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**3R MATRIX**

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

**ESG Disclosure Score** NEW

**ESG RISK RATING** **23.95**  
Updated Mar 08, 2023

**Medium Risk**

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

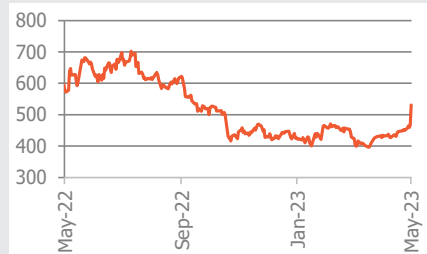
**Company details**

Market cap:	Rs. 7,209 cr
52-week high/low:	Rs. 719 / 388
NSE volume: (No of shares)	5.8 lakh
BSE code:	538835
NSE code:	INTELLECT
Free float: (No of shares)	9.4 cr

**Shareholding (%)**

Promoters	30.6
FII	22.3
DII	4.5
Others	42.6

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	22.2	14.4	19.3	(8.2)
Relative to Sensex	19.5	12.2	18.9	(25.4)

Sharekhan Research, Bloomberg

**Intellect Design Arena Ltd**

**Strong Q4, Maintain Hold**

<b>IT &amp; ITes</b>	<b>Sharekhan code: INTELLECT</b>		
<b>Reco/View: Hold</b>	↔	<b>CMP: Rs. 531</b>	<b>Price Target: Rs. 585</b> ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- For Q4FY23, Intellect Design Arena Limited (Intellect Design) reported strong revenue of Rs. 615.5 crore, up 12.5% q-o-q/20.8% y-o-y, beating our estimate of Rs. 563.3 crore, led by license revenue (up 42% y-o-y) and AMC revenue (up 25% y-o-y).
- EBITDA margin improved by 470 bps q-o-q to 22.4%, beating our estimate of 18.5%, due to lower expenses in Software Development, SG&A, and Research Engineering, as a percentage of total revenue. The company's deal pipeline remained healthy at Rs. 7,041 crore, up 29% y-o-y.
- Management aspires to achieve 20% y-o-y growth, with margin at 25-30%, and sees large banking opportunities in core banking transformation.
- We maintain Hold rating on Intellect Design with a revised PT of Rs. 585, as continued digital-led deal wins, healthy funnel, and increasing partnerships to participate in the marketplace would position the company to sustain growth momentum going ahead. At the CMP, the stock trades at 18.8/15.4x its FY2024/FY2025E EPS.

For Q4FY2023, Intellect Design reported revenue of Rs. 615.5 crore, up 12.5% q-o-q/20.8% y-o-y, beating our estimate of Rs. 563.3 crore. Growth was led by a strong jump in license revenue (up 42% y-o-y) and AMC revenue (up 25% y-o-y). EBITDA margin improved by 470bps q-o-q (down 130bps y-o-y) to 22.4%, beating our estimate of 18.5%, owing to sequentially lower Software development, SG&A and Research and Engineering expenses to total revenue. Net profit at Rs. 90.7 crore up 46.2% q-o-q/ down 4.9% y-o-y was significantly above our estimate of Rs 64.1 crore, owing to strong beat in revenue and margin. The company's deal pipeline remained healthy at Rs. 7,041 crore, up 29% y-o-y. The number of destiny deals increased from 61 in Q4FY22 to 70 in Q4FY23. However, the average deal size fell slightly from Rs. 45 crore in Q4FY22 to Rs. 44 crore in Q4FY23. The company also won 12 digital transformational deals and had 10 new digital transformations go live during the quarter. We maintain Hold rating on Intellect Design with a revised price target (PT) of Rs. 585, as continued digital-led deal wins, healthy funnel, and increasing partnerships to participate in the marketplace would position the company to sustain its growth momentum going ahead. At the CMP, the stock trades at 18.8/15.4x its FY24/25E EPS.

**Key positives**

- EBITDA margins improved sharply by 470 bps q-o-q to 22.4%.
- The company won 12 digital transformational deals vs. 6 wins during Q3FY23 (including 3 platform deal wins) and had 10 go-live new digital transformations during Q4FY23 (8 go lives in Q3FY23).
- Deal pipeline remained healthy at Rs. 7,041 crore, up 29% y-o-y.

**Key negatives**

- Platform revenue moderated to Rs. 114 crore in Q4FY23 vs. Rs. 117 crore in Q4FY22.
- Cash and cash equivalent fell to Rs. 548 crore in Q4FY23 Vs. Rs. 558 crore in Q4FY22.

**Management Commentary**

- Management indicated it aspires to achieve 20% y-o-y growth with margins at 25-30%. Management is seeing large banking opportunities in core banking transformation.
- Management commented the business is very well diversified and its exposure to US is much lower than Canada with the US banking business at small single digits. Company has built a good pipeline in the U.K., Europe, and Canada.
- Management stated cash generation was lower in FY23 on account of its policy to use internal cash for investments such as emach.ai. With major investments in emach.ai behind, the company expects cash generation to be better in FY24.

**Revision in estimates** – We have fine-tuned our estimates for FY24/25 owing to macro-overhang.

**Our Call**

**Valuation – Strong Q4, maintain Hold:** The strong digital deal wins accelerated by the recently launched eMach.ai and healthy funnel provide decent revenue visibility for Intellect Design. We expect a ~17% and 35% Sales and PAT CAGR, respectively, over FY23-25E. We maintain a Hold rating on Intellect Design with a revised PT of Rs. 585, as continued digital-led deal wins, healthy funnel, and increasing partnerships to participate in the marketplace would position the company to sustain its growth momentum going ahead. At the CMP, the stock trades at 18.8/15.4x its FY24/25E EPS

**Key Risks**

Rupee appreciation and/or adverse cross-currency movements. Contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spends.

**Valuation**

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,878.2	2,231.3	2,607.1	3,036.8
OPM (%)	25.1	19.5	23.2	23.7
Adjusted PAT	349.2	266.3	398.3	485.2
% YoY growth	32.9	(23.7)	49.5	21.8
Adjusted EPS (Rs.)	25.1	19.2	28.3	34.5
P/E (x)	21.1	27.6	18.8	15.4
P/B (x)	4.1	3.6	3.0	3.0
EV/EBITDA (x)	15.5	17.0	11.6	10.0
RoNW (%)	21.8	13.8	17.6	19.8
RoCE (%)	22.7	15.9	21.7	24.5

Source: Company; Sharekhan estimates

## Key result highlights

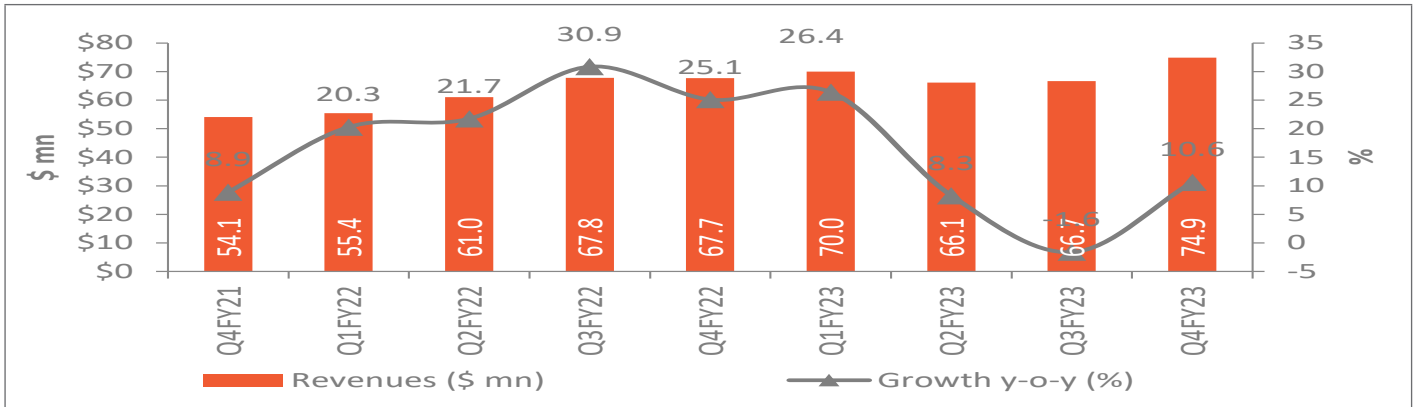
- ◆ **Strong License and AMC revenue:** Intellect Design reported revenue of Rs. 615.5 crore, up 12.5% q-o-q/20.8% y-o-y, led by a strong jump in license revenue and AMC revenue. License revenue of Rs. 113 crore was up 42% y-o-y, while AMC revenue at Rs. 106 crore was up 25% y-o-y. Platform revenue for Q4FY2023 stood at Rs. 114 crore, as against Rs. 117 crore in Q4FY22. License-linked revenue (License + Platform + AMC) was Rs. 333 crore in Q4FY23, up 18 % y-o-y. The company won few Rs. 50 crore deals during the quarter (two license deals and one SaaS deal).
- ◆ **Annual recurring revenue :** Annual recurring revenue – ARR (on annualised basis) improved to Rs. 881 crore in Q4FY23 from Rs. 837 crore in Q3FY23.
- ◆ **Strong deal pipeline:** Deal pipeline continued to remain healthy at Rs. 7,041 crore, up 29% y-o-y. Further, destiny deals improved to 70 in Q4FY2023 from 61 in Q4FY22. The average deal size fell to Rs. 44 crore from Rs. 45 crore in Q4FY22. The company won 12 digital transformational deals and had 10 go-live new digital transformations during the quarter.
- ◆ **Europe and Canada Strategy:** The company has reinvigorated the team in Europe with the induction of seniors. The company continues to build up pre-sales and delivery capability and has three referenceable clients, which have gone live. The company has built a good pipeline in the U.K., Europe, and Canada.
- ◆ **Cash balance dips in Q4FY23:** Cash and cash equivalent balance fell to Rs. 548 crore for Q4FY23 vs. Rs. 581 crore for Q3FY23. Collections improved to Rs. 485 crore in Q4FY23 from Rs. 473 crore in Q3FY23. DSO days decreased by 29 days to 110 days compared to the previous quarter.
- ◆ **ETR moderates:** The company's effective tax rate in Q4FY23 increased to 26.1% from 25.8% in Q3FY23.
- ◆ **eMACH.ai** - eMACH.ai is an integrated ecosystem built using its own architecture. The platform is designed to be regulatory compliant in markets that it operates in. The platform is Open Finance enabled and is designed to work with open banking and other financial technologies. This allows for greater connectivity and interoperability with other financial systems, making it easier for users to manage their finances across different platforms.
- ◆ **iKredit 360:** iKredit360 is a 360-degree assets platform that enables banks to curate innovative credit experiences over the cloud. The platform includes eMACH.ai building blocks and a multi-tenant credit as a service platform, which comes pre-integrated with best-in-class fintech partners to offer differentiated solutions. The platform also includes a digital experience platform that allows banks to design their own user interfaces. The platform uses embedded AI and ML for building propensity models and collaborating within an ecosystem that integrates with many FinTechs and partners.
- ◆ **iESG:** The iESG platform uses machine learning to deliver relevant information on environment, social, and governance (ESG) factors. This enables better risk analysis beyond just financial risk. The platform is built on explainable AI for transparency and auditability. The platform provides customisable ESG data and scoring frameworks for asset managers and banks to make informed investment decisions. It covers over 40 ESG topic categories with real-time, comprehensive sustainability insights and can run company sustainability reports on custom metrics against thousands of companies at once.

## Results

Particulars	Q4FY23	Q4FY22	Q3FY23	% YoY	% QoQ
Revenue (\$ mn)	74.9	67.7	66.7	10.6	12.3
Net sales	615.5	509.4	546.9	20.8	12.5
Software development expenses	271.6	218.5	254.4	24.3	6.8
Gross Profit	343.9	290.9	292.5	18.2	17.6
Selling & marketing and General & Administrative expenses	159.5	135.3	152.4	17.9	4.7
Research & Engineering expenses	46.6	35.2	43.5	32.4	7.2
EBITDA	137.8	120.4	96.7	14.4	42.5
Depreciation & amortisation	32.9	26.5	31.1	24.3	6.0
EBIT	104.8	93.9	65.6	11.6	59.7
Other income	20.2	26.4	19.7	-23.3	2.9
Finance cost	0.2	1.0	0.9	-78.1	-76.9
PBT	124.9	119.3	84.4	4.6	47.9
Tax provision	32.6	24.1	21.8	35.0	49.5
Net profit	90.7	95.3	62.0	-4.9	46.2
EPS (Rs)	6.4	6.8	4.5	-5.7	44.4
Margin (%)					
EBITDA	22.4	23.6	17.7	-126	470
EBIT	17.0	18.4	12.0	-140	503
NPM	14.7	18.7	11.3	-399	339

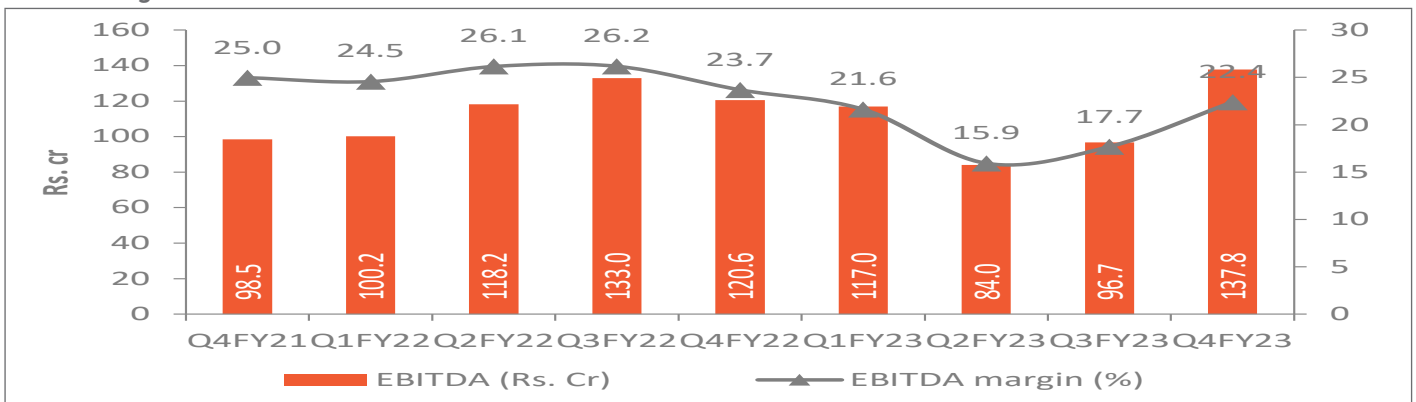
Source: Company; Sharekhan Research

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



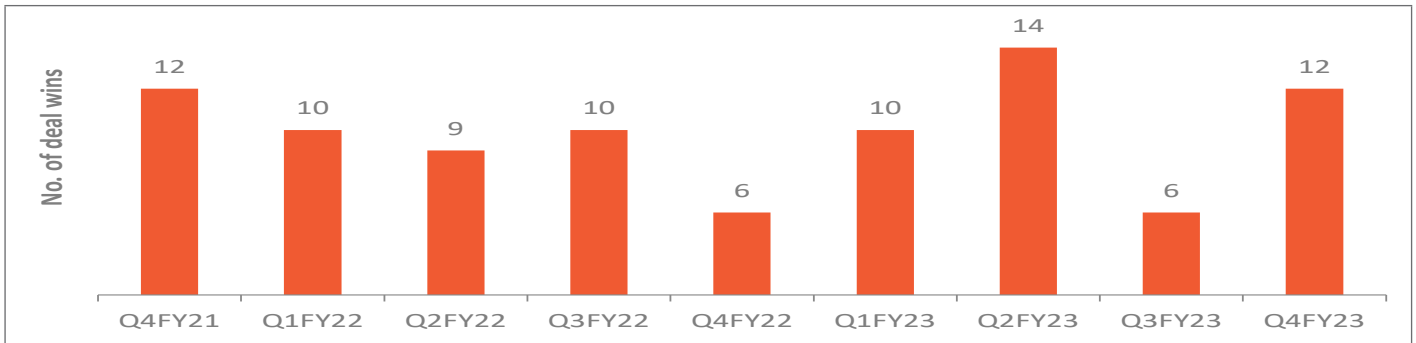
Source: Sharekhan Research

EBITDA margin trend



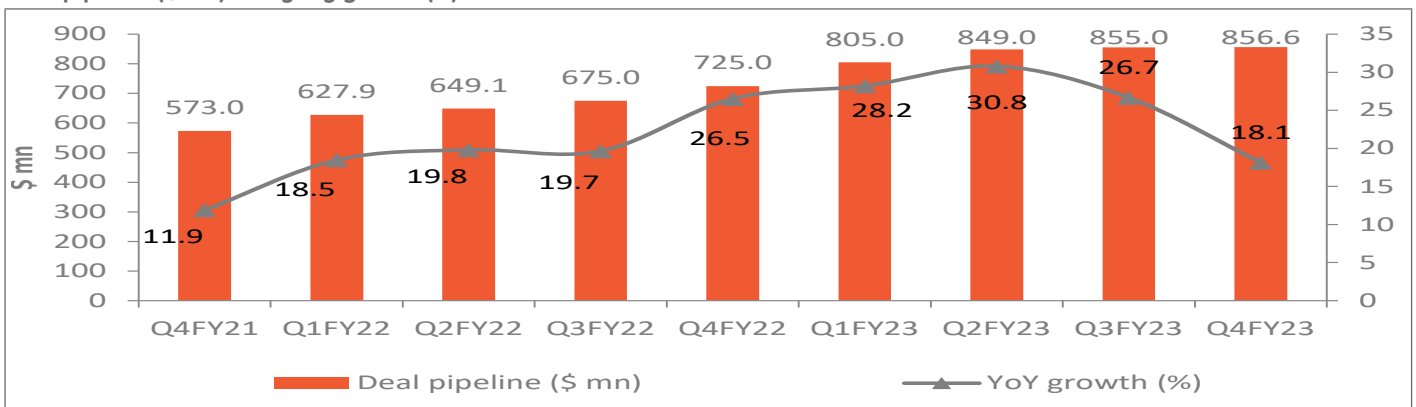
Source: Sharekhan Research

Digital deal wins (in numbers)



Source: Sharekhan Research

Deal pipeline (\$ mn) and y-o-y growth (%)



Source: Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Persisting multiple global headwinds turning outlook for FY24E uncertain.

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

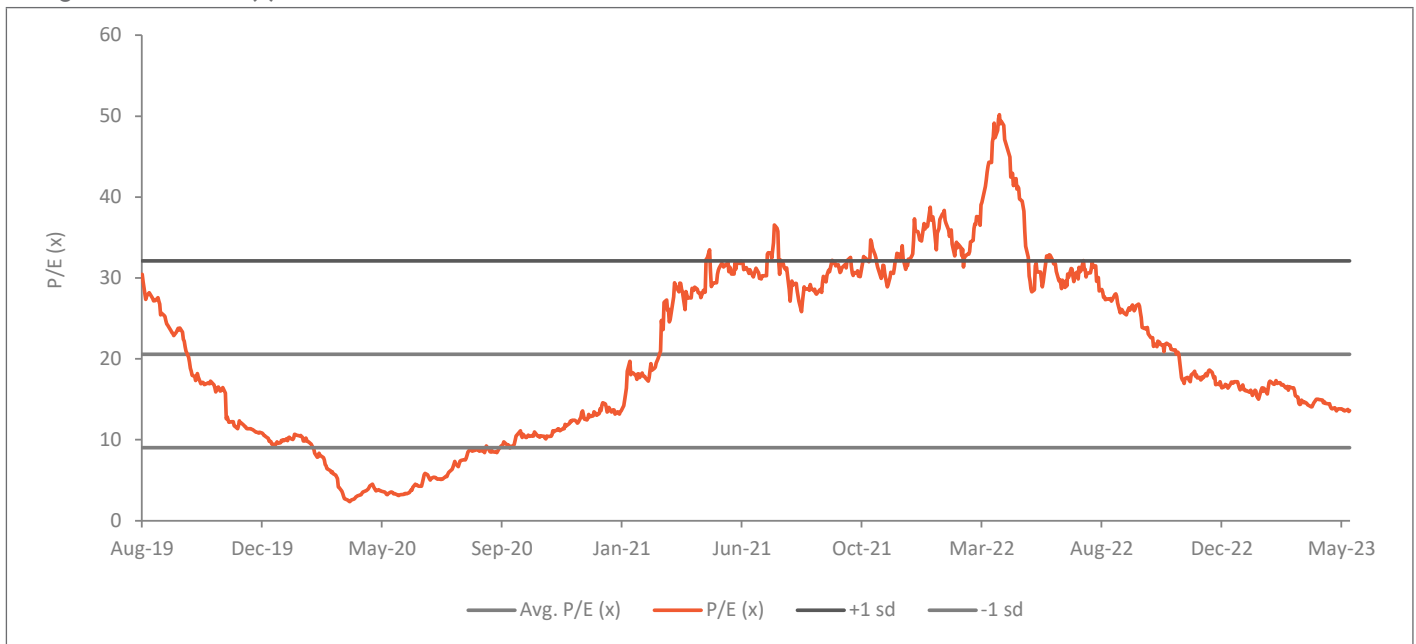
### ■ Company Outlook – Quality of revenue to drive profitability and cashflow

Intellect Design has been focusing on increasing its license-linked revenue, as a higher license-lined revenue would lead to steady revenue growth. The company’s annuity revenue (AMC+ SaaS) contributes around 40% to total revenue and is expected to post robust growth going ahead, given its early investments in Cloud capability. Improving the contribution of annuity revenue would help the company drive its profitability and cash flow generation as well.

### ■ Valuation – Strong Q4, Maintain Hold

The strong digital deal wins accelerated by recently launched eMach.ai and healthy funnel provide decent revenue visibility for Intellect Design. We expect a ~17%/35% Sales and PAT CAGR respectively over FY23-25E. We maintain a Hold rating on Intellect with a revised PT of Rs. 585 as continued digital-led deal wins, healthy funnel and increasing partnerships to participate in the marketplace would position the company to sustain its growth momentum going ahead. At CMP, the stock trades at 18.8/15.4x its FY24/25E EPS

#### One-year forward P/E (x) band



Source: Sharekhan Research

## About the 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 four main verticals in the banking industry – 1) retail banking, 2) corporate banking, 3) insurance, and 4) treasury and capital markets. 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 micro-services-based architecture, powered by AI and ML. With 12 products and four platforms across four business lines, the company is well placed to accelerate 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

- ◆ Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of Banking crisis, macro headwinds, and possible recession in the US may moderate the pace of technology spending.

## Additional Data

### Key management personnel

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

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Amansa Holdings Pvt Ltd	8.9
2	Vanguard Group Inc/The	2.6
3	Gothic Corp	1.9
4	Atyant Capital India Fund-I	1.7
5	CARNE GLOBAL FUND MANAGERS IRE	1.6
6	Nippon Life India Asset Management	1.6
7	Emirate of Abu Dhabi United Arab E	1.6
8	BlackRock Inc	0.9
9	Franklin Resources Inc	0.9
10	Norges Bank	0.5

Source: Bloomberg

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## 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 deteriorating 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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