

30th July 2021

Intellect Design –BUY

CMP : Rs.735.0
Target Price : Rs.924.0
Upside : 26%+
Stop Loss : Rs.668.0 (Closing basis)

Investment Thesis

Recently, the stock price of Intellect Design Arena Ltd. (Intellect Design) corrected by ~9% from 52-week high of Rs.848.50 despite reporting good set of numbers by the company in the recent quarters.

Intellect Design has emerged as one of the global leaders in financial technology pertaining to its wide spectrum of products for banking, financial services and insurance. Intellect Design has made a significant investment of Rs.8,000mn since 2014 in R&D and created a portfolio of ~12 products across its four lines of business units. This effort has de-risk Intellect Design's portfolio, enhance chance of winning more deals and increasing deal sizes. We believe, Intellect Design's Global Transaction Banking (iGTB) and Global Consumer Banking (iGCB) business, which contribute ~70% of revenue, will boost its annuity revenue and profitability as it has reduced the implementation timeframe. Its profitability remained volatile despite a revenue CAGR of 14% over FY14-20, there is a strong improvement in profitability and operating cash flow over the last few years. We believe, increasing annuity revenue and profitability will improve Intellect Design's operating cash flow at a healthy rate by FY23E.

Intellect Design are winning healthy deals over the past few quarters and especially, high value deals in corporate & retail banking. It has won four large deals in the last quarter as well. Intellect Design is improving its focus in Europe (especially Germany) and to cater to European & US demand, Intellect Design has also hired sales leadership in these regions as well as investing in cloud to drive growth. This along with focus on improving quality of revenues (licence + AMC + Cloud form over 50% in FY21), huge addressable fintech market, strong deal pipeline of Rs.41,770mn and monetisation of ISEEC has made Intellect Design is expected to achieve high double-digit revenue CAGR over the next five years.

Financials

- During the past 5 years, revenue of Intellect Design grew at a CAGR of 13.1% while PAT grew from loss to profit of Rs.2,628mn in same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	14,496	13,469	14,975	17,670	20,321
EBITDA	1,948	1,019	3,675	4,318	4,966
% growth	91.4	-47.7	260.5	17.5	15.0
PAT	1,313	160	2,628	3,017	3,460
EPS (INR)	10.0	1.2	19.8	22.7	26.0
P/E (x)	77.3	637.2	39.0	33.9	29.6
RoE (%)	12.9%	1.5%	18.9%	19.8%	20.7%

- Intellect Design reported 4.5% QoQ growth in dollar revenue in Q4FY21 to US\$54.1mn while rupee revenue grew by 3.2% QoQ to Rs.3,976mn led by 54.2% and 1.0% QoQ growth in cloud and AMC revenues.

Stock Data

Market Cap (Rs. Mn)	1,02,645
Market Cap (\$ Mn)	1,415.8
Shares O/S (in Mn)	133.0
Avg. Volume (3 month)	9,65,000
52-Week Range (Rs.)	848.50/ 65.10

Shareholding Pattern

Promoters	31.23%
FII's	27.21%
Institutions	3.00%
Others (incl. body corporate)	38.56%

Performance (%)	1M	6M	1Yr
Absolute	9.8%	181.8%	1,027.0%
BSE IT	4.7%	28.0%	95.8%

Key Ratios

Div Yield	0.0%
TTM PE	39.0x
ROE	18.9%
TTM EPS (Rs.)	19.8/-

- Intellect Design's EBITDA grew by 4.0% QoQ in Q4FY21 to Rs.999mn. However, EBITDA margin declined by 4bps QoQ to 25.1% in Q4FY21 mainly led by higher other expenses.
- Intellect Design's PAT was marginally grew by 0.3% QoQ to Rs.8.6mn due to lower other income.

Key Business Highlights

- Intellect Design, de-merged entity from Polaris Consulting Services in 2014, is a digital financial technology products company addressing the business needs of the banking and financial services domains.
- Intellect Design caters to the three main verticals in the banking industry, viz, retail banking, corporate banking, and treasury & capital markets and insurance industry.
- Intellect Design 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).

Valuation

- Financial services industry is on the verge of adopting digitization, new-age technologies and products as these firms have sharpened their focus on proving a seamless, real-time and personalized banking experience to their customers. Global financial technology market is expected to register a 22% CAGR over 2020-2025, reaching a market value of \$305.0bn by 2025. Growth of the fintech industry is expected to outpace revenue growth expectations of the overall financial sector. 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.
- Intellect Design has been focusing on increasing the license component in the total deal TCV as higher license revenue will lead to higher AMC revenue. This, in turn, will 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 FY20-22E. Improving contribution of annuity revenue is expected to help Intellect Design to drive its profitability and cash flow generation as well going ahead.
- Intellect Design's management believes that its EBITDA margin will continue to improve led by 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 rationalization of S&G expenses. It has set a target for its EBITDA margin to reach 30% over the next four quarters.
- With one of the global leaders in financial technology pertaining to its wide spectrum of products, winning healthy deals over the past few quarters, improving its focus in Europe (especially Germany), global financial technology market is expected to register a 22% CAGR and focusing on increasing the license component in the total deal TCV, we value Intellect Design at 35.5x FY23E EPS of Rs.26.00 to arrive at target price of Rs.924.00, an upside of ~20%.

Risk & Concern

- Any slower adoption of its products by its customers may have negative impact for the future growth of Intellect Design.
- Introduction of superior products by peers or technology disruptions is always a threat for any IT Service company like Intellect Design as it may impact future growth prospects of the company.
- Any higher DSO days may impact working capital of Intellect Design negatively.

Graphs & Charts

Figure 1: Net Sales Trend

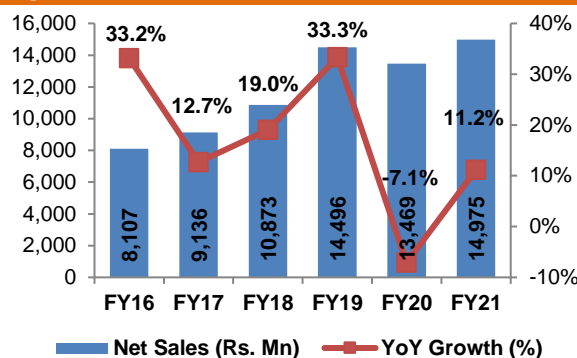


Figure 2: EBITDA & EBITDA Margin Trend

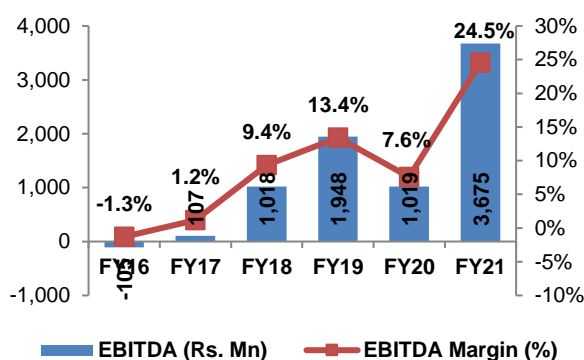


Figure 3: PAT Trend

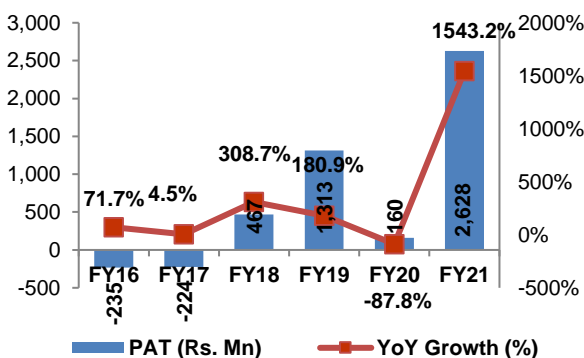
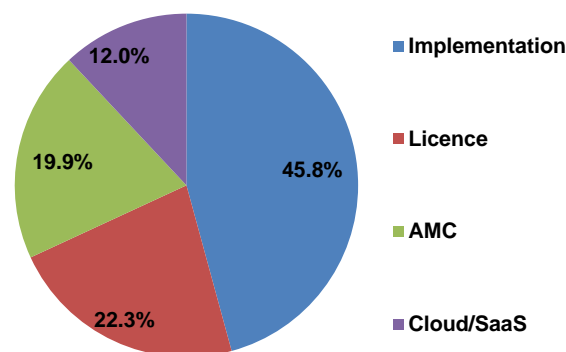


Figure 4: Service-Line-wise Revenue (FY21)



Name
Jitendra Upadhyay

Designation
Research Analyst

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

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BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

