



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	✓	↔	✓

Company details

Market cap:	Rs. 12,443 cr
52-week high/low:	Rs. 970/388
NSE volume: (No of shares)	7.3 lakh
BSE code:	538835
NSE code:	INTELLECT
Free float: (No of shares)	9.5 cr

Shareholding (%)

Promoters	30.4
FII	25.1
DII	3.8
Others	40.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	41.4	46.9	122.0
Relative to Sensex	12.7	31.0	40.3	104.6

Sharekhan Research, Bloomberg

Intellect Design Arena Ltd

Strong Outlook, Maintain Buy

IT & ITeS

Sharekhan code: INTELLECT

Reco/View: Buy



Upgrade



CMP: Rs. 910

Maintain

Price Target: Rs. 1050



Downgrade

Summary

- Intellect Design Arena Ltd (Intellect) reported revenue of Rs. 634.3 crore in Q3FY24, up 1.7%/14.3 on q-o-q and y-o-y basis respectively, missing our estimates of Rs. 642.7 crore. Growth was aided by License and AMC revenues partially offset by weakness in platform revenues.
- EBITDA margin improved by 81 bps q-o-q on improved revenues to 20.6% but lagged our estimates of 22%
- The funnel continues to be strong at Rs. 8020 crores, up 6.6% q-o-q/14.1% y-o-y. Destiny deals improved to 79 in Q3FY24. The company reported 14 deals wins, up 27.3%/133.3% on q-o-q and y-o-y basis respectively.
- We maintain Buy on Intellect Design with revised PT of Rs. 1050 on steady destiny deal wins, healthy funnel and increasing traction from eMACH.ai. At the CMP the stock trades at 24.5/20x its FY25/ FY26E EPS.

Intellect Design Arena Ltd (Intellect) reported revenue of Rs. 634.3 crore, up 1.7%/14.3 on q-o-q and y-o-y basis respectively, missing our estimates of Rs. 642.7 crore. Growth was aided by License, up 62% q-o-q/69% y-o-y basis and AMC revenues, up 12.6% q-o-q/ down 0.7% y-o-y, partially offset by weakness in Platform revenues, down 25% q-o-q/ 1.4% y-o-y. EBITDA margin improved by 81 bps q-o-q to 20.6% on improved revenues but lagged our estimates of 22%. Net profit stood at Rs. 84.3 crore, up 19.7%/62% on q-o-q and y-o-y basis respectively beating our estimates of Rs 82.4 crore aided by higher other income. The funnel continues to be strong at Rs. 8020 crores, up 6.6% q-o-q/14.1% y-o-y Rs. Destiny deals improved to 79 in Q3FY24 from 74 in Q2FY24. The company reported 14 deals wins, up 27.3%/133.3% on q-o-q and y-o-y basis respectively with 13 digital transformation go-lives. Management has guided revenue growth of 20% and earnings growth of 25-30%. Ex-GeM, EBITDA margin is expected to be 25% plus. We maintain Buy on Intellect Design with revised PT of Rs. 1050 given the steady destiny deal wins, healthy funnel, and increasing traction from eMACH.ai. At the CMP the stock trades at 24.5/20x its FY25/ FY26E EPS.

Key positives

- Deal pipeline stayed healthy at Rs. 8020 crore, up 6.6% q-o-q/14.1% y-o-y
- Destiny deals improved to 79 in Q3FY24 from 74 in Q2FY24

Key negatives

- Platform revenues 25%/1.4% on q-o-q and y-o-y, basis respectively.

Management Commentary

- Guidance for revenue growth is at 20% and earnings growth of 25-30%.
- GeM was not highly profitable. Ex-GeM EBITDA would be 25% plus.
- Company will be moving to a lower tax bracket of 25%. Effective tax rate could be lower by 3%

Revision in estimates – We have fine-tuned our estimates to factor in Q3FY24 performance

Our Call

Valuation – Maintain Buy with revised PT of Rs 1050: Intellect Design reported healthy performance on all fronts though it lagged our estimates on revenue and margin fronts. eMACH.ai continues to drive accelerated implementation and transformation with the funnel well diversified by License and SaaS. We expect Sales/PAT CAGR of 16.5%/35.3% over FY24-26E. Hence, we maintain Buy on Intellect Design with revised PT of Rs. 1050, given the steady destiny deal wins, healthy funnel, and increasing traction from eMACH.ai. At CMP, the stock trades at 24.5/20x its FY25/ 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

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,878.2	2,231.3	2,574.8	2,999.7	3,492.1
OPM (%)	25.1	19.5	22.0	25.7	26.6
Adjusted PAT	349.2	267.2	348.6	520.6	638.1
% YoY growth	32.9	(23.5)	30.4	49.4	22.6
Adjusted EPS (Rs.)	25.1	19.2	24.9	37.2	45.6
P/E (x)	36.2	47.3	36.5	24.5	20.0
P/B (x)	7.0	6.2	5.4	4.5	3.7
EV/EBITDA (x)	26.7	29.1	21.8	15.6	12.5
RoNW (%)	21.8	13.8	15.7	19.9	20.2
RoCE (%)	22.7	15.9	18.9	23.7	24.6

Source: Company; Sharekhan estimates

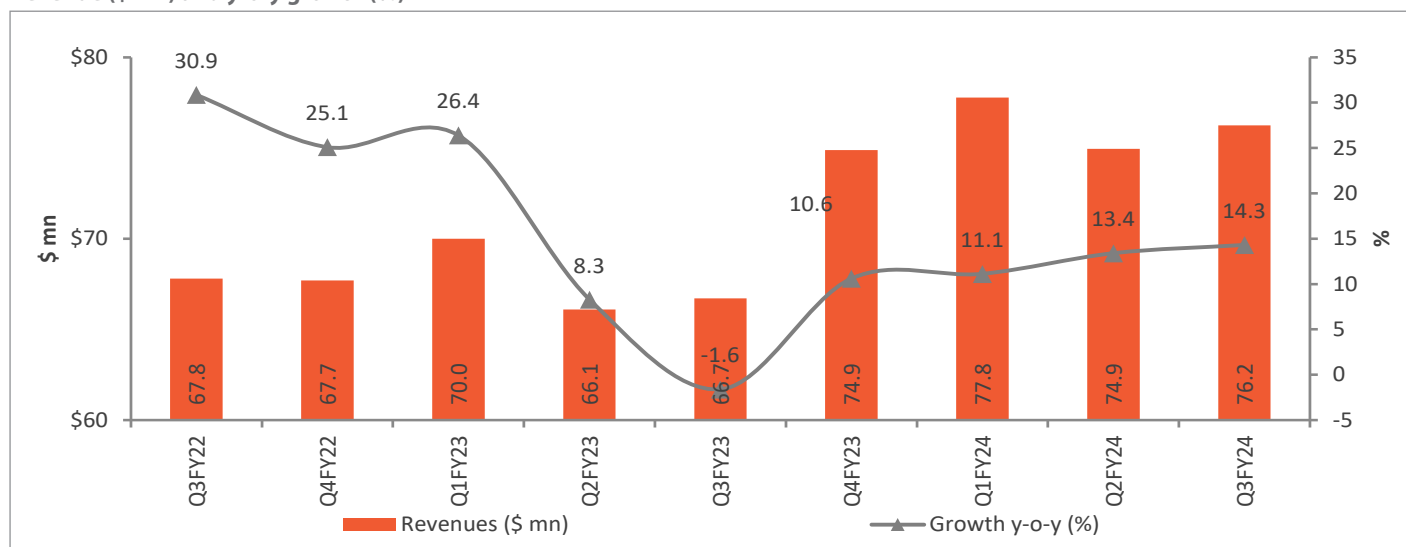
Key Results Highlights

- ♦ **Revenues:** The company reported revenue of Rs.634.3 crore, up 1.7%/14.3% q-o-q and y-o-y missing our estimates of Rs.642.7 crore. License, AMC revenues and Implementation grew 69.7%/12.6% and 6.5% y-o-y while Platform revenues declined 1.4% y-o-y. Licence-linked revenue (Licence + Platform + AMC) stood at Rs.347 crore, up 3.6% /23.5% on q-o-q and y-o-y basis respectively.
- ♦ **Strong deal pipeline:** Deal pipeline remained healthy at Rs. 8020 crore, up 6.6% q-o-q/14.1% y-o-y. Destiny deals improved to 79 in Q3FY24 from 74 in Q2FY24. Average deal size was flat at Rs.53 crore. The company reported 14 deals wins, up 27.3%/133.3% on q-o-q and y-o-y basis respectively with 13 digital transformation go-lives.
- ♦ **Cash & cash equivalents:** Cash & cash equivalent stood at Rs. 712 crore, up 16.2%/36.1% q-o-q and y-o-y basis respectively while collections improved to Rs 591 crore, up 0.7%/24.9% on q-o-q and y-o-y basis respectively. DSO days declined to 107 from 109 compared to Q2FY24.

Results	Rs cr				
Particulars	Q3FY24	Q3FY23	Q2FY24	YoY %	QoQ %
Revenues (\$ mn)	76.2	66.7	74.9	14.3	1.7
Net sales	634.3	546.9	619.0	16.0	2.5
Software development expenses	288.5	254.4	283.7	13.4	1.7
Gross Profit	345.9	292.5	335.3	18.2	3.1
Selling & marketing and General & Administrative expenses	165.2	152.4	164.1	8.4	0.7
Research & Engineering expenses	49.7	43.5	48.5	14.4	2.5
EBITDA	130.9	96.7	122.7	35.4	6.7
Depreciation & amortisation	34.3	31.1	33.7	10.3	1.5
EBIT	96.7	65.6	89.0	47.3	8.6
Other income	19.7	19.7	9.2	0.0	114.7
Finance cost	0.6	0.9	0.8	-28.4	-15.6
PBT	115.7	84.4	97.4	37.1	18.8
Tax provision	30.8	21.8	25.7	41.4	20.0
Net profit	84.3	62.0	70.4	35.9	19.7
EPS (Rs)	6.0	4.5	5.0	35.0	19.7
Margin (%)					
EBITDA	20.6	17.7	19.8	296	81
EBIT	15.2	12.0	14.4	324	86
NPM	13.3	11.3	11.4	195	191

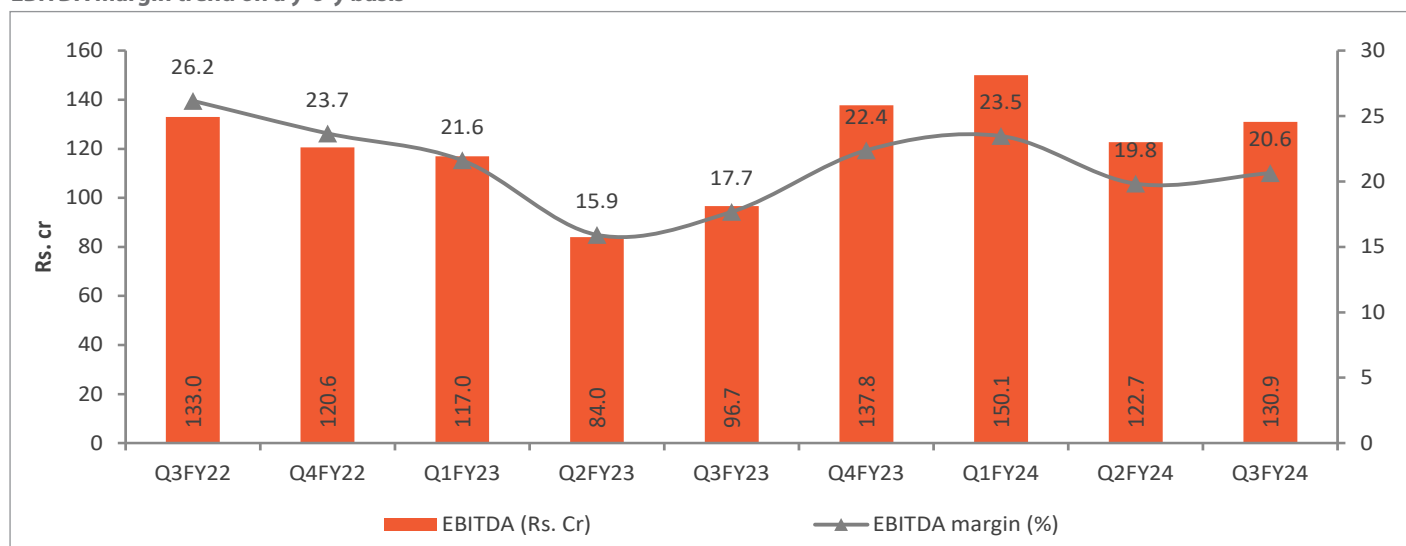
Source: Company, Sharekhan Research

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



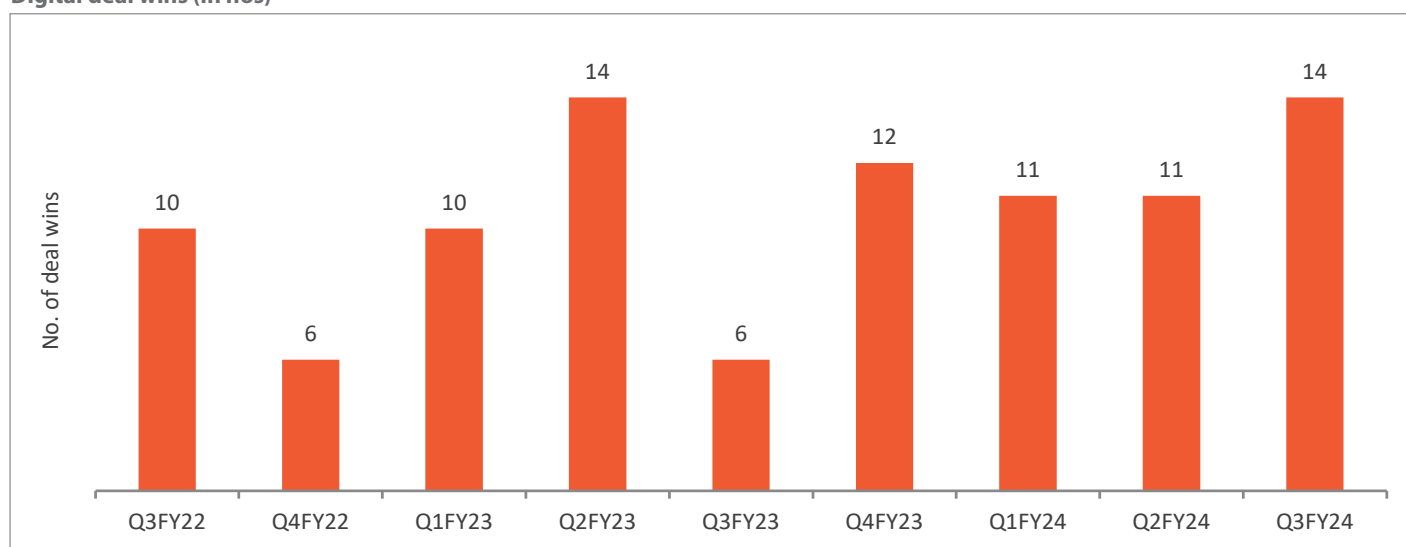
Source: Company, Sharekhan Research

EBITDA margin trend on a y-o-y basis



Source: Company, Sharekhan Research

Digital deal wins (in nos)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well driven by receding headwinds and better earnings visibility.

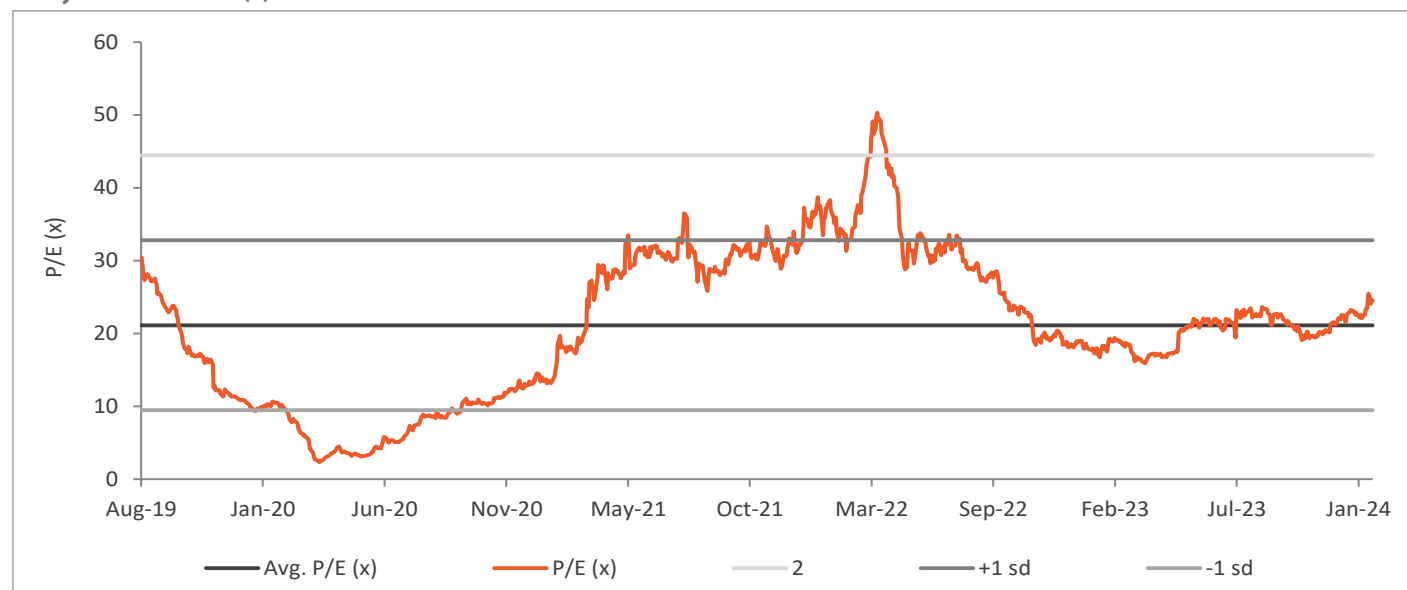
■ Company outlook - Quality of revenue to drive profitability and cashflow.

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 1050

Intellect Design reported healthy performance on all fronts though it lagged our estimates on revenue and margin fronts. eMACH.ai continues to drive accelerated implementation and transformation with the funnel well diversified by License and SaaS. We expect Sales/PAT CAGR of 16.5%/35.3% over FY24-26E. Hence, we maintain Buy on Intellect Design with revised PT of Rs. 1050 given the steady destiny deal wins, healthy funnel, and increasing traction from eMACH.ai. At the CMP the stock trades at 24.5/20x its FY25/ 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: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Amansa Holdings Pvt Ltd	8.82
2	Vanguard Group Inc	2.66
3	Gothic Corp	1.9
4	Atyant Capital India Fund-I	1.68
5	Franklin Resources Inc	1.44
6	BlackRock Inc	1.07
7	Dimensional Fund Advisors LP	0.84
8	Nippon Life India Asset Management	0.67
9	ICICI Prudential Asset Management	0.56
10	Norges Bank	0.53

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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