

Oracle Financial Services Software Ltd.CMP Rs. 2,149.0
HOLDResult Update
Q1FY11

Raunak Onkar | raunak@ppfas.com

OFSS reported a weak first quarter compared to both the previous and the same quarter last year. On a YoY basis Revenues declined by 8% and sequentially Revenues declined by 14%. On a YoY basis PAT showed a growth of 4% owing mainly to a favorable forex scenario this quarter. Since the company doesn't hedge its forex exposure, the other income number usually tends to fluctuate a lot each quarter.

Operating margin has slipped from the average mid thirties to 30%. It might be because of the revenue mix, since only 8% of Q1FY11 revenue came from Licensing Fees. This tends to be the high margin business. This is a similar situation as Q1FY10 where license fees as part of the revenue were dwarfed by other segments. Rest of the revenue came from AMC work on products and Services like consulting and KPO, et al.

OFSS is still ranked as the best banking software products vendor, by sales. This is a good position to be in, since banking IT spend is set to increase going ahead. According to a recent article in The Economist, most of the international banks want to streamline their IT systems across geographies and branches to one window access to all customer's data. Even risk management concerns have gone up, for which OFSS is better positioned with their Mantas Product Suite. So the company is one of the beneficiaries of this rise in demand.

OFSS is cash rich and debt free, with ~\$450 Mn in cash. This gives more room for acquisition of smaller product suites to cross sell along with their popular Flexcube suite of banking products.

The company has a lot of board members from the Parent's lineage. This might bring better focus to how the company will be run as part of the Oracle suite of products, rather than just a standalone banking software product company.

But that is not the best part. This is, Oracle Inc (the parent company) owns an 80% stake in OFSS. As per the new law of mandatory 25% public shareholding, OFSS falls short by 5%. That means, either the parent company will have to shed 5% of its ownership in the company or it can choose to buy up the leftover 20% by offering a really attractive price to the existing shareholders. The latter seems to be a more probable alternative because it hasn't been long since the Parent has increased its stake in the company. Regulations do have a way to catch up and upset restructuring plans, but this opportunity to take the company private is also possible.

Previously, Oracle Inc's offer price was in the range of Rs. 2,200 per share. So the existing shareholders will demand a premium to that price as well. How this turns out is anybody's guess. But it sure is an attractive possibility to HOLD on to the business.

We recommend a HOLD.

Quarterly Financials

Earnings Statement					
YE March (Rs. Mn.)	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10	Y-Y(%)
Net Revenues	6,503.5	7,577.7	-14.18%	7,100.2	-8.40%
Total Expenditure	4,527.0	4,510.4	0.37%	4,744.1	-4.57%
Operating Profit	1,976.4	3,067.3	-35.56%	2,356.2	-16.12%
OPM (%)	30.39%	40.48%	-24.92%	33.18%	-8.42%
Other Income	289.1	(706.8)		(204.5)	
EBITDA	2,265.6	2,360.5	-4.02%	2,151.7	5.29%
Depreciation	110.9	114.3	-2.91%	127.3	-12.83%
EBIT	2,154.6	2,246.3	-4.08%	2,024.4	6.43%
Interest	0.0	0.0	0.00%	0.0	0.00%
PBT	2,154.6	2,246.3	-4.08%	2,024.4	6.43%
Tax	221.2	685.9	-67.75%	164.7	34.33%
PAT	1,933.4	1,560.3	23.91%	1,859.8	3.96%
Equity Capital	419.4	419.1	0.07%	418.8	0.12%
EPS	23.0	18.6	23.63%	22.2	3.88%
Ratio Analysis					
Profitability					
YE March	Q1FY11	Q4FY10	Q-Q(bps)	Q1FY10	Y-Y(bps)
OPM (%)	30.39%	40.48%	(1,008.7)	33.18%	(279.4)
EBITDA (%)	34.84%	31.15%	368.5	30.30%	453.2
EBIT (%)	33.13%	29.64%	348.7	28.51%	461.8
PAT (%)	29.73%	20.59%	913.8	26.19%	353.6

Financials

Earnings Statement (Rs. Mn)							
Particulars	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Total Revenues	7,881.29	11,385.93	14,823.00	20,609.38	23,802.36	29,276.20	28,739.74
- Growth (%)		44.5%	30.2%	39.0%	15.5%	23.0%	-1.8%
Cost of Revenues	3,494.07	5,701.11	7,794.10	11,066.05	13,040.29	14,491.64	13,086.86
Gross Profit	4,387.22	5,684.82	7,028.90	9,543.33	10,762.07	14,784.56	15,652.88
Operating Expenses	2,160.53	2,683.37	3,824.72	5,118.83	6,089.77	7,320.82	5,371.87
Operating Income	2,226.69	3,001.46	3,204.18	4,424.50	4,672.31	7,463.74	10,281.02
- Growth (%)		34.8%	6.8%	38.1%	5.6%	59.7%	37.7%
Non-Operating Income	234.01	310.63	294.55	376.91	639.71	1,789.41	712.55
Non-Operating Expenses	95.40	51.35	9.91	17.25	0.00	0.00	1,568.71
Depreciation & Amortization	50.69	309.35	460.37	653.02	705.89	557.94	488.65
Exceptional Item						-468.90	
EBIT	2,314.61	2,951.39	3,028.46	4,131.13	4,606.12	8,226.31	8,936.20
- Growth (%)		27.5%	2.6%	36.4%	11.5%	78.6%	8.6%
Tax	526.76	627.06	560.42	415.96	441.69	835.36	1,197.70
PAT Before MI & Prior Period Items	1,787.86	2,324.33	2,468.04	3,715.18	4,164.44	7,390.95	7,738.50
- Growth (%)		30.0%	6.2%	50.5%	12.1%	77.5%	4.7%
Minority Interest	0.00	0.00	2.56	0.00	-4.43	-12.93	0.00
Share of Profit of associate company	0.00	0.00	3.33	7.62	-4.13	-12.60	-1.87
Income before Prior Period Items	1,787.86	2,324.33	2,473.93	3,722.80	4,155.89	7,365.43	7,736.64
Prior Period Items	0.00	0.00	97.41	0.00	0.00	0.00	0.00
Net Income	1,787.86	2,324.33	2,376.53	3,722.80	4,155.89	7,365.43	7,736.64
Reported PAT	1,787.86	2,324.33	2,376.53	3,722.80	4,155.89	7,365.43	7,736.64
- Growth (%)		30.0%	2.2%	56.6%	11.6%	77.2%	5.0%
Ratio Analysis							
Particulars	FY04	FY05	FY06	FY07	FY08	FY09	FY10
OPM (%)	28.3%	26.4%	21.6%	21.5%	19.6%	25.5%	35.8%
PBIT (%)	29.4%	25.9%	20.4%	20.0%	19.4%	28.1%	31.1%
PAT (%)	22.7%	20.4%	16.0%	18.1%	17.5%	25.2%	26.9%
EPS (Rs.)	23.9	31.0	31.2	44.7	49.6	87.9	92.3
Cash Per Share (Rs.)	77.4	88.6	90.0	86.4	107.2	184.9	263.0
P/E (x)	24.3	18.9	44.0	45.3	19.5	8.5	25.0
P/BV (x)	4.6	3.8	7.6	7.0	2.9	1.8	4.5
BVPS (Rs.)	127.4	153.0	181.0	288.4	331.6	418.4	511.6
Market Cap (Rs. Mn.)	43,424.1	44,029.2	104,515.1	168,659.4	81,235.0	62,408.2	193,788.4
M Cap/Sales (x)	5.5	3.9	7.1	8.2	3.4	2.1	6.7
EV (Rs. Mn.)	37,635.7	37,394.4	97,645.7	161,461.7	72,257.4	46,918.7	171,742.6
EV/EBITDA (x)	16.9	12.5	30.5	36.5	15.5	6.3	16.7
EV/Sales (x)	4.8	3.3	6.6	7.8	3.0	1.6	6.0
ROIC (%)	18.4%	23.4%	22.5%	19.4%	17.8%	20.5%	22.3%
ROCE (%)	24.3%	25.8%	21.9%	17.2%	16.6%	23.5%	20.8%
RONW (%)	18.8%	20.3%	17.2%	15.5%	15.0%	21.0%	18.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors T/o Days	108.6	119.9	127.7	130.9	127.9	103.3	85.0
Advances T/o Days	44.0	36.5	50.5	75.5	79.3	80.0	80.0
Creditors T/o Days	64.0	69.4	80.4	85.8	84.9	85.0	85.0
Working Cap T/o Days	342.0	287.4	255.7	259.9	267.2	270.0	270.0
Fixed Assets T/o (Gross)	3.5	3.7	3.7	2.1	2.1	2.4	2.4
DPS (Rs.)			5.0	0.0	0.0	0.0	0.0
Dividend Payout (%)			16.1%	0.0%	0.0%	0.0%	0.0%

Financials

Balance Sheet (Rs. Mn)							
Particulars	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Equity Capital	373.7	374.4	381.4	416.4	418.7	418.8	419.3
Share application money pending allotment	0.0	0.0	10.3	401.7	0.3	0.1	8.1
Reserves	9,144.8	11,078.5	13,415.4	23,202.1	27,351.6	34,629.8	42,476.6
Shareholders Funds	9,518.5	11,452.9	13,807.2	24,020.2	27,770.6	35,048.8	42,904.0
Minority Interest	0.0	0.0	0.0	0.0	6.3	19.2	0.0
Borrowed Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	9,518.5	11,452.9	13,807.2	24,020.2	27,776.8	35,068.0	42,904.0
Fixed Assets	1,675.6	2,301.2	3,159.0	8,941.2	9,826.7	9,705.7	9,667.9
Investments	355.7	60.9	52.4	59.2	54.9	9.6	10.0
Current Assets							
Sundry Debtors	2,376.5	3,791.0	5,257.9	7,494.4	8,454.0	8,402.3	6,782.4
Loans & Advances	963.5	1,153.9	2,078.9	4,325.0	5,241.6	6,442.3	7,724.0
Cash & Bank Balance	5,788.4	6,634.8	6,869.4	7,197.8	8,977.5	15,489.5	22,045.8
Other Current Assets	90.5	175.1	309.1	1,194.6	1,137.1	1,746.9	2,327.8
Current Liabilities							
Other Current Liabilities	1,401.9	2,196.3	3,308.8	4,910.5	5,613.7	6,095.0	4,990.4
Provisions	330.4	467.3	679.9	421.2	527.0	938.6	1,030.4
Net Current Assets	7,486.6	9,091.2	10,526.7	14,880.1	17,669.5	25,047.5	32,859.3
Net Deferred Tax	0.7	0.4	69.2	139.8	225.6	305.2	366.8
Total Assets	9,518.6	11,453.7	13,807.3	24,020.3	27,776.8	35,068.0	42,904.0

Disclaimer

Disclosure of Interest Statement	OFSS
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	NO
3. PMS ownership of the scrip	NO

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

Contact

Raunak Onkar	Analyst - Investment Research	raunak@ppfas.com	91 22 2284 6555 Extn 323
--------------	-------------------------------	------------------	--------------------------

Now access PPFAS Reports on Bloomberg

<PPFS> <Go>

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

www.ppfas.com