

Buy

View: Strong licence signings at US\$29mn, wins another OBP deal

OFSS reported strong Q1FY20 results with a new licence signings of US\$29mn in the quarter. It signed 11 new deals in the quarter and included one OBP deal from a leading Australian Bank. The revenues were below our estimate due to weak implementation revenues in the quarter (down 10% on YoY basis) but is expected to pick up given strong 14% growth on TTM basis in its Licence revenue stream. EBIT for the quarter was inline while PAT slip was largely on account of adverse FX.

We believe that the revenue momentum would improve furthermore as implementation revenues ramp-up begins supported by strong licence signings and newly announced OBP deal (OBP implementation is in-house and usually has long-and-large implementation revenue streams). Encouraged by strong business prospects, high FCF yields of 5%+ and attractive valuations 17x PER, we continue to maintain our positive view on the stock with a BUY rating and DCF based TP of ₹ 4220 (implies 22x on FY21E PER).

Results below estimates but deal wins are assuring

The revenue was down 5% on YoY basis at ₹12.7bn (well below our estimate of ₹14bn). The revenue slip was on account of lower implementation revenues in Q1FY20 (down 10% on YoY basis) which is likely to see ramp-up in coming quarters given strong deal signings with a 14% growth on TTM basis. EBIT margins improved 100bps on YoY basis at 46.5% (EBIT inline with estimate at ₹ 5.9bn) on better performance in the Services business in the quarter. PAT for the quarter stood at ₹ 3.8bn well below our estimate of ₹4.1bn led by lower than expected other income in the quarter at ₹293mn due to adverse Fx impact (₹101mn loss as compared for ₹ 83mn gains in corresponding quarter last year).

Improving deal wins, strong operating metrics to drive re-rating

We believe that the strong licence signings over the last few quarters (TTM basis up 14% - at US\$83mn) coupled with favourable mix led OPM gains (OPM at 46.5%), robust cash generation (5%+ FCF yield) and expected superior performance over peers makes a compelling case for re-rating of the stock.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	12,751	13,449	(5.2)	12,149	5.0
Total Expense	6,563	7,204	(8.9)	6,931	(5.3)
EBITDA	6,188	6,245	(0.9)	5,219	18.6
Depreciation	265	131	102.0	162	63.6
EBIT	5,923	6,114	(3.1)	5,056	17.1
Other Income	293	481	(39.1)	613	(52.2)
Interest	0	0		0	
EBT	6,216	6,595	(3.1)	5,670	9.6
Tax	2,442	2,576	(5.2)	2,410	1.4
RPAT	3,774	4,019	(6.1)	3,260	15.8
APAT	3,774	4,019	(6.1)	3,260	15.8
			(bps)		(bps)
Gross Margin (%)	59.8	59.0	75	56.1	362
EBITDA Margin (%)	48.5	46.4	210	43.0	558
NPM (%)	29.6	29.9	(29)	26.8	276
Tax Rate (%)	39.3	39.1	22	42.5	(321)
EBIT Margin (%)	46.5	45.5	99	41.6	483

CMP	₹ 3,260
Target / Upside	₹ 4,220 / 29%
BSE Sensex	36,624
NSE Nifty	10,856

Script Details

Equity / FV	₹ 429mn / ₹ 5
Market Cap	₹ 281bn
	US\$ 4bn
52-week High/Low	₹ 4,658/₹ 3,020
Avg. Volume (no)	27,824
NSE Symbol	OFSS
Bloomberg Code	OFSS IN

Shareholding Pattern Jun'19(%)

Promoters	73.5
MF/Banks/FIs	5.7
FII	13.7
Public / Others	7.2

Valuation (x)

	FY19A	FY20E	FY21E
P/E	20.3	19.0	17.0
EV/EBITDA	11.8	10.8	9.8
ROE (%)	28.7	30.0	33.9
RoACE (%)	28.0	29.2	32.9

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	49,589	52,753	57,605
EBITDA	21,447	23,507	25,920
PAT	13,859	14,739	16,487
EPS (₹)	161.0	171.2	191.5

VP Research: Rahul Jain

Tel: +9122 40969771

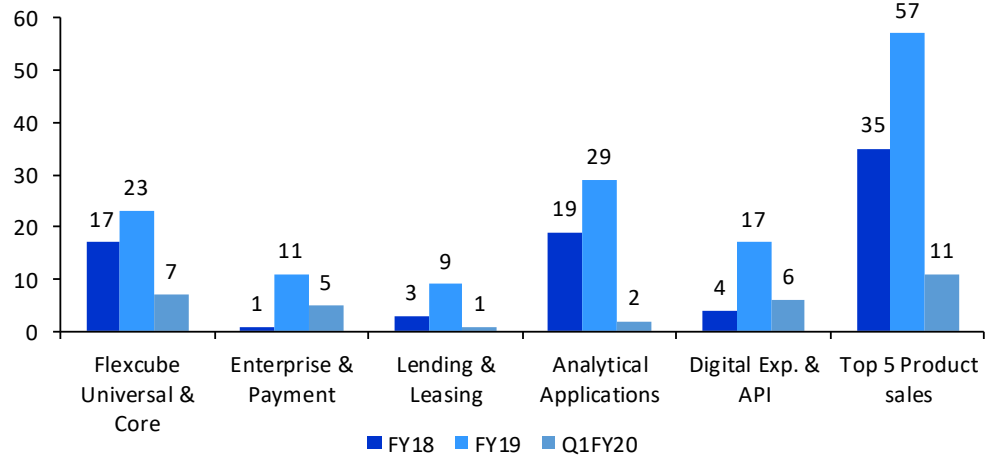
E-mail: rahulj@dolatcapital.com

Associate: Vinesh Vala

Tel: +91 22 40969736

E-mail: vineshv@dolatcapital.com

Exhibit 1: Total deal wins



Source: Company, DART

Deal wins in Q1FY20: OFSS announced much awaited OBP deal in the quarter along with 10 other deal wins. The OBP deal was announced again in the Australian market wherein it already has three other clients on OBP (NAB, SunCorp and Westpac). The other deals include wide spread across products – Flexcube Universal Banking 6 deals (many of them were multi-product deal), Analytics - 2 deals and Digital Experience - 2 deals.

Deal win mix in last 2 years: OFSS announced about 57 new deals in FY19 as against 35 deals in FY18. The deals wins were across its product offerings but bulk of them were for its relatively newer offerings – Analytics and Digital Experience. The average deal size is ideally lower for these products however it helps both in terms of opening new logos that facilitate client mining opportunity and also help it garner good mind/wallet share as clients continues its preference for investing in these products compared for core modernization. Strong deal signings in the year led to 26% growth in the Licence signings at US\$82mn for FY19. We expect growth momentum in deal signings to continue as the company may witness better conversions on its OBP pipeline.

Exhibit 2: Segmental financial performance

Segmental Reporting	Q1FY20	Q4FY19	QoQ	Q1FY19	YoY
Revenues (₹ Mn)					
Products	11,353	10,595	7.2	11,970	(5.2)
Services	1117	1278	(12.6)	1190	(6.1)
BPO	281	276	1.8	289	(2.8)
EBIT (₹ Mn)					
Products	5821	5180	12.4	6319	(7.9)
Services	286	347	(17.6)	43	565.1
BPO	87	73	19.2	85	2.4
EBIT Margin (%)					
Products	51.3	48.9		52.8	
Services	25.6	27.2		3.6	
BPO	31.0	26.4		29.4	

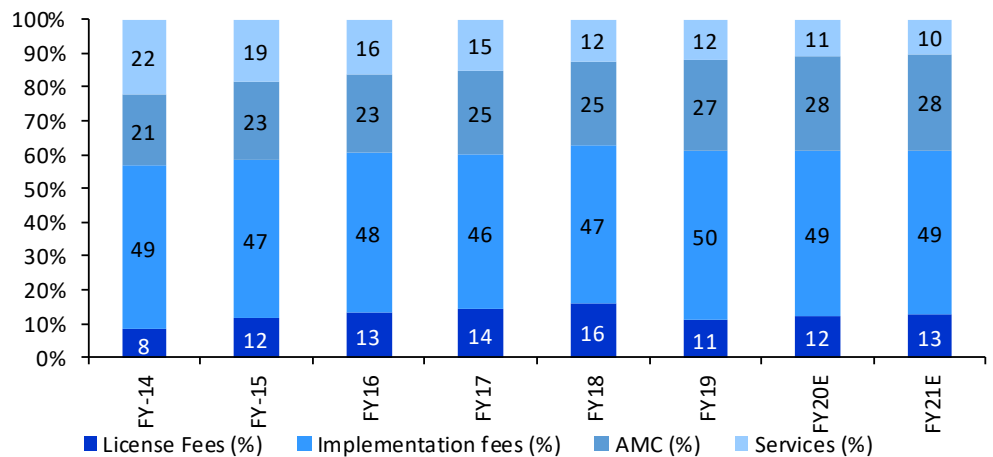
Source: Company, DART

Exhibit 3: Key assumption in our estimates

Metrics	FY20E	FY21E
Licence revenue signed (US\$ mn)	92.0	105.0
INR revenue growth (%)	6.4	9.2
EBIT margin (%)	43.2	43.9
EPS growth (%)	6.2	11.9
USD/INR	69.5	69.5

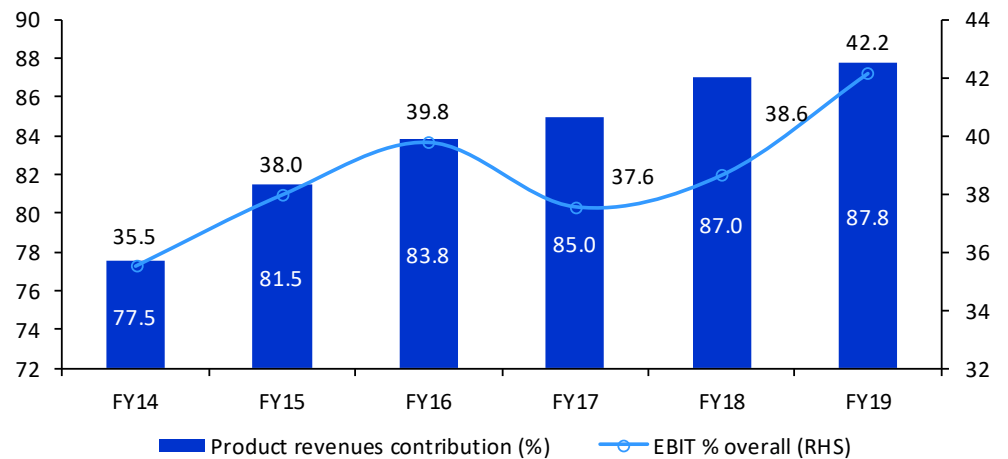
Source: Company, DART

Exhibit 4: Revenue mix trends



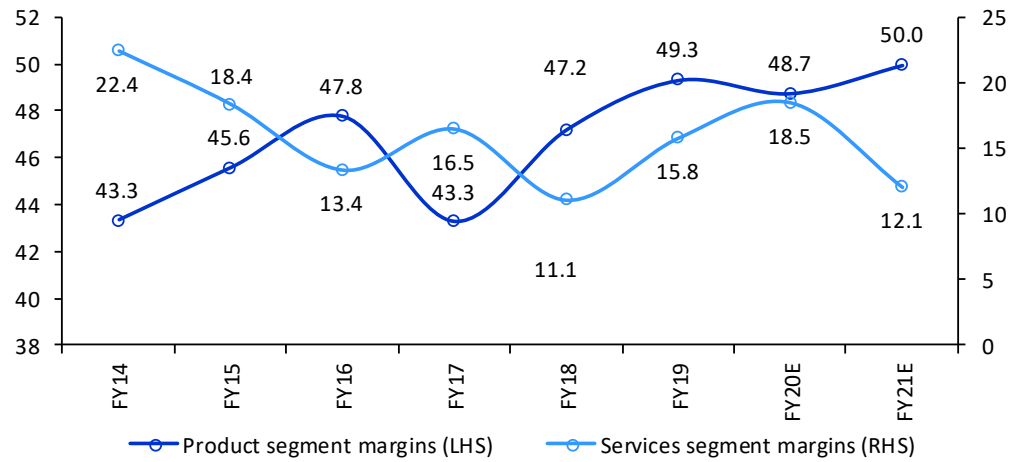
Source: Company, DART

Exhibit 5: Higher product revenue leading improvement in OPM



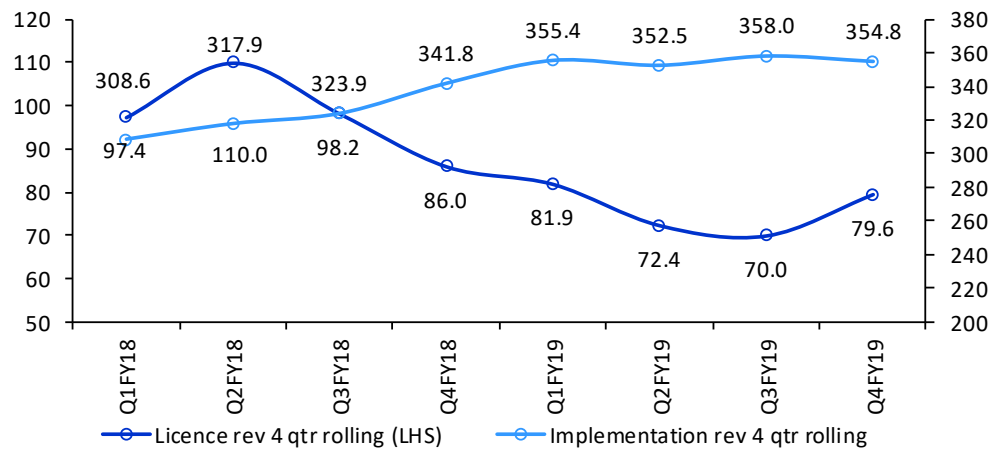
Source: Company, DART

Exhibit 6: Segmental margin comparison



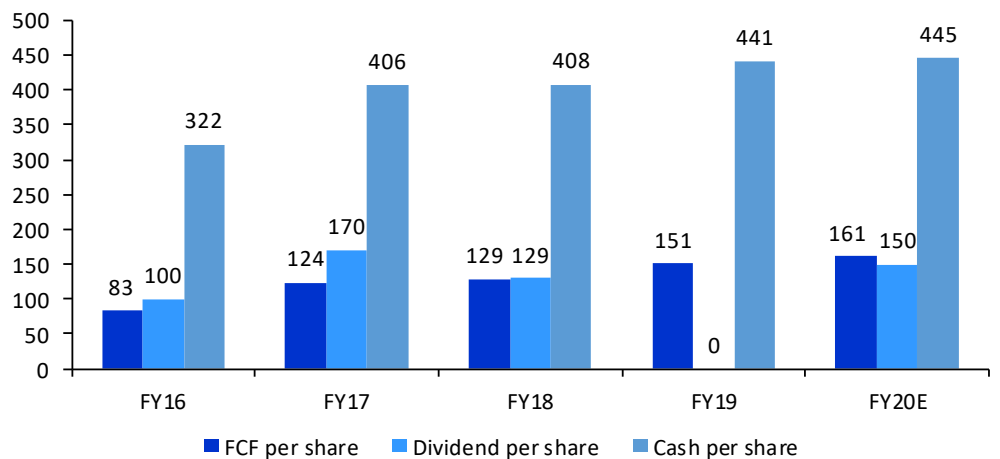
Source: Company, DART

Exhibit 7: License and implementation revenues on 4-quarter rolling basis



Source: Company, DART

Exhibit 8: Dividend to go up with FCF



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	45,275	49,589	52,753	57,605
Total Expense	27,163	28,143	29,246	31,686
COGS	20,992	21,958	23,123	24,834
Employees Cost	0	0	0	0
Other expenses	6,171	6,185	6,123	6,852
EBIDTA	18,113	21,447	23,507	25,920
Depreciation	615	537	740	650
EBIT	17,498	20,909	22,767	25,270
Interest	0	0	0	0
Other Income	907	1,761	1,424	1,442
Exc. / E.O. items	0	0	0	0
EBT	18,405	22,670	24,191	26,712
Tax	6,034	8,811	9,452	10,224
RPAT	12,371	13,859	14,739	16,487
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	12,371	13,859	14,739	16,487

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	427	429	429	430
Minority Interest	0	0	0	0
Reserves & Surplus	46,647	48,937	48,370	48,001
Net Worth	47,074	49,365	48,799	48,431
Total Debt	1,302	1,335	1,419	1,508
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	48,376	50,700	50,218	49,939

Applications of Funds

Net Block	8,267	8,537	8,346	8,296
CWIP	26	5	5	5
Investments	8,497	9,567	9,996	10,445
Current Assets, Loans & Advances	42,542	43,206	42,961	42,924
Inventories	0	0	0	0
Receivables	10,075	9,475	9,250	9,943
Cash and Bank Balances	26,461	28,280	28,259	27,530
Loans and Advances	0	0	0	0
Other Current Assets	6,006	5,452	5,452	5,452
Less: Current Liabilities & Provisions	10,956	10,614	11,089	11,731
Payables	646	568	443	476
Other Current Liabilities	10,309	10,047	10,646	11,255
sub total				
Net Current Assets	31,586	32,592	31,871	31,193
Total Assets	48,376	50,700	50,218	49,939

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	53.6	55.7	56.2	56.9
EBIDTA Margin	40.0	43.2	44.6	45.0
EBIT Margin	38.6	42.2	43.2	43.9
Tax rate	32.8	38.9	39.1	38.3
Net Profit Margin	27.3	27.9	27.9	28.6
(B) As Percentage of Net Sales (%)				
COGS	46.4	44.3	43.8	43.1
Employee	0.0	0.0	0.0	0.0
Other	13.6	12.5	11.6	11.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	81	70	64	63
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	5	4	3	3
Working Capital days	255	240	221	198
FA T/O	5.5	5.8	6.3	6.9
(D) Measures of Investment				
AEPS (₹)	143.7	161.0	171.2	191.5
CEPS (₹)	150.8	167.2	179.8	199.0
DPS (₹)	128.9	0.0	149.6	164.7
Dividend Payout (%)	89.7	0.0	87.4	86.0
BVPS (₹)	546.7	573.3	566.7	562.4
RoANW (%)	31.0	28.7	30.0	33.9
RoACE (%)	30.0	28.0	29.2	32.9
RoAIC (%)	116.8	94.3	102.6	113.9
(E) Valuation Ratios				
CMP (₹)	3260	3260	3260	3260
P/E	22.7	20.3	19.0	17.0
Mcap (₹ Mn)	280,698	280,698	280,698	280,698
MCap/ Sales	6.2	5.7	5.3	4.9
EV	255,539	253,753	253,857	254,676
EV/Sales	5.6	5.1	4.8	4.4
EV/EBITDA	14.1	11.8	10.8	9.8
P/BV	6.0	5.7	5.8	5.8
Dividend Yield (%)	4.0	0.0	4.6	5.1
(F) Growth Rate (%)				
Revenue	2.3	9.5	6.4	9.2
EBITDA	4.5	18.4	9.6	10.3
EBIT	5.2	19.5	8.9	11.0
PBT	4.7	23.2	6.7	10.4
APAT	4.3	12.0	6.3	11.9
EPS	4.3	12.0	6.3	11.9
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	11,371	13,672	14,362	15,313
CFI	(13,528)	2,208	923	813
CFF	(16,297)	(12,497)	(15,305)	(16,856)
FCFF	11,073	12,933	13,812	14,713
Opening Cash	25,915	8,061	11,563	11,542
Closing Cash	8,061	11,563	11,542	10,813

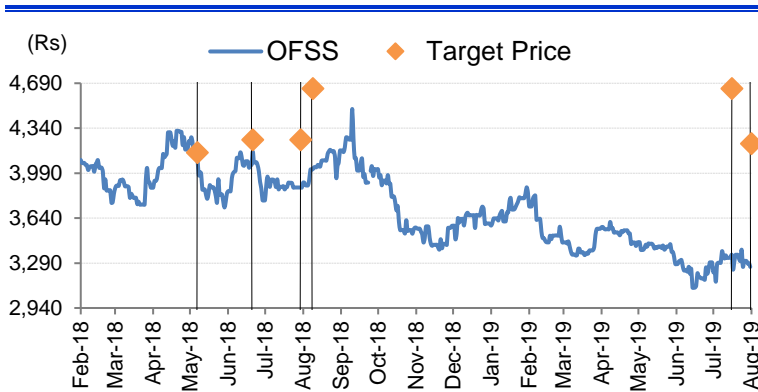
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
May-18	Reduce	4,150	4,106
Jun-18	Reduce	4,250	4,158
Aug-18	Reduce	4,250	3,878
Aug-18	Accumulate	4,650	4,022
Jul-19	Buy	4,650	3,353

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP – Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager – Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
