Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Intellect Design Arena Ltd

eMACH.AI driving growth, maintain Buy

IT & ITeS		Sharekhan code: INTELLECT		
Reco/View: Buy	↔	CMP: **Rs. 780**	Price Target: **Rs. 920**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score

NEW

ESG RISK RATING
Updated Aug 08, 2023

23.95

Medium Risk

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

Source: Morningstar

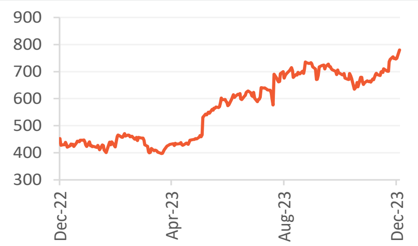
Company details

Market cap:	Rs. 10,646 cr
52-week high/low:	Rs. 790/388
NSE volume: (No of shares)	8.0 lakh
BSE code:	538835
NSE code:	INTELLECT
Free float: (No of shares)	9.5 cr

Shareholding (%)

Promoters	30.4
FII	24.4
DII	3.9
Others	41.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.0	9.8	35.2	82.4
Relative to Sensex	10.3	5.7	23.5	69.9

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Intellect Design with revised PT of Rs 920 (higher PT reflects the roll forward of target multiple to FY26E) as traction from eMACH.AI gains momentum and due to improving funnel.
- Company secured large destiny deal wins with major bank in India (cash management system) and a leading banking group in Central and Eastern Europe (Core Banking systems) built on eMACH.AI recently.
- Margin trajectory to improve significantly in FY25E and FY26E as there will be no contribution from lower margin GeM revenues and due to contributions from higher margin large destiny deals.
- Despite BFSI centric revenue profile the Company's revenues have been resilient owing to well-diversified offerings across License and SaaS besides diversification of revenues across markets.

We met the management of Intellect Design Arena Ltd (Intellect) to understand the company outlook and growth plans. The company is witnessing a strong acceleration in destiny deals as eMACH.AI continues to gain greater traction. The company recently recorded destiny deals with major banks in India and one leading banking group in Central and Eastern Europe. These destiny deals are not only expected to drive revenues but also have a higher margin profile and are thus expected to push the margin trajectory upwards. Further, despite the BFSI centric revenue profile, revenues have been resilient owing to its well diversified offerings across License and SaaS as well as diversification across markets while weakness has continued to impact BFSI verticals of its larger peer companies. The company expects margin trajectory to improve significantly in FY25E and FY26E as there will be no contribution from lower-margin GeM and due to higher contributions from high-margin, large destiny deals. We maintain Buy on Intellect Design with revised PT of Rs. 920 (higher PT reflects the roll forward of target multiple to FY26E) due to improving funnel while traction from eMACH.AI gains momentum. At the CMP the stock trades at 22.9/19.4x its FY25E/ FY26E EPS.

- **eMACH.AI accelerates deal wins:** eMACH.AI (Events-driven. Microservices-based, API-enabled, Cloud Native, Headless with underlying AI models) continues to accelerate the company's deal wins. The company recently secured large destiny deal win for Core banking Systems from one of the leading banking group in Central and Eastern Europe and from large Indian PSU bank for Cash Management System. The deal value involving Central and Eastern Europe banking group could be valued as high as Rs. 1,000 crores over 10 years. Earlier in November the company had secured a large destiny deal win with another India headquartered Bank (Top 3 in terms of market cap) for Custody Edge Platform. Besides driving the revenue growth, the eMACH.AI based deal wins have higher gross margin of 55-60% and will aid in improving margins.
- **Margins to improve steadily:** The company expects margin trajectory to improve significantly in FY25E and FY26E as there will be no contribution from lower margin GeM revenues and due to contributions from higher margin large destiny deals. Revenue contribution on LTM basis from Implementation (lower margin profile) which was ~65-66% in FY16 has moderated to ~44-48% in FY23 while the corresponding revenue contribution from relative higher margin License and SaaS has improved.
- **Well Diversified offerings aiding resilience to company revenue:** Company's well-diversified offerings (License and Saas based) and diversification across markets makes its revenue profile resilient. The company is not witnessing any material impact due to weakness in BFSI vertical across western markets The revenue mix (currency wise) in Q2FY23 from US dollar, Indian rupee, GBP, Canadian Dollar, and others stood at 38%/28%/18%/6%/4%and 5% respectively. Although nearly 38% (Q2FY24) of revenues are denominated in US Dollars, the company's US exposure is currently small. Few countries outside US transact in US Dollars increasing its dollar revenue exposure. Further, increasing contribution from SaaS offerings have mitigated the volatility in company revenues due to volatile profile of License revenues.

Our Call

Valuation – Maintain Buy with revised PT of Rs 920: The company is witnessing strong traction from eMACH.AI as it secured large destiny deals with major banks recently while the deal funnel continues to remain healthy led by diversified License and SaaS offerings. We expect Sales/PAT CAGR of 13%/28% over FY23-26E. Hence, we maintain Buy with revised PT of Rs 920 (higher PT reflects the roll forward of target multiple to FY26E) due to improving funnel while traction from eMACH.AI gains momentum. At the CMP the stock trades at 22.9/19.4x its FY25E/ FY26E 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 (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,878.2	2,231.3	2,599.3	2,907.7	3,224.0
OPM (%)	25.1	19.5	22.5	25.3	26.4
Adjusted PAT	349.2	267.2	351.4	477.4	562.0
% YoY growth	32.9	(23.5)	31.5	35.9	17.7
Adjusted EPS (Rs.)	25.1	19.2	25.1	34.1	40.1
P/E (x)	31.0	40.5	31.0	22.9	19.4
P/B (x)	6.0	5.3	4.6	3.9	3.3
EV/EBITDA (x)	22.8	24.9	18.0	13.9	11.6
RoNW (%)	21.8	13.8	15.9	18.4	18.2
RoCE (%)	22.7	15.9	19.7	22.6	22.7

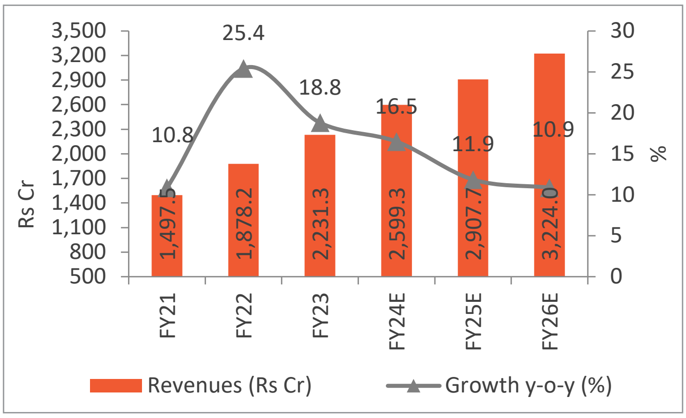
Source: Company; Sharekhan estimates

Key Management Takeaways

- The company secured a large destiny deal win with one of the leading banking groups in Central and Eastern Europe for core banking system. The Bank has chosen eMACH.AI-based complete Digital Core and Lending platform to transform their banking experience. Deal value could be as high as Rs 1,000 crore over 10 years.
- The company has also secured a large destiny deal with a large PSU bank to strengthen transaction banking capabilities with Intellect's eMACH.Ai powered Cash Management System.
- Earlier in November the company had secured large destiny deal win with a large Indian Bank (Top 3 in terms of market cap) for Custody Edge Platform .
- eMACH.AI continues to accelerate the company's deal wins . The company recorded 19th deal under eMACH.AI after its launch in March 2023.
- Company's well-diversified offerings (License and Saas based) and diversification across markets makes its revenue profile resilient. The company is not witnessing any material impact due to weakness in BFSI vertical across western markets. Although nearly 38% (Q2FY23) of revenues are denominated, US exposure is currently small. The exposure comes from few countries outside US which transact in dollars.
- Revenue Contribution on an LTM basis from Implementation (lower margin profile) which was ~66-67% in FY16 has moderated to ~44-48% in FY23 while revenue contribution from relative higher margin License and SaaS has improved.

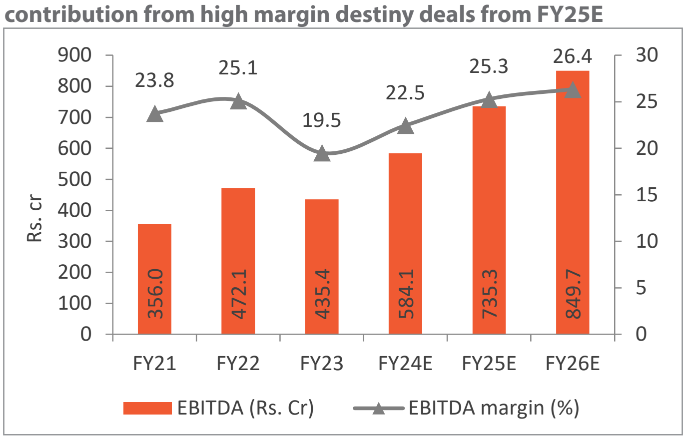
Financials in charts

Revenue moderation from transitioning of GeM from FY25E



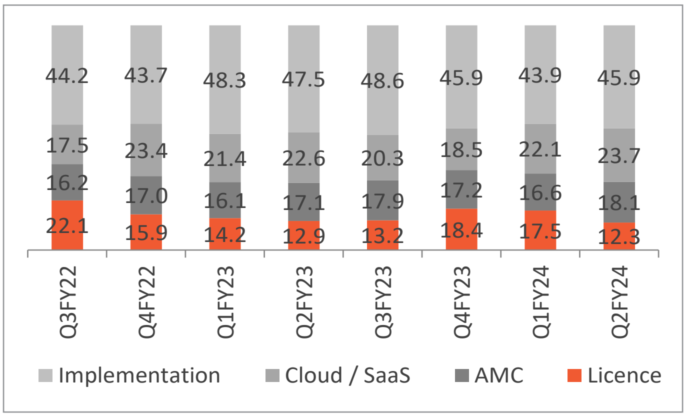
Source: Company, Sharekhan Research

Margin expansion due to transistioning of GeM and contribution from high margin destiny deals from FY25E



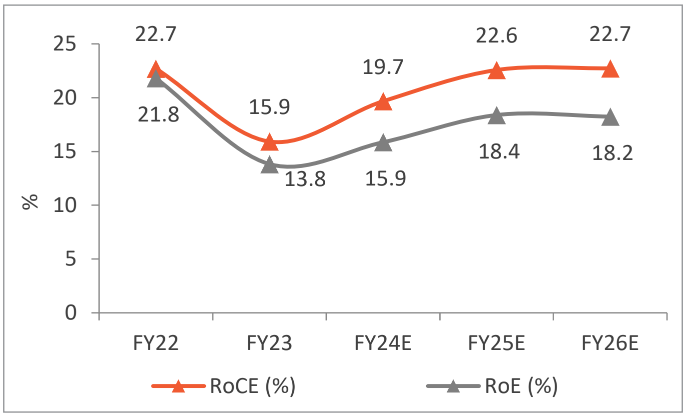
Source: Company, Sharekhan Research

Revenue mix by service line (%)



Source: Company, Sharekhan Research

RoCE (%) and RoE (%) trends



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Persisting multiple global headwinds keep 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.

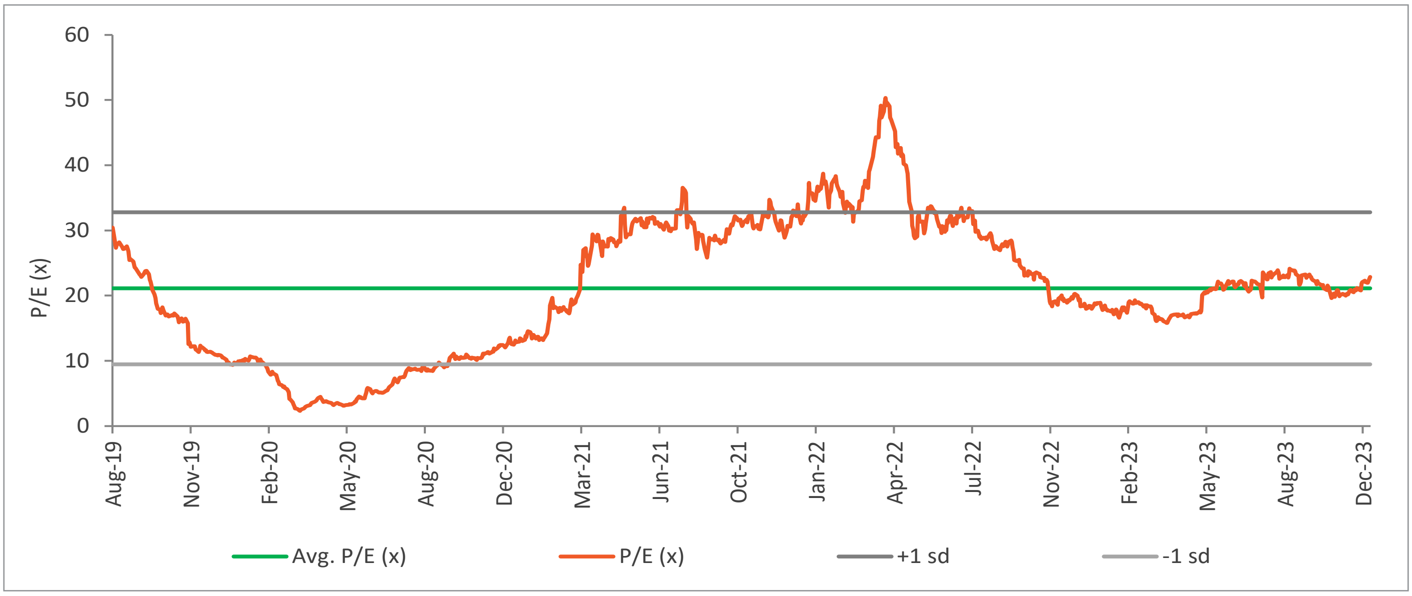
■ **Company outlook - Quality of revenue to drive profitability and cashflow**

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 contribution of annuity revenue would help the company drive its profitability and cash flow generation as well.

■ **Valuation - Maintain Buy with revised PT of Rs 920**

The company is witnessing strong traction from eMACH.AI as it secured large destiny deals with major banks recently while the deal funnel continues to remain healthy led by diversified License and SaaS offerings. We expect Sales/PAT CAGR of 13%/28% over FY23-26E. Hence, we maintain Buy with revised PT of Rs 920 (higher PT reflects the roll forward of target multiple to FY26E) due to improving funnel while traction from eMACH.AI gains momentum. At the CMP the stock trades at 22.9/19.4x its FY25E/ FY26E EPS.

One-year forward P/E (x) band



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 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

1) 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	8.83
2	Vanguard Group Inc/The	2.66
3	Gothic Corp	1.9
4	Atyant Capital India Fund-I	1.68
5	Franklin Resources Inc	1.44
6	BlackRock Inc	1.04
7	Dimensional Fund Advisors LP	0.8
8	Nippon Life India Asset Management	0.67
9	ICICI Prudential Asset Management	0.64
10	Norges Bank	0.53

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan
by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600