

Oracle Financial Services Software Ltd.CMP Rs. 1,543.0
BUYResult Update
Q1FY10

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Oracle reported a subdued quarter as compared to the last quarter. But with YoY growth of 12% in topline & 76% in bottomline it has reported an impressive performance. OFSS reported a good operating performance where the product business showed an improvement in operating margin to 41% from 19% YoY & the services business showing a similar hike to 25% from 11% YoY. DSO has also reduced to just 83 days for the overall business.

One of the main reasons we like OFSS, is that, it's an Oracle company. The parent's strong positioning in the banking back-end has created lot of opportunities for the already popular OFSS. In the Forrester Report on Global Banking Platform Deals (May 2009), it mentions Oracle's Flexcube as a clear winner in the product category & Oracle as a clear winner in overall banking services deals. They have a long history of providing software solutions to the banking & financial services industry & their niche with scalability has enabled them to reach that level of acceptance. Also Oracle's solutions have been ranked leaders in the Risk & Compliance software products.

One of their ideas during the 'i-Flex' days was to integrate various products acquired by the company into their flexcube platform so as to offer end-to-end services for the BFSI sector. This strategy has been on overdrive where Oracle has been adding more & more offerings to their Flexcube platform which makes it very easy to cross-sell these new solutions to existing clients. Their positioning & constant upgradation of the product coupled with very strong focus on the same vertical makes it easy for them to grab new clients.

They added 9 customers overall out of which 8 belong to the products business. This makes the total active client total to 137. Banking platform's being a major investment for the clients, clients are incredibly sticky & have a very remote chance of letting a vendor go, let alone letting go the best vendor in the market. Oracle has seen an overall reduction in the employee count which is at 11,075 for the quarter. Attrition is low at 13% owing to the dismal job market. In spite of having 68% of the revenues coming in from Time & Material type contracts & bleak pricing conditions, it seems remarkable that the company has been able to retain & improve its operating performance YoY. Their offshore-onsite mix is 50:50.

Valuation

Our major argument with Oracle was that it is a de-listing candidate. Whenever that happens, it isn't an ignorable fact that the business was bought by Oracle Inc. (parent) at 23 times earnings. The business is available at ~17 times earnings now, which offers good margin of safety as per this crude comparison. With OFSS, the trend has been that the first quarter usually reports a dismal performance. We cannot anchor to historical trends, but the rate at which the business has been growing & the amount of cash they have (Rs. 17,359 Mn) with no debt, it makes sense to look at this opportunity alongside veteran companies in the field, like Infosys. Infosys trades at 19 times earnings with growth prospects diversified all across its spectrum of verticals. The so called revival of the BFSI segment, whenever that will happen, (although discounted in the price) can still offer a good chance to make good return on OFSS. We recommend a BUY for Oracle Financial Services Software Limited.

OFSS : Quarterly Financials

| Earnings Statement | | | | | |
|--------------------|---------|---------|----------|---------|----------|
| YE March (Rs. Mn.) | Q110 | Q409 | Q-Q(%) | Q109 | Y-Y(%) |
| Net Revenues | 7,100.2 | 7,948.8 | -10.68% | 6,318.3 | 12.38% |
| Total Expenditure | 4,744.1 | 4,808.5 | -1.34% | 5,629.1 | -15.72% |
| Operating Profit | 2,356.2 | 3,140.3 | -24.97% | 689.3 | 241.84% |
| OPM (%) | 33.18% | 39.51% | | 10.91% | |
| Other Income | (204.5) | 441.1 | -146.36% | 638.6 | -132.02% |
| EBITDA | 2,151.7 | 3,581.4 | -39.92% | 1,327.8 | 62.04% |
| Depreciation | 127.3 | 136.7 | -6.92% | 137.8 | -7.67% |
| EBIT | 2,024.4 | 3,444.7 | -41.23% | 1,190.0 | 70.12% |
| Interest | 0.0 | 0.0 | 0.00% | 0.0 | 0.00% |
| PBT | 2,024.4 | 3,444.7 | -41.23% | 1,190.0 | 70.12% |
| Tax | 164.6 | 412.9 | -60.13% | 128.0 | 28.61% |
| PAT | 1,859.8 | 3,031.7 | -38.66% | 1,062.0 | 75.12% |
| Equity Capital | 418.8 | 418.8 | 0.00% | 418.8 | 0.02% |
| EPS | 22.2 | 32.7 | -32.29% | 12.6 | 76.01% |
| Ratio Analysis | | | | | |
| Profitability | | | | | |
| YE March (Rs. Mn.) | Q110 | Q409 | Q-Q(bps) | Q109 | Y-Y(bps) |
| OPM (%) | 33.18% | 34.06% | (87.7) | 25.35% | 782.9 |
| EBITDA (%) | 30.30% | 37.43% | (712.2) | 32.14% | (183.1) |
| EBIT (%) | 28.51% | 35.61% | (709.9) | 29.82% | (131.0) |
| PAT (%) | 26.19% | 33.07% | (687.9) | 27.73% | (153.2) |

OFSS : Financials

| Earnings Statement | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Particulars | FY05 | FY06 | FY07 | FY08 | FY09 |
| Total Revenues | 11,385.93 | 14,823.00 | 20,609.38 | 23,802.36 | 29,276.20 |
| - Growth (%) | 44.5% | 30.2% | 39.0% | 15.5% | 23.0% |
| Cost of Revenues | 5,701.11 | 7,794.10 | 11,066.05 | 13,040.29 | 14,491.64 |
| Gross Profit | 5,684.82 | 7,028.90 | 9,543.33 | 10,762.07 | 14,784.56 |
| Operating Expenses | 2,683.37 | 3,824.72 | 5,118.83 | 6,089.77 | 7,320.82 |
| Operating Income | 3,001.46 | 3,204.18 | 4,424.50 | 4,672.31 | 7,463.74 |
| - Growth (%) | 34.8% | 6.8% | 38.1% | 5.6% | 59.7% |
| Non-Operating Income | 310.63 | 294.55 | 376.91 | 639.71 | 1,789.41 |
| Non-Operating Expenses | 51.35 | 9.91 | 17.25 | 0.00 | 0.00 |
| Depreciation & Amortization | 309.35 | 460.37 | 653.02 | 705.89 | 557.94 |
| Exceptional Item | | | | | (468.90) |
| EBIT | 2,951.39 | 3,028.46 | 4,131.13 | 4,606.12 | 8,226.31 |
| - Growth (%) | 27.5% | 2.6% | 36.4% | 11.5% | 78.6% |
| Tax | 627.06 | 560.42 | 415.96 | 441.69 | 835.36 |
| PAT Before MI & PPI | 2,324.33 | 2,468.04 | 3,715.18 | 4,164.44 | 7,390.95 |
| - Growth (%) | 30.0% | 6.2% | 50.5% | 12.1% | 77.5% |
| Minority Interest | 0.00 | 2.56 | 0.00 | (4.43) | (12.93) |
| Share of Profit of associate company | 0.00 | 3.33 | 7.62 | (4.13) | (12.60) |
| Income before Prior Period Items | 2,324.33 | 2,473.93 | 3,722.80 | 4,155.89 | 7,365.43 |
| Prior Period Items | 0.00 | 97.41 | 0.00 | 0.00 | 0.00 |
| Net Income | 2,324.33 | 2,376.53 | 3,722.80 | 4,155.89 | 7,365.43 |
| Reported PAT | 2,324.33 | 2,376.53 | 3,722.80 | 4,155.89 | 7,365.43 |
| - Growth (%) | 30.0% | 2.2% | 56.6% | 11.6% | 77.2% |

| Ratio Analysis | | | | | |
|-----------------------|-----------|-----------|-----------|-----------|-----------|
| Particulars | FY05 | FY06 | FY07 | FY08 | FY09 |
| OPM (%) | 26.4% | 21.6% | 21.5% | 19.6% | 25.5% |
| PBIT (%) | 25.9% | 20.4% | 20.0% | 19.4% | 28.1% |
| PAT (%) | 20.4% | 16.0% | 18.1% | 17.5% | 25.2% |
| EPS (Rs.) | 31.0 | 31.2 | 44.7 | 49.6 | 87.9 |
| Cash Per Share (Rs.) | 88.6 | 90.0 | 86.4 | 107.2 | 184.9 |
| P/E (x) | 47.7 | 47.5 | 33.1 | 29.8 | 16.8 |
| P/BV (x) | 9.7 | 8.2 | 5.1 | 4.5 | 3.5 |
| BVPS (Rs.) | 153.0 | 181.0 | 288.4 | 331.6 | 418.4 |
| Market Cap (Rs. Mn.) | 110,821.8 | 112,906.8 | 123,267.1 | 123,946.2 | 123,978.7 |
| M Cap/Sales (x) | 9.7 | 7.6 | 6.0 | 5.2 | 4.2 |
| EV (Rs. Mn.) | 104,187.0 | 106,037.4 | 116,069.4 | 114,968.6 | 108,489.2 |
| EV/EBITDA (x) | 34.7 | 33.1 | 26.2 | 24.6 | 14.5 |
| EV/Sales (x) | 9.2 | 7.2 | 5.6 | 4.8 | 3.7 |
| ROIC (%) | 23.4% | 22.5% | 19.4% | 17.8% | 20.5% |
| ROCE (%) | 25.8% | 21.9% | 17.2% | 16.6% | 23.5% |
| RONW (%) | 20.3% | 17.2% | 15.5% | 15.0% | 21.0% |
| Debt/Equity Ratio (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debtors T/o Days | 119.9 | 127.7 | 130.9 | 127.9 | 103.3 |
| Advances T/o Days | 36.5 | 50.5 | 75.5 | 79.3 | 80.0 |

OFSS : Financials

| Balance Sheet | | | | | |
|---------------------------|----------|----------|----------|----------|----------|
| Particulars (Rs Mn) | FY05 | FY06 | FY07 | FY08 | FY09 |
| Equity Capital | 374.4 | 381.4 | 416.4 | 418.7 | 418.8 |
| Share application money | 0.0 | 10.3 | 401.7 | 0.3 | 0.1 |
| Reserves | 11,078.5 | 13,415.4 | 23,202.1 | 27,351.6 | 34,629.8 |
| Shareholders Funds | 11,452.9 | 13,807.2 | 24,020.2 | 27,770.6 | 35,048.8 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 6.3 | 19.2 |
| Borrowed Funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 11,452.9 | 13,807.2 | 24,020.2 | 27,776.8 | 35,068.0 |
| Fixed Assets | 2,301.2 | 3,159.0 | 8,941.2 | 9,826.7 | 9,705.7 |
| Investments | 60.9 | 52.4 | 59.2 | 54.9 | 9.6 |
| Current Assets | | | | | |
| Sundry Debtors | 3,791.0 | 5,257.9 | 7,494.4 | 8,454.0 | 8,402.3 |
| Loans & Advances | 1,153.9 | 2,078.9 | 4,325.0 | 5,241.6 | 6,442.3 |
| Cash & Bank Balance | 6,634.8 | 6,869.4 | 7,197.8 | 8,977.5 | 15,489.5 |
| Other Current Assets | 175.1 | 309.1 | 1,194.6 | 1,137.1 | 1,746.9 |
| Current Liabilities | | | | | |
| Other Current Liabilities | 2,196.3 | 3,308.8 | 4,910.5 | 5,613.7 | 6,095.0 |
| Provisions | 467.3 | 679.9 | 421.2 | 527.0 | 938.6 |
| Net Current Assets | 9,091.2 | 10,526.7 | 14,880.1 | 17,669.5 | 25,047.5 |
| Net Deferred Tax | 0.4 | 69.2 | 139.8 | 225.6 | 305.2 |
| Total Assets | 11,453.7 | 13,807.3 | 24,020.3 | 27,776.8 | 35,068.0 |

| Cash Flow | | | | | |
|---------------------------|---------|-----------|-----------|-----------|-----------|
| Particulars (Rs Mn) | FY05 | FY06 | FY07 | FY08 | FY09 |
| Opening Cash & Bank | 5,788.4 | 6,634.8 | 6,869.4 | 7,197.754 | 8,977.532 |
| Profit After Tax | 2,324.3 | 2,376.5 | 3,722.8 | 4,155.9 | 7,365.4 |
| Invt Income | (310.6) | (294.6) | (376.9) | (639.7) | (1,789.4) |
| Interest Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Miscellaneous Exp W/Off | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | 309.3 | 460.4 | 653.0 | 705.9 | 557.9 |
| Deferred Taxation | 0.0 | 0.0 | (69.6) | (70.6) | (85.9) |
| Others | (120.0) | (893.7) | (260.0) | (170.8) | 246.6 |
| Change in Working Cap | (758.2) | (1,200.9) | (4,025.1) | (1,009.7) | (865.9) |
| CF - Operating Activities | 1,444.9 | 447.8 | (355.7) | 2,971.0 | 5,428.7 |
| Change in Fixed Assets | (813.9) | (1,366.7) | (6,424.0) | (1,429.6) | (664.3) |
| Change in Investments | 294.8 | 8.6 | (6.8) | 4.2 | 45.4 |
| Investment Income | 310.6 | 294.6 | 376.9 | 639.7 | 1,789.4 |
| CF - Investing Activities | (208.5) | (1,063.6) | (6,053.9) | (785.7) | 1,170.5 |
| Increase in Equity | (390.0) | 414.1 | 6,614.1 | (405.5) | (87.2) |
| Changes in Borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Paid | 0.0 | 436.3 | 123.9 | 0.0 | 0.0 |
| CF - Financing Activities | (390.0) | 850.4 | 6,738.0 | (405.5) | (87.2) |
| Net Change in Cash | 846.4 | 234.6 | 328.3 | 1,779.8 | 6,512.0 |
| Closing Cash & Bank Bal | 6,634.8 | 6,869.4 | 7,197.8 | 8,977.5 | 15,489.5 |

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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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