

CMP: INR 4458

Outlook: Positive

Technical TP: INR 4658-5200-5509

Stock Info

BSE	532466
NSE	OFSS
Bloomberg	OFSS IN
Reuters	ORCL.BO
Sector	Coputers- software
Face Value (INR)	5
Equity Capital (INR Mn)	429
Mkt Cap (INR Mn)	3,84,000
52w H/L (INR)	4650/ 2880
Avg Yearly Vol (in 000')	1740

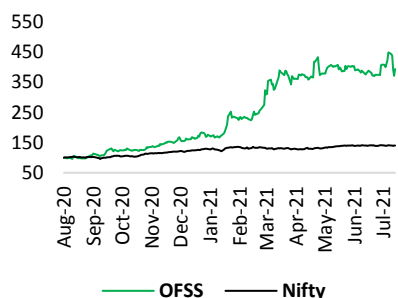
Shareholding Pattern %

(As on June, 2021)

Promoters	73.21
Public & Others	26.79

Stock Performance (%)	3m	6m	12m
Ashok leyland	12.3	29.5	130.8
Nifty	10.7	15.3	54.1

OFSS Vs Nifty



Oracle Financial Services Software (OFSS) has more than 900 financial institutions as its customers located in over 150 countries. Major geographies served include US, Japan, Australia, Europe, APAC and Africa. In FY20 itself, it has added a leading bank in Japan, a regional bank in Nigeria and Central Bank of Libya as new customers. The company keeps winning international awards and recognitions each year. Their product Oracle FLEXCUBE has been recognized as a 'Leader' in the Gartner Magic Quadrant. Another product Oracle Asset Liability Management won 'Product of the Year' at Asia Risk Technology Awards 2019. The Company remained among the top three vendors in Chartis RiskTech100, 2020 for the fifth consecutive year. Company's Key Innovation Areas: Open banking, AI, Blockchain, cloud and big data.

Investment Rationale:

- **Revenue Streams:** License fee, Annual maintenance and consulting fee. The revenues generated from license fees and consulting services depend on factors such as the number of new customers added, milestones achieved, implementation effort, etc.
- **Key Metrics for Last 10 Years (FY11 – FY21):** Operating revenue has increased from 31,467 mn in FY11 to INR 49,839 mn in FY21. Operating income has almost doubled from INR 10,645 mn in FY11 to INR 23,454 mil in FY21
- **Net income** has increased from INR 9,095 mn in FY11 to INR 17,619 mn in FY21. EPS has increased from 105.7 in FY11 to 204.7 in FY21.
- **Profit for the Year:** As a result of the foregoing factors, net profit has increased by 6% to INR 17,619 mn in FY21 from INR 14,622 mn in FY20.
- **Geographic Breakup of Revenues:** EMEA has biggest share of Products revenue while Americas has biggest share of Services revenue.
- **Customer Concentration:** High product revenue concentration with almost 50% of it coming from the largest customer.

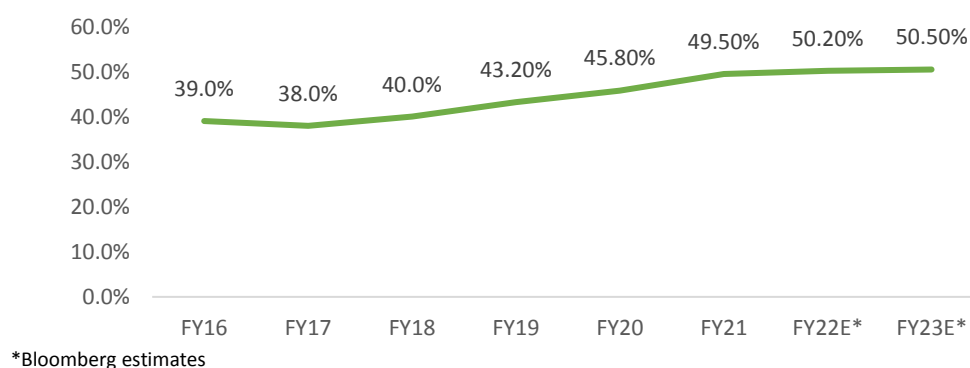
Valuation & View:

- Digital transformation & growing economic demand will create lots of value expansion in OFSS. Customer addition at full swing across the world during the quarter which led to revenue growth in future.
- Going forward, We expect profitability to see betterment given enhanced growth outlook and operating leverage.
- Good new licence sales in Q1FY22 has led to revenue growth uptick during FY22E-23E.
- Margin increased from 39% in FY16 to 49.5% in FY21 and going ahead we expect margin to increase further backed by robust licence sales which in turn will lead to revenue growth uptick. We expect strong revenue growth of `10% during FY22E-FY23E.
- At CMP of INR 4458, OFSS is currently trading at a P/E of 20.1x/18.4x, to its FY22E/FY23E EPS of INR 221.9/242.4 respectively. (Bloomberg Estimate). We are positive on the stock.

Products revenue

Products revenues (INR Mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Product licenses and related activities	26011	29001.49	31814.78	34680.42	37613.5	39378.6	43527.29	43145.69	44251.7
sales(%)	75%	78%	81%	84%	85%	87%	88%	89%	89%
YoY(%)		11%	10%	9%	8%	5%	11%	-1%	3%
IT solutions and consulting services	7,737.45	7,398.28	6192.38	5,475.63	1,013.44	4,770.92	4,945.07	4227.55	4275.92
sales(%)	22%	20%	16%	13%	2%	11%	10%	9%	9%
YoY(%)		-4%	-16%	-12%	-81%	371%	4%	-15%	1%
Business processing services	991.54	1,013.44	1041.89	1,156.12	1214.29	1,125.20	1116.67	1360.12	1191.15
sales(%)	3%	3%	3%	3%	3%	2%	2%	3%	2%
YoY(%)		2%	3%	11%	5%	-7%	-1%	22%	-12%

(Revenue mix of 31%) Looking at the 7 Years of product revenue, it showed that the business has been very volatile in its segment from 11% growth in FY14 and 3% in FY21. While IT solution which represent by 46% of revenue mix, it showed decline -4% in FY14 and muted growth of 1% in FY21. On the other hand Business processing which is represent 11% of the revenue mix it has showed by 2% in FY14 and by -12% during FY21.

EBITDA Margin


The company is debt free and has a consistently high NPM. Thus, it can not only pay a good dividend, but also reinvest the profit back into the business. Margin is increasing from 39% in FY16 to 49.5% in FY21 and going ahead we expect margin to increase further backed by robust licence sales which in turn will lead to revenue growth uptick.

Result Analysis

Q1 FY22 Financial highlights: Revenue at INR 13,974 Mn, +15% QoQ & +4% YoY. However, OPM gains extended further by 105bps YoY to 50.7%. EBITDA at INR 7,326 Mn, +24% QoQ & +6% YoY. EBITDA Margin stood at 52.4% vs 48.7% / 51.6% in Q4FY21 / Q1FY21 respectively. While PAT at INR 5,242 Mn, +14% QoQ / +9% YoY. PAT Margin stood at 37.5% vs 38% / 35.9% in Q4FY21 / Q1FY21 respectively. EPS stood at INR 60.89 in Q1FY22 vs 53.49 and 55.84 in Q4FY21 / Q1FY21 respectively.

Geography- America 38% of revenue due to the growth pack at 19% QoQ and 20% YoY. Europe (17% of revenue) at +15% QoQ / +11% YoY, MEA (14% of revenue) at +15% QoQ / -19% YoY and India (7% of revenue) at +15% QoQ / +4% YoY. APAC (24% of revenue) grew at +7% QoQ / -4% YoY

•**Product Business:** License Fees (22% of revenue) reported a good revival at +135% QoQ / +22% YoY. Maintenance (31% of revenue) grew at +4% QoQ / +2% YoY and Consulting (47% of revenue) at +2% QoQ / +1% YoY.

•**Segment highlights:** Products (90% of revenue) revenue at INR 12,596 Mn, +17% QoQ & +5.1% YoY. Products EBIT Margin was at 58% vs 52% / 56% in Q4FY21 / Q1FY21 respectively. Services including BPO (10% of revenue) revenue at INR 1,378 Mn, +1% QoQ / -5% YoY. Services EBIT Margin was at 28% vs 32% / 24% in Q4FY21 / Q1FY21 respectively.

•OFSS signed record new Licenses worth US\$37.6mn up by 27% YoY and 2nd largest signings in a Q1 FY22 as it signed 16 new deals across markets and product offerings. Added (6 deals in developed markets – UK/US/Sweden/Canada) in developed markets and also witnessed 11 customers go-lives in the Q1 FY22. 17 Universal Banking, 5 Digital Experience, 9 Analytics and 6 in payments deals.

•AMC revenues were up just 2.4% on YoY basis, contributing about ~31% of Product revenues. Overall Product revenues grew by 6% on YoY basis at INR 12.6bn (90% of revenues), Services biz witnessed revenue degrowth of about 5% YoY.

•Strong licence signings (up 27% YoY) and improved profitability in Q1 sets the tone for double digit growth in FY22.

•Key risk: A substantial portion of the Company's revenue is generated in foreign currencies. Exchange rate fluctuations can significantly impact the Company's revenues.

•Shareholding Pattern: Current promoter holding is ~ 74%. FIIs, DIIs and Public have holdings of about 11%, 8% and 7% respectively. There is no promoter pledge.

Q1 FY22 Result Snapshot:

INR Mn (consolidated)	Q1FY22	Q1FY21	Y-o-Y	Q4FY21	Q-o-Q
Net Revenue	13,974	13,373	4.50%	12,109	15.40%
EBITDA	7,326	7,326	0.00%	5,895	24.27%
EBITDAM %	52.4%	54.8%	-236bps	48.7%	374bps
PAT	5,242	5,223	0.36%	4,603	13.87%
PATM %	37.5%	39.1%	-154bps	38.0%	-51bps
EPS	60.9	55.8	9.04%	53.5	13.83%

Key Financial:

INR Mn (consolidated)	FY20	FY21	FY22E	FY23E
Net Revenue	48,613	49,839	54,081	59,731
EBITDA	22,287	24,686	27,132	30,188
EBITDAM %	45.8%	49.5%	50.2%	50.5%
PAT	14,622	17,619	19104	21337
PATM %	30.1%	35.4%	35.3%	35.7%
EPS	170.4	204.9	221.9	242.4
PE	26.2	21.8	20.1	18.4

Source: Industry & Arianth Capital Research, *Bloomberg estimates

Peer Comparison

OFSS has reported revenue growth of 2.5% in FY21 as against Intellect Design reporting a growth of 11.2%. However, OFSS reported a margin expansion from 45.8% in FY20 to 49.5% in FY21, an improvement of 370 bps. The peer group company Intellect Design reported an EBITDA margin expansion of 1850bps. With a jump in revenue and significant margin expansion. With better than expected revenue growth and margin expansion, OFSS is available at 21.8x in FY21 as compared to 33.23x for Intellect Design respectively. OFSS is trading below the industry average of 32.02x, which gives enough room for improvement in future.

(FY21) in Mn.	OFSS	Intellect Design Arena
Revenue	59,731	14,975
EBITDA	34,578	3,548
PAT	27,510	2,646
Adj. EPS(Rs)	204.9	19.8
CMP	4458	659
ROE%	40.17%	18.8%
Adj. PE (x)	21.76	33.23
Mkt Cap	3,84,000	88,160

Source: Industry & Arianth Capital Research

Technical Chart & View



Technical View :

- On the weekly chart the stock is showing strong base formation with higher volumes.
- Further, the momentum indicator RSI has confirmed the uptrend and is now moving upward this suggests upside momentum.
- One can accumulate at current level for a target of 4658 – 5200 – 5509 levels in 6-12months.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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