

Initiating Coverage Oracle Financial Services Software Ltd. (OFSS)

Dec 29, 2021





Oracle Financial Services Software Ltd. (OFSS)

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 3962	Buy in the Rs. 3942-3982 band & add more on dips to Rs. 3570-3610 band	Rs. 4335	Rs. 4701	2 quarters

HDFC Scrip Code	ORAFIN
BSE Code	532466
NSE Code	OFSS
Bloomberg	OFSS IN
CMP Dec 28, 2021	3962
Equity Capital (Rs Cr)	43.0
Face Value (Rs)	5.0
Equity Share O/S (Cr)	8.6
Market Cap (Rs Cr)	34,191.1
Book Value (Rs)	788.7
Avg. 52 Wk Volumes	141,468
52 Week High	5145.0
52 Week Low	2931.0

Share holding Pattern % (Sept, 2021)	
Promoters	73.2
Institutions	17.5
Non Institutions	9.3
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Oracle Financial Services Software Ltd (OFSS), majority owned by Oracle, is a leading software services and products provider to the financial services industry. With its experience of delivering value based IT solutions to global financial institutions, OFSS has a strong global reach having presence in ~30 overseas locations operating under nine direct subsidiaries, and seven step down subsidiaries across 158 countries.

OFSS continues to show customer acquisition momentum across all business areas - Corporate Banking, Retail Banking, Risk and Finance, and Financial Crime. Its total customer base has increased from 1084 as on 31 March, 2013 to 1432 as on 31 March, 2021. As the Financial Services industry pivoted to digital faster than ever to meet customer and regulatory demands in a new normal, the company responded with continued product innovation to launch more digital and cloud-based solutions. The global footprint and market leadership of Oracle FLEXCUBE continues to expand with wins across the world. Banks across the United Kingdom, Europe, United States, Japan, and the Middle East, are using the OFSS software to drive working capital clarity for their customers and embark upon much-needed digitization of corporate banking. OFSS' new solution for retail banks, Oracle FLEXCUBE Onboarding enables them to deliver seamless cross-channel consistent origination experiences over cloud and on-premise deployments.

OFSS made significant investments in rapidly moving its solutions to cloud and launched solutions for Liquidity Management, Virtual Account Management, and Supply Chain Finance as cloud services, much ahead of the market. Banks can take advantage of these solutions to quickly deploy a wide range of banking services. Besides, the company launched Oracle Financial Crime and Compliance Management Cloud Services - an application suite designed for midsized banks and smaller financial institutions. It offers services for the full anti-money laundering (AML) lifecycle, where organizations can quickly identify abnormal customer behavior and streamline compliance activities. Its diversified product portfolio across various functional areas in BFSI segment could help to gain market share and revenue generation opportunity going forward.

OFSS expressed its organic initiatives around product launches, inorganic strategy, implementation revenues, and performance of company across several metrics and its broad outlook on cloud/tech adoption by banks in coming years. Transforming solutions, taking advantage of tech investments by Oracle Inc and introducing new products in the areas where it sees gaps are key strategic thrusts. The company is creating new solutions that essentially work on eliminating the frictions in the commercial aspects of transactions for its clients.



Valuation & Recommendation:

OFSS provides retail banking solutions, corporate banking, payments, and solutions to asset management, life insurance, annuities, and healthcare players. The company is in a good position to respond to market demands, with the right combination of domain expertise, functional depth and a modern set of IT solutions. OFSS is focused on driving growth through investments in product capability which offers customers multiple deployment choices and a competitive edge.

It has a strong balance sheet with net cash at around 14% of market cap and, in the recent years, has been distributing most of its free cash flows as dividends. The stock's current dividend yield is an attractive 5% at the current price and the company has given best dividend payments over the last five years, except for FY19 when it paid no dividend to conserve cash.

We believe the base case fair value of the stock is Rs 4335 (17.5x Dec FY23E EPS) and the bull case fair value of the stock is Rs 4701 (19x Dec FY23E EPS) over the next two quarters. Investors can buy in the Rs 3942-3982 band and add further on dips in the Rs 3570- 3610 band (14.5x Dec FY23E EPS). At the LTP of Rs 3962, the stock is trading at 16x Dec FY23E EPS.

Financial Summary (Consolidated)

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	1281	1197	7.0	1397	-8.3	4,861	4,984	5,336	5,718	6,139
EBITDA	630	578	8.9	733	-14.1	2,229	2,469	2,663	2,836	3,027
Depreciation	25	27	-9.3	25	0.7	106	104	102	99	95
Other Income	27	18	50.3	30	-11.7	177	132	128	132	135
Interest Cost	5	5	-9.0	0	-	47	19	14	17	16
Tax	179	171	4.7	214	-16.5	790	715	776	827	885
APAT	448	392	14.2	524	-14.6	1,462	1,762	1,899	2,025	2,166
Diluted EPS (Rs)	51.9	45.5	14.2	60.8	-14.6	169.6	204.4	220.4	234.9	251.3
RoE (%)						25.4	26.3	27.9	29.3	30.6
P/E (x)						23.4	19.4	18.0	16.9	15.8
EV/EBITDA(x)						13.4	11.9	11.0	10.2	9.6

(Source: Company, HDFC sec)

Q2FY22 Result Update

- OFSS reported 8.3% QoQ decline and 7% YoY growth in revenue to Rs 1281 crore in Q2FY22. EBIT was down by 14.6% QoQ but up 9.8% YoY to Rs 605 crore. Net profit for the quarter was Rs 448 crore, up 14.2% YoY but declined 14.6% QoQ.
- EBIT Margin stood at 47.2% in Q2FY22 vs. 46% in Q2FY21 and 50.7% in Q1FY22 and net profit margin declined 260bps QoQ and it was up 220bps YoY to 34.9% in Q2FY22.



- The Products business posted revenue of Rs 1,144 crore, down 9.2% QoQ and up 8% YoY, and the Services business posted revenue of Rs. 106 Crore, up 5.6% QoQ and 0.6% YoY.

Recent Triggers

Strong deal momentum supported by growth in BFSI spending

Banking and financial Services Companies are continuing to invest in and accelerate a whole host of IT initiatives— cloud migration, development of new software products for digital banking, enhancing features and functionalities in existing products, data, analytics and AI/ML, automation, cybersecurity and regulatory compliance. The spending is across large and mid-sized banks both in the US and Europe. The pace of investment by financial services companies in digital capabilities will likely continue beyond the short term.

The trend of working from home has created demand for cloud migration and BFSI vertical in particular has been remain resilient and growth driver amid the pandemic. Technology demand post COVID has seen a meaningful acceleration led by cloud adoption and the push for digitalization. There has been increased usage of technology platforms like collaboration tools, enabling virtual sales channel across industry verticals, higher automation tools amid Work From Anywhere trends, cybersecurity to enable remote working for white collar jobs globally and building of data analytic tools. Gartner expects global enterprise technology spending to remain strong over 2021-24 with a sharp V-shaped recovery in 2021 post the COVID impact of 2020.

Banking and financial services firms have embraced cloud shift and have accelerated cloud migration and core modernization journey. In the June quarter, Indian IT companies saw the BFSI segment report robust performance on a sequential basis. Demand outlook for this segment is upbeat and bodes well for Indian IT companies. Companies are viewing this journey as a necessity to remain competitive.

Some recent developments could work in favour of OFSS. These include Bank customers becoming more demanding for information that is more personalised, rising competition from Fintechs could force Banks to become more efficient to retain their clients, availability of new technologies mean that Banks may like to adopt them first to make a difference with their customers.

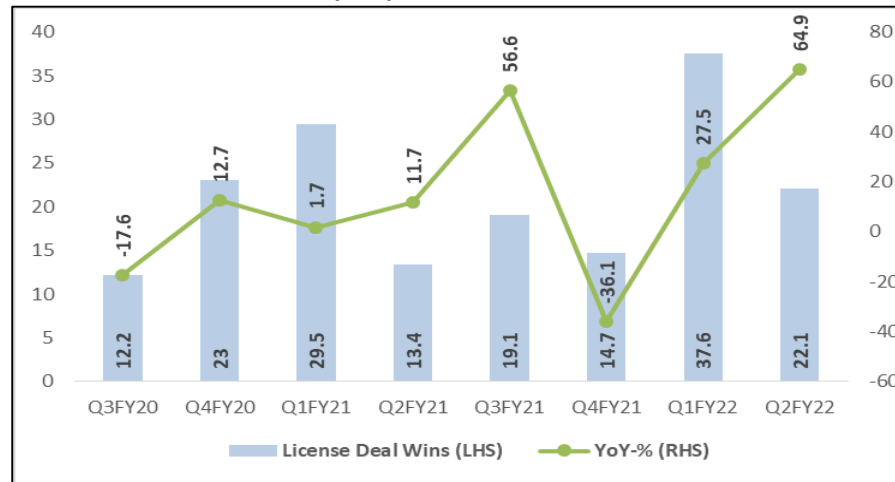
Strong deal pipeline

OFSS reported another strong quarter of performance with robust license deals in Q2FY22, and signed license deals of \$22.1 million in the quarter with customers in 22 countries. 13 customers went live on Oracle Financial Services software products in the quarter. Punjab National Bank, Bank of Valletta PLC, Hampden & Co, Saudi Arabian bank, Infin Bank JSCB and Kuwait's Gulf Bank are among the new customers. Singapore-based bank has extended its technology partnership with Oracle by signing a deal for Oracle Financial Services Analytical Applications.



OFSS is witnessing improved outlook on the deal pipeline and sustained momentum gains in developed economies with sustained demand in the emerging and frontier markets. We believe the broad-based gain in deal pipeline will enable the proposition for sustained strong growth in new license sales over FY21-24E.

New License Deals -US\$ (Mn)



(Source: Company, HDFC sec)

OFSS collaboration with Everest to bring blockchain to banks worldwide

Oracle Financial Services Software Ltd has teamed up with financial technology provider Everest to bring blockchain to banks worldwide to enhance their product offerings. Blockchain, a digital ledger of transactions, gained prominence over the last 10 years as the technology that underpinned the virtual currency bitcoin. Oracle Financials' software is used in retail and corporate banking as well as the insurance sector. Everest, whose blockchain technology enables a wide range of financial services, has recently worked with the Asian Development Bank on the Central Bank of Samoa's regulatory compliance platform.

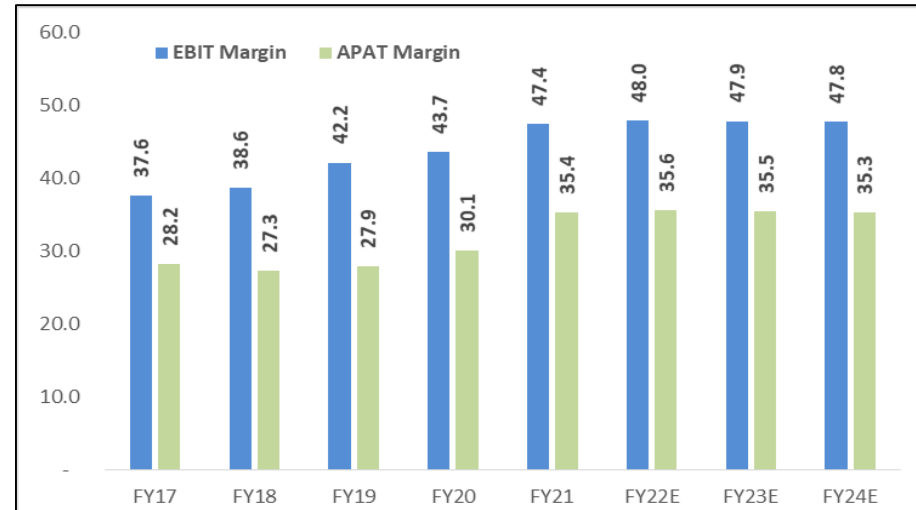
Everest is registered and based in Malta and it is also a licensed custodian of crypto currencies. The collaboration means Oracle's bank clients will be able to verify a customer's credentials and transfer them to the block chain platform in different countries. The parent company Oracle launched a blockchain platform cloud service in 2018 and Oracle does some blockchain work in their cloud, which is not related to the core banking and financial platform. Its financial software unit already provides a wide array of anti-money laundering capabilities, but Everest's blockchain-based identity and biometric verification services should enhance Oracle's banking software.



Margins stability led by operational efficiencies

OFSS' EBIT margin increased 120bp YoY to 47.2% in Q2FY22, it was down by 350bps QoQ and Q1 is the historically best quarter for the company. OFSS has been increasing its margin over the last four years, reported EBIT margin at 47.4% in FY21 from 37.6% in FY17. PAT margin increased to 35.4% in FY21 from 26.8% in FY17. Taking into the consideration the margin levers like cost rationalisation, favourable currency movement, increasing trend of premium products, traction in digital technology and other operational efficiencies, the margin improvement could continue in FY22E and beyond. Hence, we expect EBIT margins at a range of 47.8% to 48% for FY22E to FY24E and PAT margins at a range of 35.3% to 35.6% for FY22E to FY24E.

Margins (%)



(Source: Company, HDFC sec)

Long term Triggers

Promoter's support and experienced management

Oracle is key promoter and holding 73.15% in the company. Oracle is world's one of the leading software products and service provider companies. Oracle Corporation is an American multinational computer technology corporation headquartered in Austin, Texas. The company sells database software and technology, cloud engineered systems, and enterprise software products—particularly its own brands of database management systems. In 2020, Oracle was the second-largest software company in the world by revenue and market capitalization. The company also develops and builds tools for database development and systems of middle-tier software, Enterprise Resource Planning software, Human Capital Management software, Customer Relationship Management software, Enterprise Performance Management software, and Supply Chain Management software.



Key management

Mr. S Venkatachalam (Chairperson-shareholder Director): Mr Venkatachalam has rich experience in the field of Banking, Finance, Administration, Compliance, Taxation and Corporate laws. Served as an Independent Director with leading financial institutions.

Mr. Chaitanya Kamat (CEO-MD): Mr Kamat has over thirty-five years of experience in financial services, product engineering, consulting and business transformation with over two decades of leadership and board level roles in both national and global organizations.

Mr. Harinderjit Singh (Non Independent Director): Mr Singh has over three decades of experience in managing global technology businesses. Heads the Financial Services Global Business Unit in Oracle Corporation.

Ms. Kimberly Woolley ((Non Independent Director): She has extensive experience in managing legal and corporate affairs for Oracle Corporation. Has unique perspective of international Boards, knowledge and understanding of global processes, risk management, corporate responsibility, compliance and governance.

Mr. Makarand Padalkar (Executive Director): Over thirty-five years of experience in managing the entire lifecycle of technology products specializing in Banking industry ranging from product conceptualization, marketing, alliances to sales and also corporate strategy and investor relations. As the CFO of the Company for over a decade, has a deep understanding of business, compliance, risk and governance requirements.

Mr. Richard D Jackson (Non Independent Director): Global experience with multinational and large regional banks holding CEO positions. Led a number of business and technology transformations at banks in EMEA and APAC. Independent board member at several companies including insurance and financial institutions in UK and Europe.

Leadership position in banking products and comforting on deal closures

OFSS has strong leadership position in banking products as well as software services and outsourcing services. This balanced product portfolio is likely to benefit from improved budget spending in BFSI segment and increased thrust on an efficient compliance system. We believe it is a large opportunity, considering the ever-increasing regulatory requirements, failing legacy systems (HSBC, RBS, BoA experiences) and modernization of IT (both traditional and Cloud-based).

Recently OFSS has developed Oracle Banking Platform (OBP), which is a cloud based next generation product. It deals with the long held challenges in Tier 1 banks and progressively transforms their business models and processes, driving productivity improvements across both front and back offices, and reducing operating costs. OBP helps bank to expand their business as they grow their businesses through new business strategies.

Despite adverse business environment during the period, OFSS has managed its business through product strategies. Now, the street is bullish on new license signing in next couple of quarters and expecting to see quality of deals signed.



CBS to bring huge opportunity

Core banking solutions (CBS) is a bank's centralized system, responsible for ensuring seamless workflow by automating frontend & backend processes within a bank and involves processing of banking transactions across various branches of a bank on a single platform. Moreover, CBS provides customers with an access to banking facilities from any bank branches across a country and facilitates information across delivery channels. Furthermore, CBS helps banks in processing deposits & withdrawals, enhancing customer relationship management activities and transactions management.

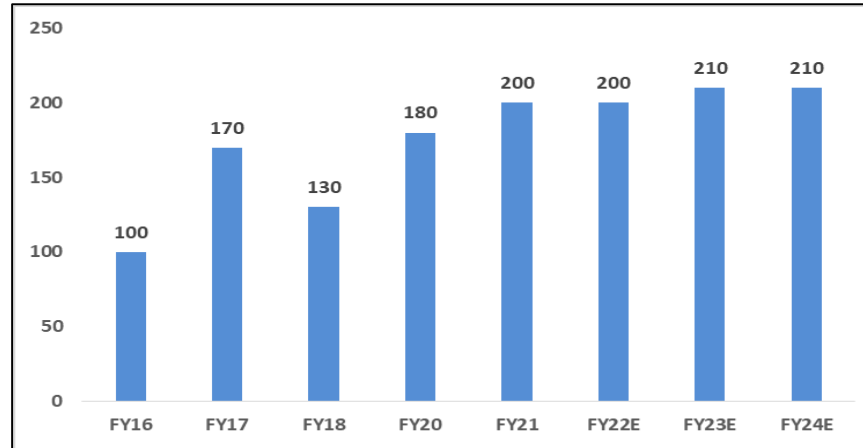
The global core banking software market size was US\$ 9.4 bn in 2020. The global impact of COVID has been unprecedented, with core banking software witnessing a negative impact on demand across all regions amid the pandemic, reported a significant growth of 15.1% in 2020 as compared to the average YoY growth during 2016-2019. The global core banking software market is projected to grow from \$10.84 billion in 2021 to \$34.48 billion in 2028 at a CAGR of 18.0% in the forecast period. The current penetration of Core Banking Solution (CBS) is only ~15-18% across geographies. The increasing investment in fintech technologies, banking software by OFSS is likely to drive revenue growth going forward.

Strong fundamentals led by healthy debt protection metrics and liquidity

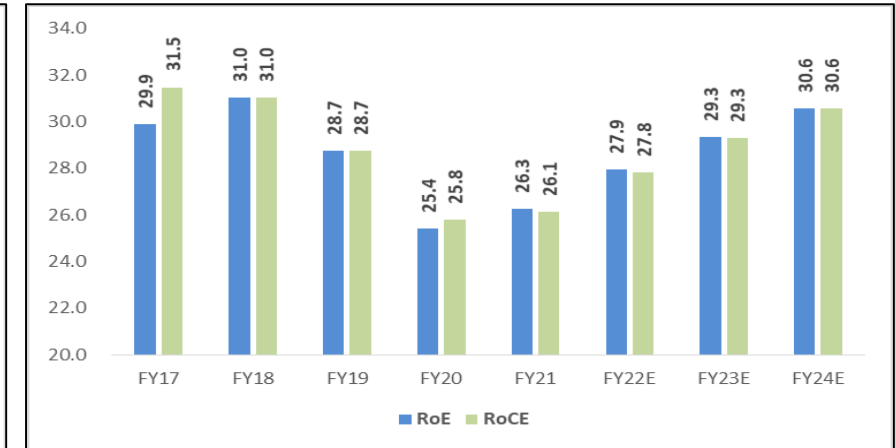
- OFSS has reported stable and strong revenue growth in the past. In FY21, the company generated total revenue of Rs 4,984 crore, which grew at a CAGR of 5.2% over the past nine years. We expect consolidated revenue to grow at a ~7% CAGR over FY21-FY24E.
- The company has reported operating profit at 9.3% CAGR over the past nine years and operating margin stood at 40-49% band over the past and we expect margin to be 49.3% to 49.5% in next two years, supported by cost rationalisation efforts.
- Debt protection metrics are robust, the company is almost debt free and sizeable networth of Rs 6,849 crore as on 31 March, 2021.
- Cash and cash equivalents stood at Rs 2481 crore as on 30 Sept, 2021. We expect the FCF to remain positive, going forward, even after factoring in annual capex of Rs 30-40 crore.
- The net working capital cycle was moderate and reduced to 55 days in FY21 vs. 67 days in FY20 due to the decrease in debtor days.
- Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future. Rise in net profit margin could help to increase its return ratios, we expect RoE at 27.9-30.6% and RoCE at 27.6-30.6% over FY22E to FY24E, respectively.
- The company recommended a final dividend of Rs 200 per share to shareholders for the FY21, dividend payout stood at 97.8% and yield is 5%.



Dividend per share (Rs)



Return Ratio (%)



(Source: Company, HDFC sec)

What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcounts, strict immigration norms and rise in visa costs are key concerns.
- OFSS product business contributed ~90% to overall revenue in Q2FY22, US contributed 28% of revenue, Europe 18%, MEA (Middle East, and Africa) 20% and 26% from Asia Pacific region. Any sharp acceleration in the value of Rupee could impact its earning going forward.
- OFSS license revenues (and hence, the product revenues as a whole) are very volatile in nature from quarter to quarter. These revenues vary based on completion of large product implementations and can fluctuate widely.
- OFSS has highest dividend payout policy in the entire listed Indian IT space going forward, any inconsistency on dividend payout policy could hit investors return.
- Attrition jumped to 25% in Q2FY22 vs. 20% in Q1FY22 and 15% in Q2FY21, led by intense competition and demand for talent. Total number of net employees decreased by 296 YoY in Q2FY22 and the company added 30 employees on QoQ basis.
- Any change in the contract nitty gritty from large clients like non-renewal of contracts or higher discounts due to aggressive competition intensity can impact the sustainability and scalability from such clients.
- The company faces competition from established global, as well as regional and local IT products and service providers. The Company also faces competition from new-age players who offer niche solutions.



- Due to the nature of its offerings in BFSI space, there is a risk of disruption or damage to the company from any incidence involving compromise of data resulting in financial loss, reputational damage or legal claims.
- Q1 is usually their best quarter for deals and any uncertainty in the quarter could impact its overall performance.
- Oracle India Private Limited is a wholly-owned subsidiary of Oracle and dominant provider of database and enterprise software to the government and the corporate sector in India. Oracle India has a market share of about 60% in database, and around 8 to 9% in business applications. Shifting into product development for BFSI segment to the wholly owned subsidiary could be impact OFSS market share.

Company Profile

Oracle Financial Services Software Ltd (OFSS), majority owned by Oracle is a leading software services and products provider to the financial services industry. This company (previously known as I-flex) was partly acquired by Oracle Inc in 2005 from Citi venture capital international. I-flex was originally an internal Citigroup IT unit set up in 1985. OFSS provides a wide range of technology solutions covering Retail Banking, Corporate Banking, and Payments. The products business (comprising product licensing, consulting and support) is OFSS's principle business segment. The two other smaller business segments of the company comprise of consultancy services business and the business process outsourcing (BPO) services business. OFSS has established an extensive global presence across leading markets through its sales and marketing network. The company has subsidiaries in Greece, India, Chile, China, Mauritius, Singapore, the Netherlands and the United States of America. OFSS has nine direct subsidiaries, and seven step subsidiaries as on 30 Sept, 2021.

Business Overview

The OFSS group is organized by business segment and geographically. For management purposes the OFSS group is primarily organized on a worldwide basis into three business segments:

- (a) Product licenses and related activities ('Products'):** Product licenses and related activities segment deals with various banking software products. The related activities include enhancements, implementation and maintenance activities.
- (b) IT solutions and consulting services ('Services'):** IT solutions and consulting services segment offers services spanning the entire lifecycle of applications used by financial service institutions. The division's portfolio includes Consulting, Application, Support and Technology Services that help institutions improve efficiency, optimize costs, meet risk and compliance mandates and implement IT solutions finely attuned to their business needs.
- (c) Business Process Outsourcing services ('BPO - Services'):** BPO - Services comprises of business process outsourcing services to the Lending, Collections, Customer Service and Capital Markets industry.



Oracle Financial Services Software Ltd. (OFSS)



Product Portfolio

Customer Acquisition and Experience	Insurance
Oracle Banking Digital Experience	Bancassurance Solution
Customer Acquisition and Experience	IFRS 17 and LDTI
Retail Banking	Oracle Documaker
Asset Finance	Oracle Financial Services Communication Cloud Service
Oracle Banking APIs	Oracle Health Insurance Components
Oracle Banking Branch	Oracle Insurance Data Exchange
Oracle Banking Enterprise Collections	Oracle Insurance Insbridge Enterprise Rating
Oracle Banking Enterprise Originations	Oracle Insurance Policy Administration for Life and Annuity
Oracle Banking Enterprise Product Manufacturing	Oracle Insurance Revenue Mgt and Billing for Healthcare Payers
Oracle Banking Platform	Oracle Policy Automation for Insurance
Oracle Documaker	Payments
Oracle Financial Services BPO Services	Oracle Banking Payments
Oracle Financial Services Communication Cloud Service	Risk and Finance
Oracle Financial Services PrimeSourcing	Accounting and Regulatory Solutions
Oracle FLEXCUBE Onboarding	Balance Sheet Management
Oracle FLEXCUBE Investor Servicing	Data Management for Financial Services
Oracle FLEXCUBE Universal Banking	Enterprise Risk Management for Financial Services
Oracle FLEXCUBE for Islamic Banking	Profitability Management
Oracle FLEXCUBE for Microfinance	Risk Management and Compliance (ERP)
Corporate Banking	Revenue Management and Billing
Oracle Banking APIs	Oracle Financial Services Revenue Management and Billing for Banks
Oracle Banking Cash Management (PDF)	Oracle Insurance Revenue Mgt and Billing for Healthcare Payers
Oracle Banking Cash and Liquidity Management	Revenue Mgt- and Billing for Merchant Acquirers and Credit Card Issuers
Oracle Banking Corporate Lending (PDF)	AML and Financial Crime Compliance
Oracle Banking Corporate Lending Credit Management	Customer Due Diligence Solutions
Oracle Banking Corporate Lending Process Management (PDF)	Investigations and Case Management
Oracle Banking Credit Facilities Process Management (PDF)	Oracle Financial Crime and Compliance Management Cloud Service
Oracle Banking Liquidity Management (PDF)	Adaptive Intelligence Foundation for Anti Money Laundering (PDF)
Oracle Banking Supply Chain Finance	Oracle Financial Services Broker Compliance (PDF)
Oracle Banking Trade Finance	Oracle Financial Services Crime and Compliance Studio
Oracle Banking Treasury Management	Oracle Financial Services Model Management and Governance (PDF)
Oracle Banking Virtual Account Management	Oracle Financial Services Trading Compliance (PDF)
Oracle Documaker	Reporting Solutions



Oracle Financial Services Software Ltd. (OFSS)

Oracle Financial Services Communication Cloud Service	Transaction Monitoring Solutions
Oracle FLEXCUBE Enterprise Limits and Collaterals (PDF)	Oracle Financial Crime and Compliance Management (PDF)
Oracle FLEXCUBE Universal Banking	Human Capital Management
Oracle FLEXCUBE for Islamic Banking	Human Capital Management for Financial Services
Oracle Banking Virtual Account Mgt Cloud Service (PDF)	Cloud Infrastructure
	Cloud Infrastructure for Financial Services

Segment Metrics

Rs in cr	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue										
Product licenses and related activities	1135	1020	1028	1132	1192	1058	1101	1074	1260	1144
IT solutions and consultation services	112	113	101	101	115	105	102	102	100	106
Business process outsourcing services	28	30	31	30	30	34	35	35	38	31
Total	1275	1162	1160	1264	1337	1197	1238	1211	1397	1281
Segment Results										
Product licenses and related activities	582	488	494	572	665	553	606	558	727	601
IT solutions and consultation services	29	20	13	16	24	16	21	27	22	22
Business process outsourcing services	9	10	12	9	11	15	17	17	18	13
Total	619	518	519	597	699	585	643	603	766	637

Operating Metrics

Geographies

Revenue Mix- % (Product)

%	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	7	5	6	6	6	7	7	7	8	8
USA	20	23	22	25	20	19	20	23	23	21
Rest of America	7	8	7	6	9	8	9	9	9	7
Europe	7	8	7	6	16	20	19	18	18	18
Asia Pacific	29	29	27	29	28	30	30	28	26	26
Middle East & Africa	23	20	21	19	19	16	16	15	16	20



Revenue Mix- % (Services)

%	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	2	0	1	0	1	1	1	1	1	1
USA	61	67	70	71	72	74	75	75	75	73
Rest of America	3	2	2	1	1	0	1	0	0	0
Europe	21	19	14	17	15	12	12	11	12	13
Asia Pacific	9	9	9	7	7	9	9	9	9	10
Middle East & Africa	4	3	4	4	4	3	3	3	2	3

Revenue Mix- % (BPO - Services)

%	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
India	7	5	6	5	7	7	7	7	7	7
USA	25	28	28	31	25	25	26	29	30	26
Rest of America	6	7	6	6	8	7	8	8	8	7
Europe	15	16	16	15	16	19	18	17	17	17
Asia Pacific	26	26	25	26	26	28	27	26	24	25
Middle East & Africa	21	18	19	17	18	14	14	14	14	18

Revenue Core Business Split -%

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Products Business										
License Fees	17	10	10	13	19	10	12	10	22	13
Maintenance Fees	28	33	32	30	32	37	36	35	31	35
Consulting Fees										
Fixed Price	30	31	32	31	26	30	29	33	29	30
Time and Material Basis	25	26	26	26	23	24	23	21	18	22
Service Business (Incl BPO)										
Fixed Price	29	22	25	27	28	25	29	27	28	28
Time and Material Basis	71	78	75	73	72	75	71	73	72	72



Trade Receivable

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
0-180 days	93	94	91	88	97	97	98	97	98	97
More than 180 days	7	6	9	12	3	3	2	3	2	3
DSO (Days)	57	71	63	63	64	55	56	54	63	63

Headcounts

Nos	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Product Business	6330	6490	6339	6135	6185	6319	6367	6238	6045	6139
Service Business	1278	1219	1182	1080	953	906	865	840	817	865
BPO Business	669	672	654	633	651	644	694	719	683	568
Corporate	209	204	208	206	193	189	184	180	185	190
Total	8486	8585	8383	8054	7982	8058	8110	7977	7730	7762
Attrition-%	17	17	18	20	17	15	14	15	20	25

No of customers and Country Base

Nos	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Customers	1028	1084	1132	1195	1247	1289	1318	1362	1401	1432
Country Base	141	141	142	145	147	148	152	154	155	158



Oracle Financial Services Software Ltd. (OFSS)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	4861	4984	5336	5718	6139
Growth (%)	-2.0	2.5	7.1	7.2	7.4
Operating Expenses	2633	2515	2673	2882	3112
EBITDA	2229	2469	2663	2836	3027
Growth (%)	3.9	10.8	7.9	6.5	6.7
EBITDA Margin (%)	45.8	49.5	49.9	49.6	49.3
Depreciation	106	104	102	99	95
EBIT	2122	2365	2561	2737	2932
Other Income	177	132	128	132	135
Interest expenses	47	19	14	17	16
PBT	2252	2477	2675	2852	3051
Tax	790	715	776	827	885
RPAT	1462	1762	1899	2025	2166
Growth (%)	5.5	20.5	7.8	6.6	7.0
EPS	169.6	204.4	220.4	234.9	251.3

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	43	43	43	43	43
Reserves	6527	6806	6702	7021	7058
Shareholders' Funds	6570	6849	6745	7064	7101
Long Term Debt	68	42	37	31	27
Net Deferred Taxes	-101	-131	-138	-144	-152
Long Term Provisions & Others	438	541	556	571	587
Minority Interest	0	0	0	0	0
Total Source of Funds	6974	7301	7201	7521	7564
APPLICATION OF FUNDS					
Net Block & Goodwill	963	884	817	758	694
CWIP					
Other Non-Current Assets	982	1012	975	1002	936
Total Non Current Assets	1944	1896	1792	1761	1630
Trade Receivables	925	803	862	924	992
Cash & Equivalents	4497	4914	5014	5194	5250
Other Current Assets	553	540	459	528	554
Total Current Assets	5976	6257	6336	6646	6797
Short-Term Borrowings	47	27	20	17	15
Trade Payables	35	46	58	63	67
Other Current Liab & Provisions	864	778	849	806	781
Total Current Liabilities	946	851	927	886	863
Net Current Assets	5030	5405	5408	5761	5934
Total Application of Funds	6974	7301	7201	7521	7564

(Source: Company, HDFC sec)



Oracle Financial Services Software Ltd. (OFSS)

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	2,252	2,477	2,675	2,852	3,051
Non-operating & EO items	-109	-65	-128	-132	-135
Interest Expenses	47	19	14	17	16
Depreciation	106	104	102	99	95
Working Capital Change	-3	95	-140	-91	-124
Tax Paid	-772	-711	-776	-827	-885
OPERATING CASH FLOW (a)	1,522	1,920	1,747	1,918	2,018
Capex	-54	-19	-32	-37	-27
Free Cash Flow	1,468	1,901	1,715	1,881	1,991
Investments	0	0	0	0	0
Non-operating income	-1,331	65	128	132	135
INVESTING CASH FLOW (b)	-1,384	46	96	95	108
Debt Issuance / (Repaid)	-45	-41	-5	-6	-4
Interest Expenses	-47	-19	-14	-17	-16
FCFE	1,376	1,841	1,696	1,858	1,971
Share Capital Issuance	13	6	0	0	0
Dividend	32	-1,535	-1,724	-1,810	-1,810
FINANCING CASH FLOW (c)	-47	-1,590	-1,743	-1,833	-1,829
NET CASH FLOW (a+b+c)	90	376	100	180	297

Key Ratios

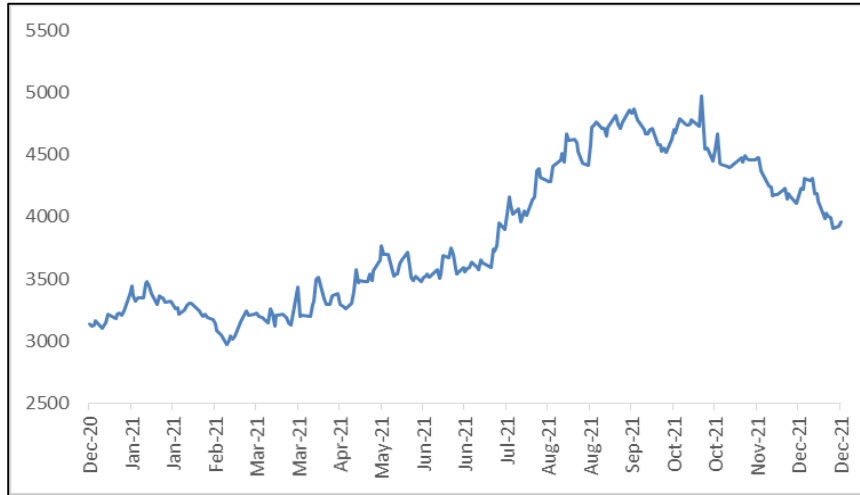
Particulars	FY20	FY21	FY22E	FY23E	FY23E
EBITDA Margin (%)	45.8	49.5	49.9	49.6	49.3
EBIT Margin	43.7	47.4	48.0	47.9	47.8
APAT Margin	30.1	35.4	35.6	35.4	35.3
RoE	25.4	26.3	27.9	29.3	30.6
RoCE	25.8	26.1	27.8	29.3	30.6
Solvency Ratio (x)					
Net Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	169.6	204.4	220.4	234.9	251.3
CEPS	182.0	216.5	232.2	246.4	262.3
BV	762.2	794.6	782.6	819.6	823.9
Dividend	180.0	200.0	200.0	210.0	210.0
Turnover Ratios (Days)					
Debtor days	69.5	58.8	59.0	59.0	59.0
Inventory days	0.0	0.0	0.0	0.0	0.0
Creditors days	2.7	3.4	4.0	4.0	4.0
VALUATION (x)					
P/E	23.4	19.4	18.0	16.9	15.8
P/BV	5.2	5.0	5.1	4.8	4.8
EV/EBITDA	13.4	11.9	11.0	10.2	9.6
EV / Revenues	6.1	5.9	5.5	5.1	4.7
Dividend Yield (%)	4.5	5.0	5.0	5.3	5.3
Dividend Payout (%)	106.1	97.8	90.8	89.4	83.6

(Source: Company, HDFC sec)



Oracle Financial Services Software Ltd. (OFSS)

One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Oracle Financial Services Software Ltd. (OFSS)



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