Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Intellect Design Arena Limited

Tailoring tech for tomorrow

IT & ITeS	Sharekhan code: INTELLECT	Analyst Meet

Stock Update

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 589**	
Price Target: **Rs. 660**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 7,822 cr
52-week high/low:	Rs. 647 / 44
NSE volume: (No of shares)	4.2 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	34.4	84.4	187.0	832.1
Relative to Sensex	38.9	77.7	159.4	769.2

Sharekhan Research, Bloomberg

Summary

- On its Technology Day 2021, Intellect Design Arena Limited highlighted its varied capabilities for flagship products in iGTB and retail banking. Management expects strong growth in its Intellect SEEC platform.
- Huge growth opportunities in five iGTB products as management expects customers count to increase to 150 by 2026 from 94 in 2021; market share to grow from 6% to 21%.
- Huge addressable market, strong traction for mature products, rising annuity revenues and improving margins would help company clock a revenue and earnings CAGR of 14% and 27%, respectively over FY2021-23E.
- We maintain a Buy with a revised PT of Rs. 660 as it is well-poised to gain market share given future-ready products with flexible modules.

We attended Intellect's Technology Day 2021, wherein the management highlighted its deep understanding based on design thinking, power of contextual and composable banking solutions under its Global Transaction Banking (iGTB) and retail banking businesses. The company also showed its ability to demystify cloud-ready products and platforms and highlighted the potential revenue opportunity arising from participating in a large, rapidly-growing data extraction market. Management highlighted its investments on composable, cloud-based technologies by creating three platforms - (1) CBX (digital acceleration platform), (2) iTurmeric (cloud acceleration platform) and (3) iFinCloud (Intellect financial services cloud) to provide differentiated customer experiences, reduce costs and enable faster time to market for customers' products. All these platforms are microservices and Cloud-native based and allows banks to leverage and modernise the legacy business with simplified API and integration, leverage best practices, reduce costs, enhance security and adopt the right kind of compliance and lead to a shorter implementation time. The Intellect Cloud-based platform provides the company subscription-based revenues, which are sustainable. The management believes that there will be huge growth opportunities in each five products under iGTB as it expects the total number of customers would increase to 150 by 2026 from 94 in 2021. By selling at-least four products to each of the potential 150 customers, the market share of Intellect Design would grow from 5.8% to 21% by 2026. As Intellect's addressable services market in the retail banking space is expected to clock a 10% CAGR to $15.81 billion by FY2025, the company's differentiated positioning in this space would help to capture opportunities. Further, growth in this space would be driven by latest technology architecture, product growth engines, Europe and marketplace. The management indicated that Europe would continue to grow at double digit going ahead. The company's entry into a large, rapidly growing data extraction market and its end-to-end data extraction capability digitally would help overall growth. The management sees addressable market of Rs. 100 crore - Rs. 250 crore for its Magic submission product (underwriting space). Given strong traction for its iGTB, retail banking and potential opportunity in data extraction market, we believe that the company would report 14.3% CAGR growth over FY2021-FY2023E. The 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).

Our Call

Valuation – Intellect Design's investments on composable technology to create products and platforms provide differentiated customer experience, reduce costs and faster time to market to its customers. At the CMP, the stock is trading at a valuation of 27x/20x its FY2022E/FY2023E earnings. We continue to like the stock given favorable industry tailwinds, its future-ready product portfolio and possibilities of improving financial metrics. Hence, we maintain our Buy rating on the stock with a revised PT of Rs. 660.

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)	57.9	482.5	31.9	26.6	19.8
P/B (x)	7.7	7.5	6.0	4.9	3.9
EV/EBITDA (x)	56.1	112.3	22.0	16.9	12.8
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

Design thinking holds key to growth

Being a global financial technology leader, Intellect Design has been able to deeply understand requirements of financial institutions (especially banks) and their customers by levering its digital thinking elements. The management highlighted that its products have been developed using three laws of digital thinking a) less is more (focused on important elements and products), 2) last 2% is 200% (functionality that will make difference) and 3) the theory of prioritisation (1000 gm, 100 gm and 10 gm). As the cloud technology accepted in financial industry during around FY2018-19, Intellect's design thinking approach helped the company to scale its business as banks started investing on service-oriented architecture. Given its early investments in future-ready technologies, Intellect helped its customers to choose technology in a composable manner (personalised products for different market and customer segments). Further, the company's investments in building contextual products would create traction for its products as banks across the globe are moving toward customer-centric model. The company has invested to develop a data scientist team, data algorithm, data management and among other to create a differentiation in its products and platforms by connecting the dots between composable banking and contextual banking for its customers.

Cloud platforms provide differentiated experiences

The management highlighted its investments on composable technology based on Cloud by creating three platforms such as (1) CBX (digital acceleration platform), (2) iTurmeric (Cloud acceleration platform) and (3) iFinCloud (Intellect financial services Cloud) to provide differentiated customer experience, reduce costs and faster time to market. With its Digital platform (CBX), the company focuses on addressing the challenges of its customers in the areas of (1) connected experience across their customer segments, businesses and products (compose own UI/UX), (2) hyperscale technology in handing increasing volumes seamlessly and cost effectively (value-added interaction) and (3) extensibility by adding new products and capabilities (collaborate with partners). The company's digital platform would provide superior customer experience, rapid time to market and enable partners to build niche and innovate apps. Cloud acceleration platform provides could native architecture with scalability, faster time to value and enable customers to collaborate & build marketplace. The company' iFinCloud allows banks to become extremely agile (faster time to market for new product capabilities), adopt best practices in security across applications and also reduce costs. All of Intellect's platforms are microservices and Cloud-native based that allow banks to leverage and modernise the journey with simplified APIs and integration, leverage best practices, reduce costs, boost security, adopt the right kind of compliance and also lead to a shorter implementation time. Intellect Cloud based platform provide the company subscription-based revenues, which is sustainable and annuity in nature.

Intellect Fabric provides strong value proposition

Intellect's data platform (Intellect Fabric), powered Artificial Intelligence and Machine Learning, feeds contextual intelligence to banks, using both structured and unstructured data. It also helps to quickly build applications that leverage big data and Machine Learning in a cloud-native environment. Intelligent data platform solves the industry problem with scale given (1) contextual and cognitive computing, (2) real time data ingestion, (3) built for cloud and (4) data centric security. The company has developed three solutions such as Fabric platform, fabric data (360 degree intelligence) and IDX.ai (contextual data extraction platform). With this underlying technology, Intellect Design can launch products within 16 weeks with reduced costs.

iGTB – Huge growth opportunity

iGTB, powered by composable, contextual and hyperscaled technology architecture based on Cloud, is ranked at the top in wholesale and transaction banking across the globe. Intellect Design services 94 customers in 91 countries. The company's net promoter score (NPS) stood at 60, which is ahead of the industry's average of 60. The management highlighted that top 8 global banks are its customers. Under iGTB, the company has five products such as DTB, CBX, liquidity management platform, payment services hub and trade and supply chain finance. The digital transaction platform (DTB) has 57 customers in 34 countries. The contextual banking experience (CBX) has 56 customers in 55 countries. The liquidity management solutions (LMS) has 40 customers in 56 countries. The Payments Services Hub (PSH) has 36 customers in 30 countries. Trade and Supply Chain Finance (TSC) has 20 customers in 11 countries. The management expects the total number of customers would increase to 150 by 2026 from 94 in 2021. By providing 4 products to each of these 150 customers, the company can have 600 opportunities by 2026. Effectively, the market share is expected to grow from 5.8% to 21% by 2026. The management believes that the company would win deals against competitors on the back of (1) 'customer as promoter' strategy, (2) market leading products & global footprint, (3) market-ready cloud technology platforms, (4) execution track-record, (5) consistent rating by analysts as market leader, (6) experienced & stable leadership team, and (7) only brand that focuses on iGTB.

Retail banking –headroom for growth

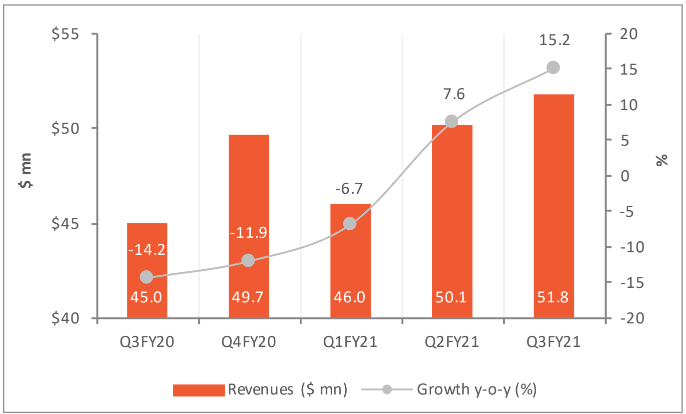
The outbreak of COVID-19 has changed everyone's mindsets and circumstances forcing banks and intellect to adopt to remote working. This product is 7-time leader in Gartner's magic quadrant. Management believes that the addressable market in this space is $60 billion, of which Intellect service addressable market is $10.8 billion. This service addressable market is expected to grow at 10% CAGR to $15.81 billion by FY2025. Management believes that SaaS revenue contribution would increase to 40% in FY2025 from 15% in FY2021. The growth in this segment would be driven by latest technology architecture, product growth engines, Europe and marketplace. The management believes that Europe would continue to grow at double-digits. Customers choose its retail banking solutions on the back of breadth of functionality, open API and Cloud-native architecture, Domain expertise, agile implementation, deal intensity & customer referencing and marketplace and ecosystem thinking. The company has the capability to win against traditional vendors because of (1) architecture, (2) breadth of functionality, (3) 10-15% TCO benefit, (4) deal intensity, while it is well placed to beat NEO vendors on account of (1) domain expertise, (2) breadth of functionality, (3) one stop vendor, (4) customer referencing.

Eyeing double-digit revenue growth; margins likely to improve

With significant investments in R&D (over Rs. 1,200 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. Management expects its SaaS revenue would improve to 30% in next five years from current contribution of 11%. Under Intellect SEEC segment, management believes that its recent wins in the US' insurance segment and its end-to-end data extraction capability digitally would help the company to drive the growth. Management sees huge addressable market of Rs. 100-250 crore for its Magic submission product. Given strong traction for its Global Transaction Banking (iGTB) and Global Consumer Banking (iGCB) business and potential growth opportunity in Intellect SEEC, we believe the company would report 14.3% CAGR growth over FY2021-FY2023E. Management aspires to achieve a 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).

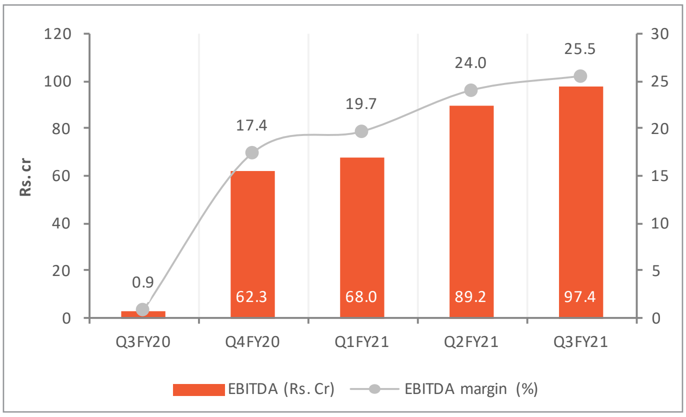
Financials in charts

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



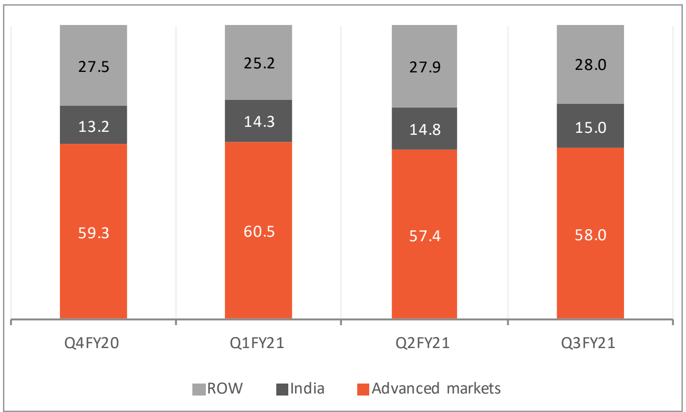
Source: Company, Sharekhan Research

Margin expansion continued



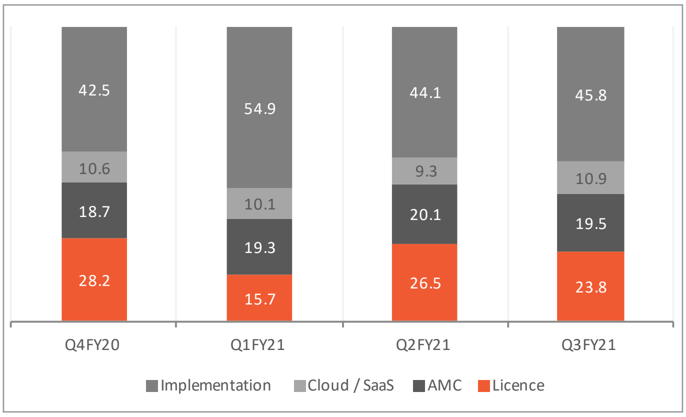
Source: Company, Sharekhan Research

Geography-wise contribution



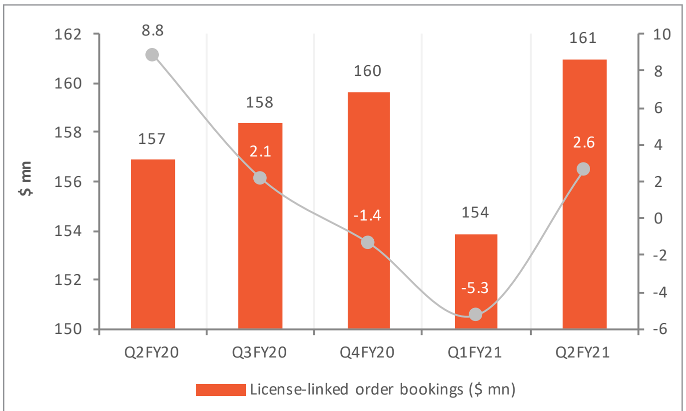
Source: Company, Sharekhan Research

Service lines-wise contribution



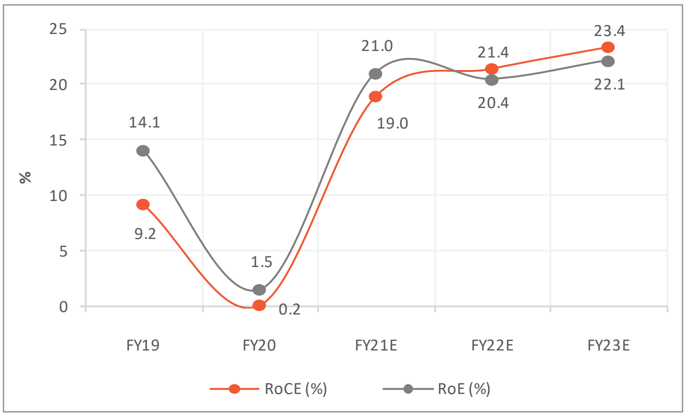
Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

RoE and RoCE trends (%)



Source: Company, Sharekhan Research

Outlook and Valuation

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. The fintech industry's growth is expected to outpace revenue growth expectations of the overall financial sector.

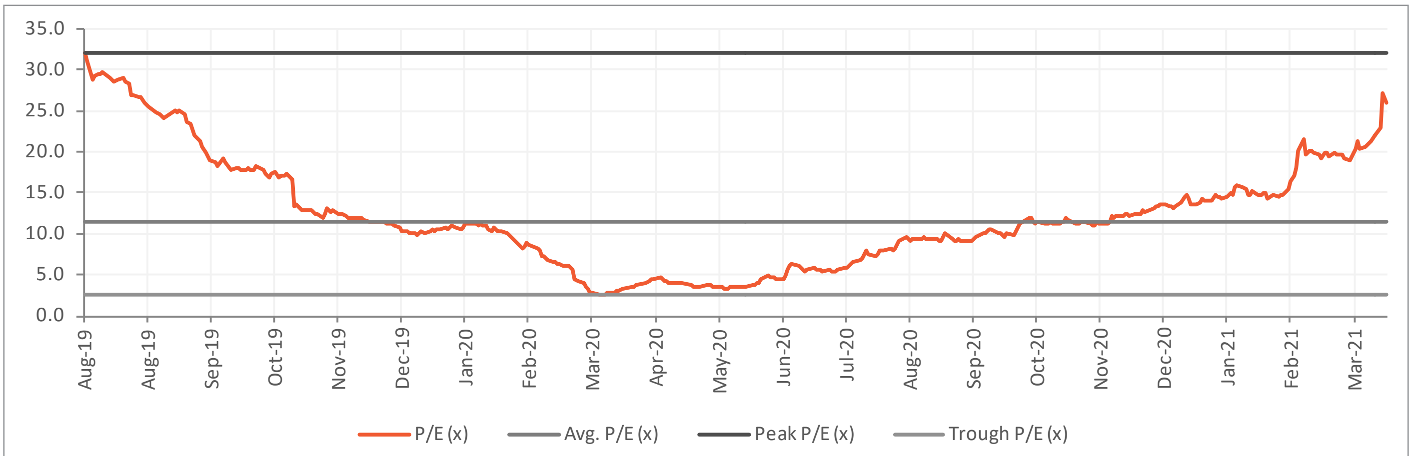
Company Outlook – Quality of revenue to drive profitability and cashflow

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 – Best play in fintech space

Intellect Design's investments on composable technology to create products and platforms provide differentiated customer experience, reduce costs and faster time to market to its customers. At the CMP, the stock is trading at a valuation of 27x/20x its FY2022E/FY2023E earnings. We continue to like the stock given favorable industry tailwinds, its future-ready product portfolio and possibilities of improving financial metrics. Hence, we maintain our Buy rating on the stock with a revised PT of Rs. 660.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Nucleus	517	3	1,503	13.1	11.5	8.9	7.7	2.4	2.1	23.0	20.6
OFSS	3,213	9	27,648	16.4	15.6	9.9	9.4	4.4	4.3	26.9	27.9
Intellect Design	589	13	7,821	31.9	26.6	22.0	16.9	6.0	4.9	21.0	20.4

Source: Company, Sharekhan estimates

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	7.51
2	Nippon Life India Asset Management	2.97
3	Gothic Corp	2.81
4	Vanderbilt University	2.68
5	Atyant Capital India Fund	2.61
6	AL MEHWAR COMM INVESTMENTS	1.34
7	The Duke Endowment	1.00
8	Dimensional Fund Advisors	0.91
9	Caisee de Depot	0.74
10	State Street Corp	0.08

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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