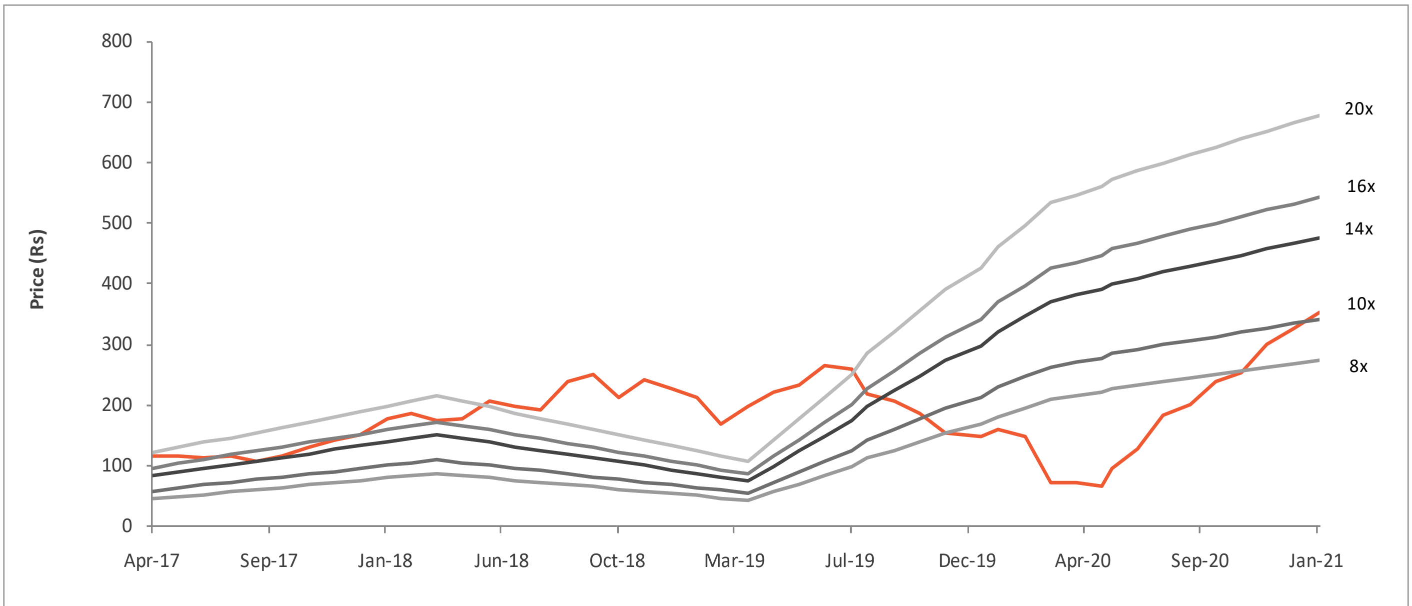
Source: Sharekhan Research

One-year forward P/BV (x) band



Source: Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Nucleus*	546	3	1,587	13.3	11.7	8.5	7.4	2.4	2.0	23.0	20.6
OFSS*	3,286	9	28,279	15.9	15.1	9.6	9.1	4.3	4.2	27.9	30.1
Intellect Design	361	13	4,795	19.6	16.3	13.5	10.2	3.7	3.0	21.0	20.4

*Source: Company; Sharekhan Research * Bloomberg estimates*

Company background

Intellect Design Arena Limited (INDA) de-merged from the BFSI product business unit of Polaris Consulting Services and was listed in India in December 2014. Polaris was one of the first vendors that Citigroup selected as a partner in India. Simultaneously, Citigroup also started its own company called Citibank Overseas Software Limited (COSL), which managed Citigroup's India operations. COSL was spun off as Orbitech and was merged with Polaris in 2003 to look for projects globally. Polaris acquired 57 IPRs from Orbitech. Later, the products business undertaking of Polaris Financial Technology Limited is demerged and transferred to INDA.

Company timeline and product launches

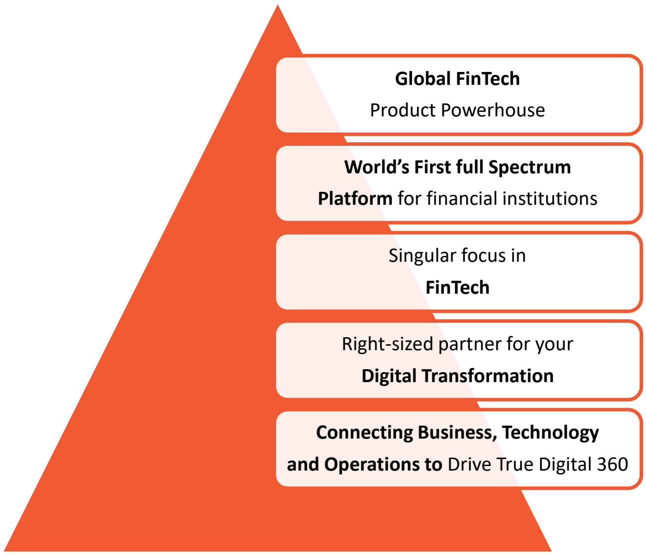
2020	Lunched iTurmeric, a platform for APIfication of applications.
2019	Launched Capital Cube - An integrated Treasury and Asset & Liability Management (ALM) solution
2017	Digital 360, real time & con text aware banking made possible with the launch of IDC 17.1
2016	Launched a comprehensive FATCA-compliant securities services platform - OneMARKETS
2015	Launched Intellect One LRM and Intellect Risk Analytics
2014	Demerged from Polaris & listed on Indian stock exchanges
2013	FT8012 –the largest dedicated design center launched
2012	Launched FABX for Financial Advisors
2011	Basel III ready solutions Intellect LRM launched
2010	200th Implementation, Acquired IndigoTx, GUB M180 & Brokerage Platform Launched
2009	Acquisition of Laser Soft; Launched Intellect Payments
2006	Launched Intellect Wealth & Risk, Liquidity Platform. Increased Footprint in Insurance Space & Product Portfolio with acquisition of SEEC2005
2005	Launched Next Gen Intellect "Banking Platform"-Trade Finance, Portal, Treasury
2004	Boundary-less banking products were launched – CBS, Custody, Platform
2003	Merger of Polaris with Orbitech, acquired 57 Intellectual Property Rights (IPRs).

Source: Company; Sharekhan Research

INDA is a digital financial technology products company, which caters to the three main verticals in the banking industry – 1) retail banking, 2) corporate banking, and 3) treasury and capital markets and the insurance industry. The company has four business units such as Global Consumer Banking (iGCB), Global Transaction Banking (iGTB), Risk, Markets and Treasury (iRTM), and Insurance (iSEEC). Intellect Design's products are created on the principles of design thinking, which serves its 240+ customers in 91 countries.

Intellect Design has always maintained itself to be ahead of the fintech curve through sustained research and development. Its digital products enable financial institutions to realise their business aspirations through digital transformation. This is made possible through its customer-centric design philosophy, which enables engineering of agile solutions combined with performance assurance.

Intellect applies design thinking for product developments



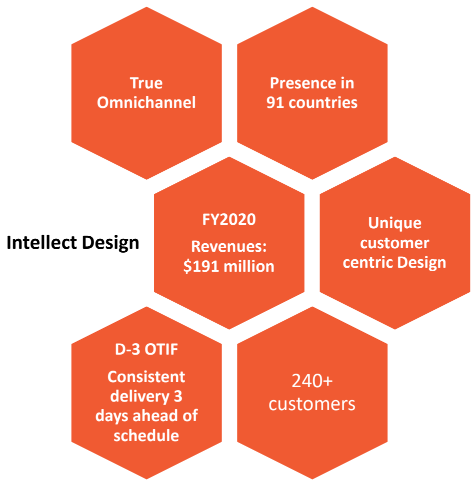
Source: Company; Sharekhan Research

The company's customers include commercial banks, central banks, non-banking financial institutions, capital market participants such as brokerages, stock exchanges, asset managers, wealth management firms, government enterprises, and insurance carriers. The company partners with them in their digital transformation agenda as they set out to expand their customer base, improve customer engagement, streamline their processes to improve standards of customer service, and build efficiencies, while being compliant with the evolving regulatory landscape.

Intellect's products address the requirements of the three banking verticals – retail/consumer banking, corporate/transaction banking, and treasury and capital markets as well as the insurance majors. Intellect Digital Core, its flagship core banking platform, enables banks to offer contextual, real-time banking by addressing their digital transformation agenda .

The product is available both on on-premise and cloud model. The company has recently been rated #1 in the IBS Sales League table for retail banking product and market strategy. Intellect Lending is a specialised suite that addresses the lending cycle end-to-end commencing from origination to disbursement, loan life cycle management, collection management, dispute management, and credit history management. Intellect's Artificial Intelligence/Machine Learning platform builds real-time intelligence in credit decisions and collection decisions.

Intellect Design – At a glance



Source: Company; Sharekhan Research

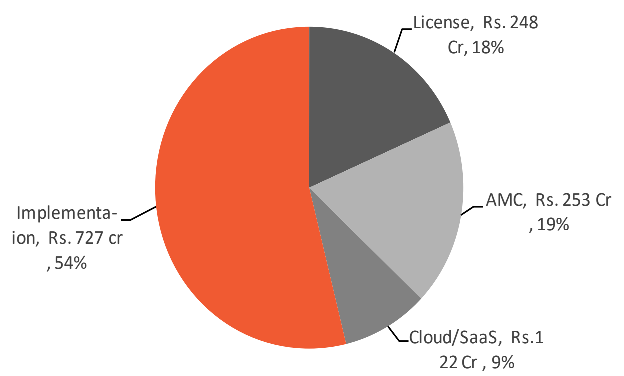
The company has a portfolio of 12 IP products spread across sub-segments of financial services. Intellect Design has created multiple IPs across banking functions with the aim to cover up a wide array of needs for large banks, both in retail and corporate businesses.

Intellect - 12 key product offerings

Source: Company; Sharekhan Research

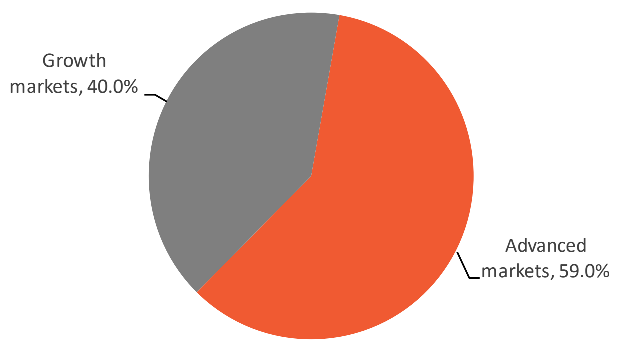
Intellect Design has a diversified bouquet of solutions across sub-segments of the BFSI vertical. Transactional banking products suite for a corporate banking vertical contributes maximum revenue to the company, as products are targeted based on the specific requirements of banks in advanced markets – such as payments, which are impacted by developments in regulation/ecosystem or digital transformation. The company also witnesses strong traction for other products, given its comprehensive and modular approach, digital-centric orchestration, and focused solution. A category leader in growth markets, this product is fast capturing market share across countries and finding adoption from both mature banks as well as aspirant entrants to transaction banking. Transaction banking has over 90 customers, with multiple product installs and multi-country roll-outs. The transaction banking business also achieved #1 position in the IBS Sales League table. The business has a strong deal pipeline at the end of FY2020. Notably, the other three business units are also witnessing huge market acceptance.

Revenue mix in FY2020



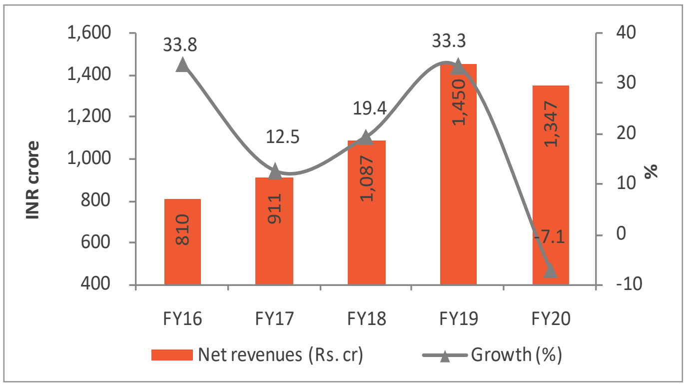
Source: Company, Sharekhan Research

Focus on advanced markets (FY2020)



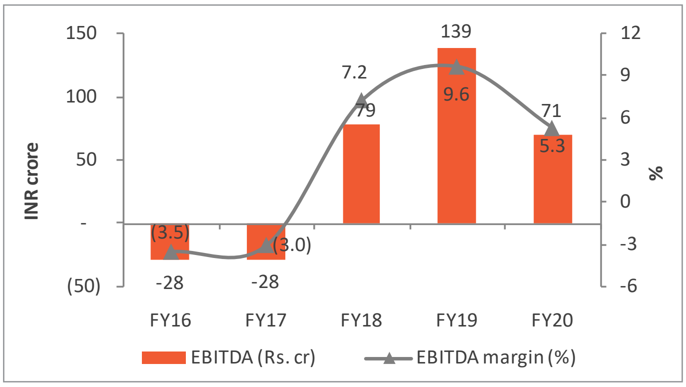
Source: Company, Sharekhan Research

Revenue (Rs. cr) and growth (%)



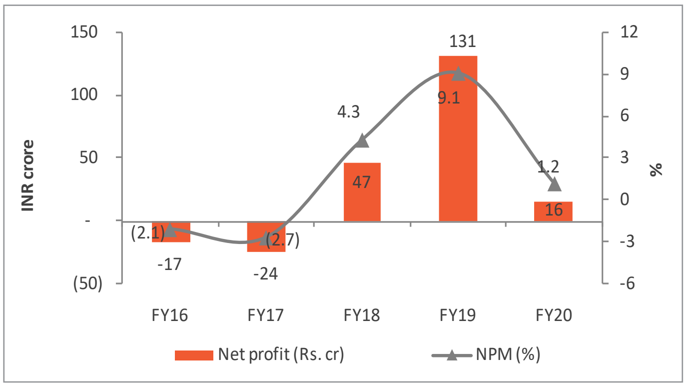
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and margin (%)



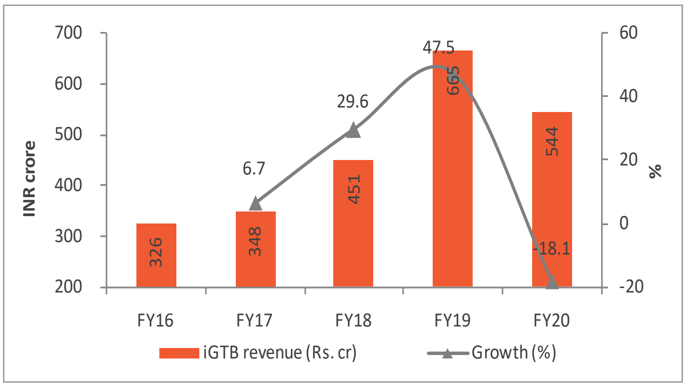
Source: Company, Sharekhan Research

Net profit (Rs. cr) and margin (%)



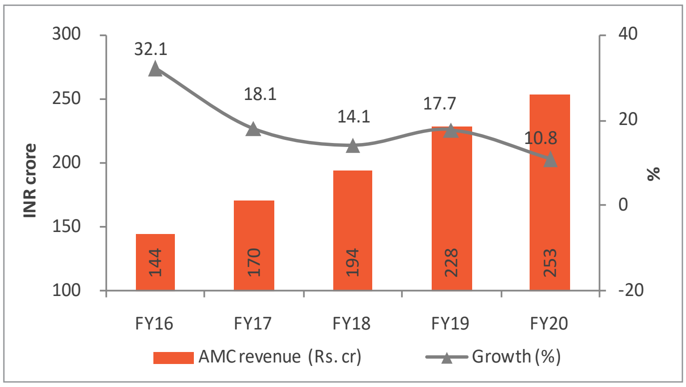
Source: Company, Sharekhan Research

iGTB revenue (Rs. cr) and growth (%)



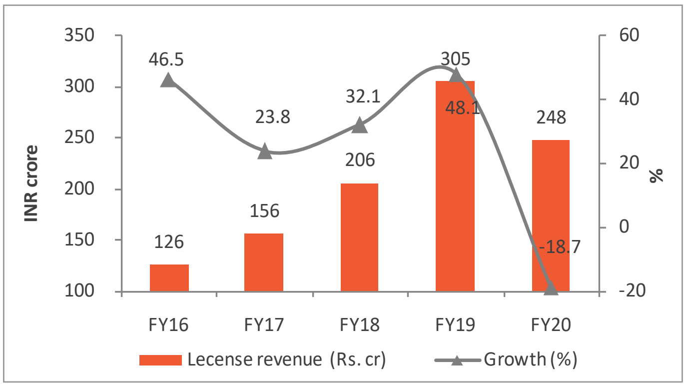
Source: Company, Sharekhan Research

AMC revenue (Rs. cr) and growth (%)



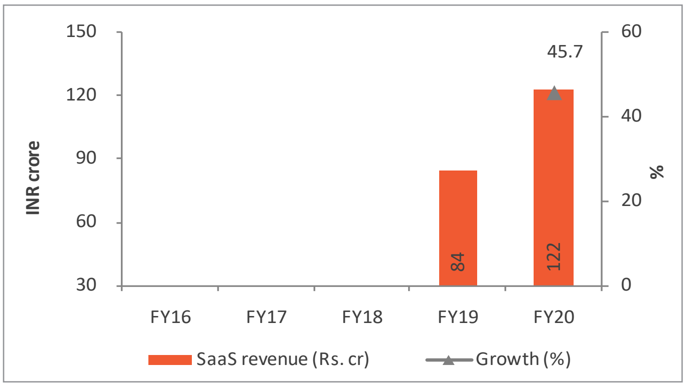
Source: Company, Sharekhan Research

License revenue (Rs. cr) and growth (%)



Source: Company, Sharekhan Research

SaaS revenue (Rs. cr) and growth (%)



Source: Company, Sharekhan Research

Operating metrics

Particulars	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Revenue ($ mn)	**44.6**	**54.3**	**52.4**	**56.4**	**49.4**	**46.6**	**45.0**	**49.7**	**46.0**	**50.1**	**51.8**
Revenues in INR (Rs. cr)	299	380	375	396	343	327	319	358	346	372	382
Geographic mix (%)											
Advanced markets	49.3	61.7	61.7	65.4	65.3	NA	61.6	59.3	60.5	57.4	58
India	14.4	11.9	11.4	11.5	10.6	NA	12.6	13.2	14.3	14.8	15
ROW	36.3	26.4	26.8	23.2	24.1	NA	25.8	27.5	25.2	27.9	28
Revenue by service lines (%)											
License	10.7	28.7	20.5	22.0	15.3	13.2	15.3	28.2	15.7	26.5	23.8
AMC	18.5	14.2	15.7	15.2	16.3	19.3	19.7	18.7	19.3	20.1	19.5
Cloud / SaaS	7.7	4.2	5.9	5.8	6.4	8.5	10.3	10.6	10.1	9.3	10.9
Implementation	63.1	52.9	57.8	57.0	62.0	59.1	54.6	42.5	54.9	44.1	45.8
Order backlog ($ mn)											
License based	141.8	144.1	155.0	161.8	162.4	156.9	158.3	159.6	153.9	161.0	163.2
Saas and Subscription based	35.8	35.7	39.2	42.1	43.2	53.5	116.1	118.0	126.4	NA	NA
Total	177.6	179.8	194.2	203.9	205.6	210.3	274.5	277.6	280.3	161.0	163.2
Deals											
Deal Wins	10	11	12	8	5	9	6	7	4	6	10
Large Deal Wins	2	4	4	2	2	4	1	3	1	4	6
Implementation go lives	7	21	15	18	9	13	17	5	12	19	9
Active Pursuit (Deals)											
Rs. 500Mn	7	8	7	6	7	8	8	7	8	9	8
Rs. 300Mn to 500Mn	10	11	12	14	14	13	13	12	12	12	15
Rs. 200Mn to 300Mn	17	16	17	19	20	20	20	22	20	20	19
Total Active Pursuit	34	35	36	39	41	41	41	41	40	41	42
Active Pursuit ($ mn)											
Deal pipeline	527	515	505	508	515	524	519	512	530	542	565

Source: company

Financials

Profit & Loss A/c Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**1,450**	**1,347**	**1,495**	**1,721**	**1,973**
Software development expenses	737	699	667	744	806
Other Expenses	473	455	380	420	476
Total Operating Expense	1,310	1,276	1,140	1,271	1,400
EBITDA	**139**	**71**	**355**	**450**	**573**
Other Income	54	38	5	4	10
Depreciation	42	69	77	79	88
EBIT	152	40	282	375	496
Interest	11	17	9	11	11
PBT	140	23	273	365	485
Tax Expenses	9	5	34	73	97
Net profit	**131**	**16**	**245**	**294**	**394**

Source: Sharekhan Research

Balance Sheet Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Sources of Fund					
Equity Capital	66	66	66	66	66
Reserves & Surplus	954	979	1,224	1,518	1,912
Networth	1,020	1,045	1,290	1,584	1,978
Minority	9	12	12	12	12
Total Debt	101	235	235	235	235
Net Deferred Tax Liability	3	48	48	48	48
Total Capital Employed	**1,132**	**1,340**	**1,585**	**1,879**	**2,273**
Application of Funds					
Net Block	166	203	185	188	213
CWIP	359	446	457	475	492
Investments & other non-current assets	281	269	270	271	272
Current Assets, Loans & Advances					
Inventory					
Receivables	203	285	316	363	417
Cash & Bank Balances	75	100	251	446	709
Loans & Advances	7	6	6	6	6
Other Current Assets	541	561	609	659	714
Total	**825**	**951**	**1,181**	**1,474**	**1,846**
Less: Current Liabilities & Provisions					
Payables	166	208	186	207	228
Other Current Liabilities & Provisions	333	322	322	322	322
Total	**499**	**530**	**508**	**529**	**550**
Net Current Assets	326	422	673	945	1,295
Total Assets	**1,132**	**1,340**	**1,585**	**1,879**	**2,273**

Source: Sharekhan Research

Cash Flow Statement Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Cash flow from operating activities	-50	44	229	306	401
Cash flow from investing activities	1	-100	-73	-102	-132
Cash flow from financing activities	63	81	-4	-10	-6
Free Cash Flow	-182	-149	159	206	271
Opening Cash	61	75	100	251	446
Closing Cash	75	100	251	446	709

Source: Sharekhan Research

Key Ratios

Margins (%)	FY19	FY20	FY21E	FY22E	FY23E
Gross profit margin	49.1	48.1	55.4	56.8	59.1
EBITDA margin	9.6	5.3	23.7	26.2	29.0
EBIT margin	6.7	0.1	18.5	21.6	24.6
Net profit margin	9.1	1.2	16.4	17.1	20.0
Tax rate	6.4	22.4	12.3	20.0	20.0
As a % of net sales					
COGS	57.8	60.9	50.9	49.4	46.9
Other expense	32.6	33.8	25.4	24.4	24.1
Measure of financial status					
Debt/ Equity (x)	0.0	0.2	0.2	0.1	0.1
Debtor days	50	76	76	76	76
Payable days	46	59	59	59	59
Working capital days	5	17	17	17	17
Measure of investment					
Adjusted EPS (Rs.)	10.2	1.2	18.4	22.2	29.7
Cash EPS (Rs.)	13.4	6.5	24.3	28.1	36.3
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
BVPS (Rs.)	76.9	78.8	97.3	119.5	149.2
RoE (%)	14.1	1.5	21.0	20.4	22.1
RoCE (%)	9.2	0.2	19.0	21.4	23.4
RoIC (%)	8.8	0.1	18.6	21.2	25.3
Valuation ratio					
P/E (x)	35.6	296.3	19.6	16.3	12.2
EV/Sales (x)	3.3	3.7	3.2	2.7	2.2
EV/EBITDA (x)	34.5	69.8	13.5	10.2	7.6
P/BV (x)	4.7	4.6	3.7	3.0	2.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth rate (%)					
Revenue	33.3	(7.1)	11.0	15.1	14.7
EBITDA	77.2	(49.1)	400.5	26.9	27.3
EBIT	124.5	(73.5)	602.2	33.1	32.0
Adjusted PAT	181.1	(87.8)	-	19.8	34.1
EPS (Rs.)	170.9	(87.9)	-	20.2	34.1

Source: Sharekhan Research

About company

Intellect Design de-merged from Polaris Consulting Services in October 2014. Intellect Design is a Digital Financial Technology Products Company addressing the business needs of the banking and financial services domains. The company caters to the three main verticals in the banking industry – 1) retail banking, 2) corporate banking, and 3) treasury and capital markets and the insurance industry. The company has four business units that are aligned with verticals such as Global Consumer Banking (iGCB), Global Transaction Banking (iGTB), Risk, Markets and Treasury (iRTM) and Insurance (iSEEC).

Investment theme

Intellect Design offers a wide spectrum of products across banking and insurance, which are built on microservices-based architecture, powered by AI and ML. With 12-14 products across four lines of business, the company is well placed to accelerate the digital roadmaps of financial institutions. The company has made substantial investments on talents, R&D, sales, and infrastructure to increase the acceptance of its products across geographies. Management is focusing more on profitability and cash conservation than on growth by improving the contribution of annuity revenue to overall revenue.

Key Risks

(1) Slower adoption of its products, 2) Introduction of superior products by peers or technology disruptions, 3) Higher DSO days impacting working capital.

Additional Data

Key management personnel

Arun Jain	Chairman & Managing Director
Manish Maakan	Chief Executive Officer, iGTB
Rajesh Saxena	Chief Executive Officer, iGCB
Banesh Prabhu	Chief Executive Officer, Intellect SEEC
TV Sinha	Head – Risk, Treasury and Capital Markets
Venkateswarlu Saranu	Chief Financial Officer

Source: Company website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Amansa Capital	7.53
2	Nippon Life India Asset Management	2.98
3	Gothic Corp	2.82
4	Vanderbilt University	2.62
5	Atyant Capital India Fund	2.17
6	AL MEHWAR COMM INVESTMENTS	1.35
7	The Duke Endowment	1.00
8	Dimensional Fund Advisors	0.89
9	Caisee de Depot	0.74
10	State Street Corp	0.07

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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