

Oracle Financial Services Software Ltd.CMP Rs. 2,165.0
HOLDResult Update
Q3FY10

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OFSS reported a YoY dip in the topline of about 9%, and a 14% dip in the bottom line over the same period. Even though the topline for the 9 month period has remained flat, the bottom line over the same period has risen by 32%. There was a significant growth in the operating margin, at least 10% growth over the past quarter & a 5% growth YoY.

This quarter the license revenues seem to have regained their past glory, and upto 24% (close to the average contribution to the topline). This might be a quarterly blip, but the chances that new license orders have been flowing in, are also high. The company has also reported DSO of about 87 days. This quarter saw 22 new customers added to their existing client list, with 16 in Product category and 6 in the Services business.

One reason for the increase in their license revenues might be due to the fact that, their portfolio of products has been increasing over the past year. They have added a lot of small product categories along the lines of Risk management, et al which offers them a wider scope for acquiring more clients & better cross-selling opportunities.

Valuation

OFSS trades at a PE of 20 times (TTM). This doesn't make it expensive, but rather close to fairly valued in it's category. The idea here is to identify, which areas of future development of this business are fully discounted in the price & which are not. Since the outlook for the BFSI industry is positive good amount of product business is expected to flow, which is already known. There isn't significant advantage as of now to buy into this business with such good visibility for everyone.

Also even if it seems to have reached fair value, it isn't a time to sell, owing to the core business being an excellent one to own.

Like we said in the last quarter;

"In spite of being a great business, it isn't a conducive pick to BUY, nevertheless a very good business to hold. The way its business is organized across a very favorable mix of consulting and product businesses & de-risking their model by moving to newer geographies, the company might get a lot business going ahead. Also its leadership status in the core banking product category (product name: Flexcube & its associated product suites) makes it a very sought after player in the banking product space.

As Philip Fisher said, the only reasons to sell a business are:

- 1) Error in the investment case
- 2) Fundamentals of the business have changed irreversibly
- 3) A better bargain is available

We recommend a HOLD for OFSS.

OFSS : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q3FY10	Q2FY10	Q-Q(%)	Q3FY09	Y-Y(%)	9MFY10	9MFY09	Y-Y(%)
Net Revenues	7,271.7	6,790.1	7.09%	8,012.5	-9.25%	21,162.0	21,327.4	-0.78%
Total Expenditure	4,408.1	4,796.2	-8.09%	5,283.3	-16.57%	13,948.3	16,712.9	-16.54%
Operating Profit	2,863.6	1,993.9	43.62%	2,729.2	4.93%	7,213.7	4,614.5	56.33%
OPM (%)	39.38%	29.37%	34.11%	34.06%	15.62%	34.09%	21.64%	57.55%
Other Income	(294.0)	349.1	-184.22%	269.6	-209.05%	(149.4)	879.5	-116.99%
EBITDA	2,569.6	2,343.0	9.67%	2,998.8	-14.31%	7,064.3	5,494.0	28.58%
Depreciation	116.6	130.6	-10.74%	145.5	-19.88%	374.4	421.2	-11.11%
EBIT	2,453.1	2,212.4	10.88%	2,853.3	-14.03%	6,689.9	5,072.8	31.88%
Interest	0.0	0.0	0.00%	0.0	0.00%	0.0	0.0	0.00%
PBT	2,453.1	2,212.4	10.88%	2,853.3	-14.03%	6,689.9	5,072.8	31.88%
Tax	180.3	166.8	8.04%	203.3	-11.35%	511.8	422.4	21.15%
PAT	2,272.8	2,045.6	11.11%	2,650.0	-14.23%	6,178.2	4,650.3	32.85%
Equity Capital	419.1	418.9	0.05%	418.8	0.05%			
EPS	27.1	24.4	11.06%	31.4	-13.71%			
Ratio Analysis								
Profitability								
YE March	Q3FY10	Q2FY10	Q-Q(bps)	Q3FY09	Y-Y(bps)	9MFY10	9MFY09	Y-Y(bps)
OPM (%)	39.38%	29.37%	1,001.5	34.06%	531.9	34.09%	21.64%	1,245.2
EBITDA (%)	35.34%	34.51%	83.1	37.43%	(208.9)	-1.07%	8.07%	(913.9)
EBIT (%)	33.73%	32.58%	115.1	35.61%	(187.6)	71.08%	53.85%	1,722.4
PAT (%)	31.26%	30.13%	113.0	33.07%	(181.7)	15.40%	14.48%	92.4

OFSS : Financials

Earnings Statement					Balance Sheet				
Particulars (Rs Mn)	FY06	FY07	FY08	FY09	Particulars (Rs Mn)	FY06	FY07	FY08	FY09
Total Revenues	14,823.0	20,609.4	23,802.4	29,276.2	Equity Capital	381.4	416.4	418.7	418.8
- Growth (%)	30.2%	39.0%	15.5%	23.0%	Share app.money	10.3	401.7	0.3	0.1
Cost of Revenues	7,794.1	11,066.1	13,040.3	14,491.6	Reserves	13,415.4	23,202.1	27,351.6	34,629.8
Gross Profit	7,028.9	9,543.3	10,762.1	14,784.6	Shareholders Funds	13,807.2	24,020.2	27,770.6	35,048.8
Operating Expenses	3,824.7	5,118.8	6,089.8	7,320.8	Minority Interest	0.0	0.0	6.3	19.2
Operating Income	3,204.2	4,424.5	4,672.3	7,463.7	Borrowed Funds	0.0	0.0	0.0	0.0
- Growth (%)	6.8%	38.1%	5.6%	59.7%	Total Liabilities	13,807.2	24,020.2	27,776.8	35,068.0
Non-Operating Income	294.6	376.9	639.7	1,789.4	Fixed Assets	3,159.0	8,941.2	9,826.7	9,705.7
Non-Operating Expenses	9.9	17.3	0.0	0.0	Investments	52.4	59.2	54.9	9.6
Depreciation & Amortization	460.4	653.0	705.9	557.9	Current Assets				
Exceptional Item				-468.9	Sundry Debtors	5,257.9	7,494.4	8,454.0	8,402.3
EBIT	3,028.5	4,131.1	4,606.1	8,226.3	Loans & Advances	2,078.9	4,325.0	5,241.6	6,442.3
- Growth (%)	2.6%	36.4%	11.5%	78.6%	Cash & Bank Balance	6,869.4	7,197.8	8,977.5	15,489.5
Tax	560.4	416.0	441.7	835.4	Other Current Assets	309.1	1,194.6	1,137.1	1,746.9
PAT Before MI & PPI	2,468.0	3,715.2	4,164.4	7,390.9	Current Liabilities				
- Growth (%)	6.2%	50.5%	12.1%	77.5%	Other Current Liabilities	3,308.8	4,910.5	5,613.7	6,095.0
Minority Interest	2.6	0.0	-4.4	-12.9	Provisions	679.9	421.2	527.0	938.6
Share of Profit of associate co.	3.3	7.6	-4.1	-12.6	Net Current Assets	10,526.7	14,880.1	17,669.5	25,047.5
Income before PPI	2,473.9	3,722.8	4,155.9	7,365.4	Net Deferred Tax	69.2	139.8	225.6	305.2
Prior Period Items	97.4	0.0	0.0	0.0	Total Assets	13,807.3	24,020.3	27,776.8	35,068.0
Net Income	2,376.5	3,722.8	4,155.9	7,365.4					
Reported PAT	2,376.5	3,722.8	4,155.9	7,365.4					
- Growth (%)	2.2%	56.6%	11.6%	77.2%					

Ratio Analysis				
Particulars	FY06	FY07	FY08	FY09
OPM (%)	21.6%	21.5%	19.6%	25.5%
PBIT (%)	20.4%	20.0%	19.4%	28.1%
PAT (%)	16.0%	18.1%	17.5%	25.2%
EPS (Rs.)	31.2	44.7	49.6	87.9
Cash Per Share (Rs.)	90.0	86.4	107.2	184.9
P/E (x)	69.5	48.4	43.6	24.6
P/BV (x)	12.0	7.5	6.5	5.2
BVPS (Rs.)	181.0	288.4	331.6	418.4
Market Cap (Rs. Mn.)	165,164.4	180,319.8	181,313.1	181,360.8
M Cap/Sales (x)	11.1	8.7	7.6	6.2
EV (Rs. Mn.)	158,295.0	173,122.1	172,335.6	165,871.2
EV/EBITDA (x)	49.4	39.1	36.9	22.2
EV/Sales (x)	10.7	8.4	7.2	5.7
ROIC (%)	22.5%	19.4%	17.8%	20.5%
ROCE (%)	21.9%	17.2%	16.6%	23.5%
RONW (%)	17.2%	15.5%	15.0%	21.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Debtors T/o Days	127.7	130.9	127.9	103.3
Advances T/o Days	50.5	75.5	79.3	80.0
Creditors T/o Days	80.4	85.8	84.9	85.0
Working Cap T/o Days	255.7	259.9	267.2	270.0
Fixed Assets T/o (Gross)	3.7	2.1	2.1	2.4
DPS (Rs.)	5.0	0.0	0.0	0.0
Dividend Payout (%)	16.1%	0.0%	0.0%	0.0%

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

OFSS

NO

YES

YES

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