

CMP : Rs.1,955

Reco : BUY

Target : Rs.2,700

STOCK INFO

BSE	532400
NSE	OFSS
Bloomberg	OFSS IN
Reuters	ORCL.BO
Sector	IT-Software
Face Value (Rs)	5
Equity Capital (Rs mn)	419
Mkt Cap (Rs mn)	164,520
52w H/L (Rs)	2375/1699
Avg Daily Vol (BSE+NSE)	49569

SHAREHOLDING PATTERN

(as on 31st Dec. 2011)	
Promoter	80.39
FII	2.69
DII	5.12
Others	11.80

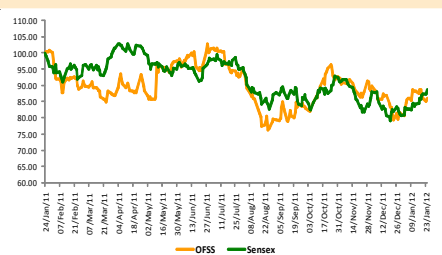
Source: Company, BSE

STOCK PERFORMANCE (%)

	1m	3m	12m
ORACLE	7	-11	-14
SENSEX	8	0	-11

Source: IndiaNivesh Research

OFSS v/s SENSEX



Source: Capitaline, IndiaNivesh Research

Daljeet S. Kohli
Head of Research

Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Amar Mourya
Research Analyst

Tel: +91 22 66188836
amar.mourya@indianivesh.in

Q3FY12 Highlights

Oracle Financial Services (OFSS) reported its Q3FY12 financial results, revenue and EBITDA below Street estimates positive surprise from PAT front. Revenue went up by 7.9% qoq and 10.6% yoy to Rs8159mn (Bloomberg est: Rs8,716mn). The revenue performance for the quarter was driven by 15.3% increase in product segment, partially offset by 8.1% and 13.8% decline in Services and BPO segments respectively. Driven by strong products revenue, EBITDA grew by 14.6% qoq to Rs2847mn (Bloomberg est: Rs3100mn). EBITDA margin expanded 210bp to 34.9% v/s 32.8% in Q2FY12. This was due to increase in Product segment share to 74% v/s 69% of total revenue in Q2FY12, supporting strong profitability (product EBIT margin at 42% v/s services of 23%). Depreciation rose by 37.0% qoq to Rs135mn v/s Rs99mn in Q2FY12. Interest and Other Income shot up by 14.0% qoq from Rs1393mn in Q2FY12 to Rs1588mn. The company reported exceptional income of Rs172mn v/s exceptional loss of Rs866mn in Q2FY12. Tax provisioning increased substantially during the quarter with the effective tax rate to 32% from 28% in Q2FY12 (as % of PBT). PAT grew by 45.2% qoq and 7.3% yoy to Rs3030mn above street estimates of Rs2002m, on account of higher other and exceptional income, offset by increase in tax rate. Excl Other and exceptional Income, Adj PAT declined 18.6% qoq and 48.3% yoy to Rs1269mn v/s 1559 mn in Q2FY12. It added 12 new clients (v/s 12 clients in Q2FY12) and signed new licence sale bookings worth \$10.5mn (previous quarter: \$9mn) during the quarter.

Oracle Financial Services Ltd (Rs. Mn)	Units	Q3 FY12	Q2 FY12	Q3 FY11	Q-o-Q %	Y-o-Y %
Revenues						
Product	Rs.mn	6,045	5,245	4,641	15.3	30.3
Services	Rs.mn	1,895	2,062	2,550	-8.1	-25.7
BPO-Services	Rs.mn	220	255	186	-13.8	18.3
Total Revenue	Rs.mn	8,159	7,562	7,376	7.9	10.6
Cost of revenue						
	Rs.mn	3,991	3,704	3,274	7.7	21.9
Gross Profit	Rs.mn	4,169	3,858	4,103	8.1	1.6
Gross Margin %	P%	51.1%	51.0%	55.6%		
Selling and marketing expenses	Rs.mn	713	699	638	2.1	11.7
General and administrative expenses	Rs.mn	609	676	622	-9.9	-2.1
EBITDA	Rs.mn	2,847	2,484	2,842	14.6	0.2
EBITDA Margin %	P%	34.9%	32.8%	38.5%		
Depreciation and amortization	Rs.mn	135	99	95	37.0	42.4
EBIT	Rs.mn	2,712	2,385	2,747	13.7	-1.3
EBIT Margin %	P%	33.2%	31.5%	37.2%		
Impairment loss	Rs.mn	-	-	-		
Interest and other income, net	Rs.mn	1,588	1,393	368	14.0	331.5
Exceptional Item	Rs.mn	172	-866	-		
Profit before revisions of taxes	Rs.mn	4,472	2,913	3,116	53.5	43.6
Provision for taxes	Rs.mn	1,443	826	291	74.7	395.3
Net Profit	Rs.mn	3,030	2,087	2,824	45.2	7.3
Share of loss of associate company	Rs.mn	-	-	-		
Share of minority interest	Rs.mn	-	-	-		
Net Profit	Rs.mn	3,030	2,087	2,824	45.2	7.3
Net Margin %	P%	37.1%	27.6%	38.3%		
Adj Net Profit	Rs.mn	1,269	1,559	2,456	-18.6	-48.3
EPS						
Basis	Rs	36.1	24.9	33.7	45.2	7.2
Diluted	Rs	36.1	24.8	33.6	45.2	7.4

Source: Company Filings; IndiaNivesh Research

Top-line driven by products business

- OFSS Product segment reported 15.3% qoq and 30.3% yoy growth in revenues to Rs6045mn led by across geography, services and customers. The performance for the segment was driven by services like License Fees (+64.7% qoq), Professional Services (+1.7% qoq) and Maintenance (+38.3% qoq).
- The segments EBIT expanded 345bps to 42% v/s 38% in Q2FY12 on the back of decline in SG&A expenses.
- It added 8 new clients (v/s 7 clients in previous quarter) and signed new licence sale bookings worth \$10.5mn (previous quarter: \$9mn) during the quarter.
- Top10 and City Group contribution stood at 40% (v/s 39% in last quarter) and 14% (v/s 9% in last quarter) respectively, resulted in 18.2%/79.3% qoq increase in Top10/City Group revenue. In addition, its Non-Top10 clients revenue grew by 13.4% qoq and 16.7% yoy indicating all round growth in product segment.

Services & BPO segment - dismal performance continues

- The overall revenue performance for the quarter was dragged down by 8.1% qoq (to Rs1895mn) and 13.8% qoq (to Rs220mn) decline in Services and BPO segment respectively. The de-growth was due to 10.2%, 21.8% and 8.7% decline in US, Europe, and Latin America revenue respectively, offset by increase in Middle East (+21.7%) and Asia Pacific (+0.9%) revenue.
- Due to shift in Onsite 51% (v/s 45% - Q2FY12) and offshore 49% (v/s 55% - Q2FY12) contribution, On-site revenue grew by 3.4% qoq and off-shore revenue declined by 18.7% qoq.
- The company added 4 new customers (v/s 5 in last quarter); and revenue from Top10, City Group and Non Top 10 Clients declined 8.1% qoq, 13.4% qoq and 8.1% qoq respectively.

Huge opportunities in four geographies

- Momentum for product development revenue growth in US, Asia Pacific, Europe, and Latin America continue to look strong. Large portion of the total deals (\$10.5mn) signed by the company in this quarter was contributed from these key geographies. As a result, in Dec'11 quarter US (+20.1% qoq), Asia Pacific (+18.9% qoq), Europe (+10.0% qoq), and Latin America (+130.5% qoq) demonstrated strong revenue growth.

Headcount – continuously declining in services business

- The headcount at the end of the quarter stood at 9617 employees (v/s 9509 in Q2FY12): Product – 5425, Services – 2789, support – 683, and KPO – 720. Sequentially on net basis, OFSS total employee base increased by 108, due to 890 employee addition, offset by attrition of 46 employees. Product business saw addition of 890 employees, Services business saw reduction of 41 employees, support was down 2 employees and KPO business saw decrease of 3 employees. In our view, continues decline in the services segment employee base, indicates OFSS intentions to divestment its services business after doing necessary restructuring.

Other - Key highlights

- Trade Receivables as per days of sales outstanding were 106 days (v/s 97 days sequential quarter).
- 10 customers completed deployment (v/s 16 in Q2FY12) of core banking operations.
- More than 5 existing (v/s 10 in Q2FY12) customers purchased additional products.

Valuations

At CMP of Rs1,955/share, the stock is trading at 15.1x and 13.5x its FY12E and FY13E Bloomberg EPS estimate. We reiterate BUY with target price of Rs. 2700/share. We like the company's constant strong revenue growth performance in products business across all geographies, services and clients. In addition, its strong sales efforts in US, China and Latin America should help OFSS to win strong deals from

Tier 1 Banks over coming quarters. Though the expected time of fructifying such sales efforts may get little elongated due to slow decision making in the discretionary spending. We maintain our positive stance on the stock over medium to longer term. In spite of negative services segment performance, which is dragging the overall performance, stock should not see negative pressure. As market is factoring the divestment of Services segment (to generate ~Rs18-23bn, assuming valuations of 6.5-7.5x of the segments EBIT). OFSS probable delisting candidature (80% holding with promoter) could be an added catalyst.

Staff Data (No's)	Units	Q3 FY12	Q2 FY12	Q3 FY11	Q-o-Q %	Y-o-Y %
Products	No's	5425	5271	4381	2.9	24
Services	No's	2789	2830	3583	-1.4	-22.2
On Demand	No's	0	0	23	NM	NM
KPO Business	No's	720	723	742	-0.4	-3.0
Support (inc Sales & Marketing)	No's	683	685	837	-0.3	-18.4
Total	No's	9617	9509	9566	1.1	0.5

Source: Company Filings; IndiaNivesh Research

Segmentwise Performance: (Rs. Mn)	Units	Q3 FY12	Q2 FY12	Q3 FY11	Q-o-Q %	Y-o-Y %
Products	Rs.mn	6,045	5,245	4,641	15.3	30.3
Services	Rs.mn	1,895	2,062	2,550	-8.1	-25.7
BPO-Services	Rs.mn	220	255	186	-13.8	18.3
Total	Rs.mn	8,159	7,562	7,376	7.9	10.6

Source: Company Filings; IndiaNivesh Research

Geographic Revenues	As % of Rev				Q-o-Q %	Y-o-Y %
	Units	Q3 FY12	Q2 FY12	Q3 FY11		
Product Breakup (%)						
North America	P%	25.0	24.0	18.0	20.1	80.9
Middle East and Africa	P%	19.0	21.0	26.0	4.3	-4.8
Asia Pacific	P%	33.0	32.0	21.0	18.9	104.7
Europe	P%	21.0	22.0	32.0	10.0	-14.5
Latin America and Caribbean	P%	2.0	1.0	3.0	130.5	-13.2
Total	P%	100.0	100.0	100.0	15.3	30.3
Services Breakup (%)						
North America	P%	62.0	63.0	55.0	-10.2	-12.9
Middle East and Africa	P%	4.0	3.0	3.0	21.7	3.0
Asia Pacific	P%	21.0	19.0	27.0	0.9	-39.9
Europe	P%	12.0	14.0	15.0	-21.8	-38.2
Latin America and Caribbean	P%	1.0	1.0	0.0	-8.7	NM
Total	P%	100	100	100	-8.7	-22.7

Revenue Analysis by Type	As % of Rev				Q-o-Q %	Y-o-Y %
	Units	Q3 FY12	Q2 FY12	Q3 FY11		
Product Revenue						
License Fees	P%	10.0	7.0	16.0	64.7	-18.6
Professional Services	P%	60.0	68.0	56.0	1.7	39.6
Maintenance	P%	30.0	25.0	28.0	38.3	39.6
Total	P%	100	100	100	15.3	30.3
Services Revenues						
Fixed Price	P%	16.0	26.0	37.0	-43.8	-66.6
Time & Material Business	P%	84.0	74.0	63.0	3.6	3.0
Total	P%	100	100	100	-8.7	-22.7
Onsite/Offshore						
On-site	P%	51.0	45.0	48.0	3.4	-17.9
Off-shore	P%	49.0	55.0	52.0	-18.7	-27.2
Total	P%	100	100	100	-8.7	-22.7

Customer Concentration	Units	Q3 FY12	Q2 FY12	Q3 FY11	Q-o-Q %	Y-o-Y %
Product Customers						
Top Customers	P%	16	17	7	8.5	197.7
Top 5 Customers	P%	31	29	24	23.2	68.3
Top 10 Customers	P%	40	39	33	18.2	57.9
Citigroup and its entities	P%	14	9	10	79.3	82.4
Non Top 10 Customers	P%	60	61	67	13.4	16.7
Services Customers						
Top Customers	P%	16	15	10	-2.7	23.7
Top 5 Customers	P%	46	47	39	-10.7	-8.8
Top 10 Customers	P%	62	62	62	-8.7	-22.7
Citigroup and its entities	P%	49	52	44	-14.0	-13.9
Non Top 10	P%	38	38	38	-8.7	-22.7
Total Company						
Top Customers	P%	13	12	8	16.9	79.7
Top 5 Customers	P%	31	29	26	15.3	31.9
Top 10 Customers	P%	40	38	36	13.6	22.9
Citigroup and its entities	P%	23	22	23	12.8	10.6
Non Top 10	P%	60	62	64	4.4	3.7

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

Disclaimer: This document has been prepared by IndiaNivesh Securities Private Limited (IndiaNivesh), for use by the recipient as information only and is not for circulation or public distribution. This document is not to be reproduced, copied, redistributed or published or made available to others, in whole or in part without prior permission from us. This document is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recipients of this document should be aware that past performance is not necessarily a guide for future performance and price and value of investments can go up or down. The suitability or otherwise of any investments will depend upon the recipients particular circumstances. The information contained in this document has been obtained from sources that are considered as reliable though its accuracy or completeness has not been verified by IndiaNivesh independently and cannot be guaranteed. Neither IndiaNivesh nor any of its affiliates, its directors or its employees accepts any responsibility or whatever nature for the information, statements and opinion given, made available or expressed herein or for any omission or for any liability arising from the use of this document. Opinions expressed are our current opinions as of the date appearing on this material only. **IndiaNivesh directors and its clients may have holdings in the stocks mentioned in the report.**

To unsubscribe please send a mail to mail@indianivesh.in

[Home](#)