

Oracle Financial Services Software

Buy



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Management strategy and key highlights of FY20

Technology trends in the financial services industry: Management believes that the banking industry in the next decade will enter a new phase of **hyper-scale connectivity**. This connectivity will go far beyond today's mobile revolution and will involve complex networks and ecosystems of banks, firms, devices, and humans. Along with this the **Cloud adoption** is also gaining popularity in the financial services industry as it is helping in both reductions in costs and tool to drive growth of the business. The **Application Programming Interface** economy offers banks the opportunity to commercialize resources like data, services and other capabilities to directly create business value. As the API economy continues to evolve, Open Banking capabilities will increasingly become table stakes for banks. OFSS has about **1600 API interfaces** with its product offerings. These capabilities will enable them to sell and deliver improved products, services, and experiences, access existing and new customers, tap new markets and drive revenue growth.

Financial Performance improving gradually

During the year, revenues declined by 2% at Rs 48bn but saw continued improvement in profitability by 149bps at 43.7%. The company has signed about US\$76mn in new license sales during the year – 7% lower on YoY basis. The performance was bit impacted during the year given weak spending environment amid fears around weakening economic growth and declining interest rates globally. However, going forward we believe the increased adoption of technology by banks to help in growth revival for the company in coming years.

Remaining performance obligation up 8%; AMC revenues up 7%

The AMC revenues stood at Rs14bn marking a growth of about 7% on YoY basis. The total remaining performance obligations (RPO) as of FY20 stands at Rs 13.5bn up 5% YoY; while RPO for next twelve month stands at Rs 9.2bn up 8% YoY. RPO covers just ~20% of the revenue run rate however, this only includes partial value for AMC contracts. Actual visibility for the year is higher as AMC revenues stands at Rs 14bn (up 7% YoY) and historically has seen near zero churning.

Dividend reinstated; healthy payout to sustain

Company announced Rs180 per share as Dividend for FY20, almost 105% of its FCF. The company still have cash and equivalent of about Rs44bn as of FY20 and has very little investment needs towards Working Capital (no incremental investments over FY17-20)/Capex (average annual spend is about Rs 0.5bn). Thus, we remain optimistic on sustained high payouts and that would add about 5%+ to total shareholder returns.

Dart View: Remain positive with a Buy rating

Generous dividend (implies 6% yield), improving profitability (up 150bps in FY20), potential acceleration in digital transformation and compelling valuations at 18x on trailing earnings makes a strong case for re-rating of the stock. Encouraged by the large prospects of Core modernization theme, relative stability in BFS spends and its high FCF yields of 6%, we continue to maintain our Buy rating on the stock with a DCF based TP of Rs 3,500 per share (implies 19x on FY22E PER basis)

| | |
|-----------------|----------------|
| CMP | Rs 3,191 |
| Target / Upside | Rs 3,500 / 10% |
| BSE Sensex | 37,441 |
| NSE Nifty | 11,022 |

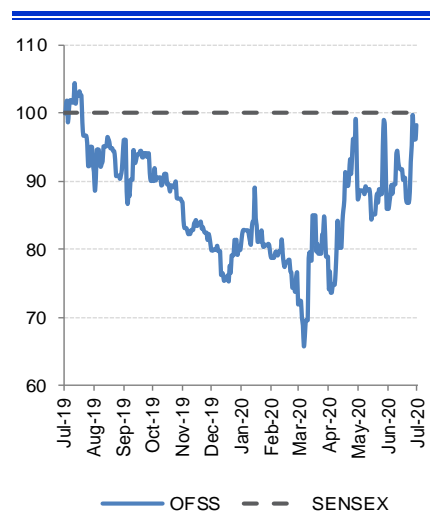
Script Details

| | |
|------------------|-------------------|
| Equity / FV | Rs 429mn / Rs 5 |
| Market Cap | Rs 275bn |
| | USD 4bn |
| 52-week High/Low | Rs 3,419/Rs 1,506 |
| Avg. Volume (no) | 59,923 |
| NSE Symbol | OFSS |
| Bloomberg Code | OFSS IN |

Shareholding Pattern Mar'20(%)

| | |
|-----------------|------|
| Promoters | 73.4 |
| MF/Banks/FIs | 5.5 |
| FIIs | 13.9 |
| Public / Others | 7.2 |

OFSS Relative to Sensex



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Business Overview

As the year closed, Company faced the unprecedented disruption due to global COVID-19 pandemic. The Company proactively switched to work from home to keep employees safe and avoid exposure. This was the time when the customers had joined the battle with the local government in respective countries and needed a support. Company's sales and services have increasingly taken on a digital format, while company's robust infrastructure, business continuity programs and most importantly employees have ensured that company deliver their customer commitments with minimal disruptions.

COVID impact: With processes that support the delivery of products, services, and software from anywhere, anytime, Oracle financial services has helped customers alleviate the negative impact of the pandemic. While the uncertainty due to COVID-19 continues, company's value proposition remains very relevant and even more so as the economic recovery begins. No work got impacted due to transitioning to WFH. OFSS's Infrastructure has always been robust and capable for WFH model. Company follows 'Anytime, anywhere' working model in a very secure manner. The company witnessed some of the largest implementations going live in record timelines during Pandemic.

Pipeline remains healthy: The company has witnessed some short term delays in demand or License signings for logistical factors such as need for 'in-person meetings, as well as slower decision making at the moment; but these are not fundamentally adverse factor. Overall Pipeline largely remain intact and should see better conversions in coming months as activity level goes up in the economy. Client conversations are on but it is too short a period to conclude any trend or behavior. And too premature to call out any view as big part of the demand today in any business is more of an immediate remediating reactions and not representing true demand. The only thing is that the organizations need to remain nimble to take on the opportunities as they evolve. Also, I case deals get pushed off to next quarter there is no revenue loss as License revenue opportunity remain same for the client.

Product offerings details and innovation

The Company has been at the forefront of innovation to ensure the customers stay ahead in today's shifting business landscape.

- The company introduced machine learning frameworks, included Chatbots and built Internet of Things (IoT) capabilities into several products. The company also received a patent for "Computerized Transaction Management Module for Blockchain Networks" that allows Oracle FLEXCUBE customers to instantly utilize the power of Blockchain.
- The Financial Crime and Compliance Management and Anti-Money Laundering portfolio was enhanced with new capabilities and solutions, leveraging machine learning for analytical capabilities, Robotic Process Automation (RPA) for workflows, and graphic analytics for the visualization of networks. These offerings are setting a new industry standard and turning compliance into a competitive advantage for banks.

Following are the detailed summary and functionalities of different product offered by OFSS

Exhibit 1: Product Offerings - OFSS

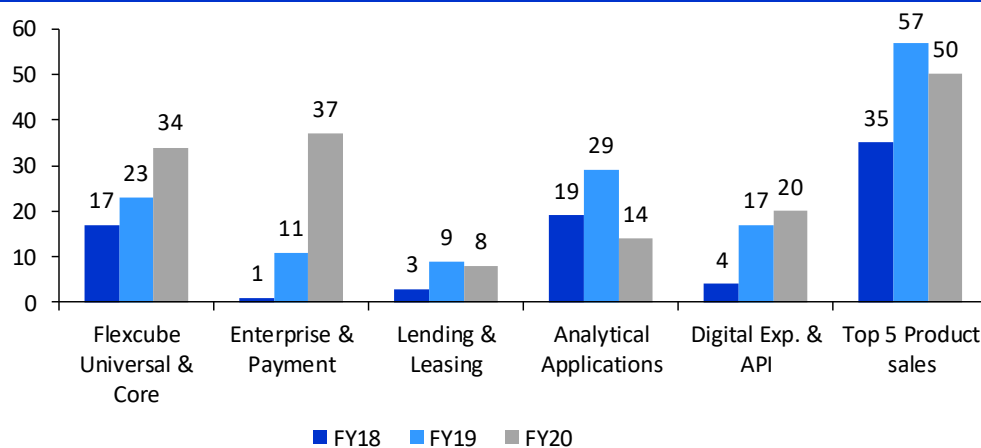
| Product | Functionality |
|--|--|
| Oracle FLEXCUBE | Complete banking platform for retail, corporate and investment banking, consumer lending, asset management, and investor servicing including payments. |
| OFS Analytical Applications (OFSA) | Suite of industry leading applications catering to the critical areas of Risk, Finance, Treasury, Front office, Regulatory Reporting and Compliance, including the areas of Financial Crime. |
| Analytical Applications Infrastructure | Ability to address regulatory needs, real-time responsiveness and complex decision support systems for financial institutions. |
| Financial Crime and Compliance Management (FCCM): | Key offerings span across the entire financial crime and compliance management value chain including streamlined Know Your Customer checks and Sanctions screening, Anti Money Laundering (AML) Transaction Monitoring and Detection, efficient Enterprise Case Management, timely Compliance Regulatory Reporting and Mgmt dashboards. |
| Enterprise Risk Management: | Managing risk across Treasury with integrated solutions covering interest rate risk, liquidity risk and funds transfer pricing. Improving forecasting and predictive modelling capabilities thru pre-built models that leverage AI-ML methods. |
| Analytical Applications for Customer Insight: | Suite of products comprise of Banking & Insurance Performance Analytics and Retail Customer Analytics products which are front office applications aimed at promoting top-line growth through data driven insights into customer behaviour. |
| Digital Experience | Brings new comprehensive capabilities to banks seeking a digital transformation, customer and product acquisitions, business services, including payments innovation and customer financial insight through digital account and loan origination, digital wallets and mobile payments. |
| Oracle Banking APIs: | Enable banks to build seamless partnerships with third-party technology organizations, easily integrate with corporate client applications and reduce the time between API ideation and delivery. |
| Liquidity Management: | Enables banks to run a centralized liquidity management solution. The solution supports traditional liquidity management methods like pooling and sweeping as also the advanced methods such as interest optimization. |
| Virtual Account Management | Provides comprehensive support for banks to enable their corporate customers to manage their banking accounts efficiently. |
| Corporate Lending | The solution enables easy integration with banks' internal and external systems of customers, partner banks and agencies which supports open interface (Open API) standards and eliminates processing overheads to deliver a faster loan processing. |
| Corporate Lending Process Management | Its flexible servicing capabilities enables banks to undertake revolving and non-revolving commitments, manual and automated payments, flexible rollover options and multiple types of disbursement facilities. Banks can now easily close loans with an efficient workflow that ensures settlements and legal proceeding are undertaken smoothly. |
| Credit Facilities Process Management | Solution allows for periodic re-evaluation of collaterals and customers' credit worthiness throughout the credit lifecycle. Banks can also proactively track utilizations, collateral leverages, credit and risk scores, and covenants to ensure compliance requirements. |
| Enterprise Limits and Collateral Mgmt | It enables centralized collateral management, limits definition, tracking and exposure measurement for effective exposure management and resource utilization. |
| Trade Finance Process Mgmt | Banks can help corporates improve their trade service quality levels, expand trade operations to a global scale and ensure compliance with regulatory requirements without incurring additional costs. |
| Supply Chain Finance | Is a comprehensive digitized end-to-end solution that supports the full lifecycle of supply chain finance across receivables and payables offering supplier centric financing and buyer centric financing. |
| Oracle Banking Payments | helps financial institutions improve straight through processing, support real-time and immediate payment settlement, and reduce time-to-market. |
| Lending and Leasing | The solution supports complete consumer lending operations and lifecycle processing from origination to servicing, collections, delivering accurate, actionable information from a single data source to help lending institutions make faster. |
| FLEXCUBE Investor Servicing | It helps manage the complete fund lifecycle and reduce operational costs through process automation across fund structures, intermediary hierarchies, and investors. |
| Oracle Banking Platform | The solution can also help to reduce in-house integration and testing efforts, ultimately, reducing IT costs and improving time-to-market. |
| Enterprise Product Manufacturing | helps banks create innovative products faster, add features to existing products, and set prices based on customer relationships. By designing differentiated product bundles, banks can optimize their product portfolio. |
| Enterprise Collections | The solution enables institutions in 55 identification of delinquent accounts, accurate tracking and monitoring of delinquent accounts with high standards of efficiency. |
| Enterprise Originations | The solution operates across channels, providing a common origination process for both assisted and self-service customers. |

Source: Company, DART

Deal highlights for the year

Deal wins in FY20: OFSS announced about 51 new deals in FY20 (12 of them in Q4) as against 57 deals in FY19. The deals wins were across its product offerings but bulk of them were in Corporate banking solutions. Analytics and Digital Experience continued to remain in traction as OFSS added about 14/20 deals featuring these products, respectively. 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. We expect momentum in deal signings to see further deceleration given near term travel restrictions and potential cash-conservation plans by banks in near term. The company has also signed an OBP deal in the quarter wherein we need to seek more clarity in terms of whether this deal is Net new or new order from existing bank.

Exhibit 2: Total Deal Wins - Product wise



Source: Company, DART, *Product count differs because some deals are for multi products

OFSS has serviced in all 1400 customers (financial institutions) including top banks in US, Japan, Australia, Europe, APAC and Africa. The total countries served is 155. Following are some of the deals that company has shared during the year.

- **A regional bank in Africa** signed a multi-country enterprise deal.
- **LAPO Microfinance Bank**, Nigeria's largest microfinance bank with four million customers, is implementing FLEXCUBE as well as Oracle Banking Digital Experience, Oracle Banking Payments and Oracle Financial Services Analytical Applications.
- **Central Bank of Libya in Tripoli**, which includes four of Libya's public sector banks, is also upgrading its current FLEXCUBE solution.
- **A leading Canadian bank** has extended its relationship with Oracle by signing a deal for Oracle Financial Services Analytical Applications. A top Australian bank has extended its relationship with Oracle by signing a deal for Oracle Banking Platform.
- **My Bucks Banking Corporation**, a new banking entity in Malawi, has invested in the latest banking technology by signing a deal for Oracle FLEXCUBE Universal Banking and Oracle Banking Digital Experience.
- **Westlake Financial Services**, a Southern California based finance company has extended its relationship by Signing a deal for Oracle Financial Services Lending and Leasing for servicing and collection of loans.

Exhibit 3: Key Changes during the year

| | |
|-----------------------|---|
| Key Management | Induction: Mohamed Yacob appointed as legal counsel. Exited: Prajakt Deshpande was VP Software Development. |
| Directors | The following person was appointed as additional director of the company Makarand Padalkar , Chief Financial, was appointed as a Whole-time Director & Chief Financial Officer w.e.f. May 9, 2019 |
| Auditors | No Change. M/s. Mukund M. Chitale & Co., Chartered Accountants continues to be the Auditors of the company. |
| Credit Ratings | The Company does not carry any debt and is not required to obtain a credit rating. |
| Pledged Shares | No Change |

Source: Company, DART

Exhibit 4: KMP Remuneration

| Particulars of Remuneration | Whole time Director/Manager | |
|-----------------------------|-----------------------------|-------------------|
| | Chaitanya Kamat | Makarand Padalkar |
| Gross Salary (Rs nb) | 44 | 32 |
| Stock Option (Number) | 40000 | 11250 |
| As a % of Net Income | 0.3 | 0.2 |

Source: Company, DART

ESOP: Total of about 0.1mn shares were issued as ESOPs during the year.

Exhibit 5: Shareholding pattern

| Category of Shareholder (%) | FY2019 | FY2020 |
|---|--------|--------|
| Promoters | 73.5 | 73.4 |
| i) Foreign | | |
| Public Shareholding | 26.5 | 26.6 |
| i) Mutual Funds | 3.3 | 3.5 |
| ii) Banks/Financial Institutions | 2.1 | 2.4 |
| iii) Central Govt. State Govt | | |
| iv) Alternative Investment Funds | | |
| v) Foreign Bank | 0.0 | 0.0 |
| v) FPI | 13.8 | 13.5 |
| Vi) FIIs | | |
| vi) Insurance Companies | 0.0 | 0.4 |
| vi) Non-Institutions | 7.2 | 6.8 |
| Shares held by custodians for GDRs and ADRs | 0.0 | 0.0 |
| Total | 100.0 | 100.0 |

Source: Company, DART

Financial Analysis

- **Product wise Geographic Growth:** India (7% of rev) de-grew 1% YoY. USA (21% of rev) de-grew 19% YoY, Rest of America (7% of rev) de-grew 15% YoY. Asia Pacific (28% of rev) de-grew 15% YoY, Europe (17% of rev) de-grew 10% YoY, Middle East (20% of rev) de-grew 20% YoY in USD terms.
- **Service wise geography growth:** USA (72% of rev) de-grew 9% YoY, Asia Pacific (9% of rev) de-grew 5% YoY, Europe (14% of rev) de-grew 34% YoY, Middle East (3% of rev) de-grew 37% YoY in USD terms.
- **Service business growth:** License fees (13% of rev) de-grew 8% YoY, AMC (32% of rev) de-grew 13% YoY, Consulting fees (55% of Rev) de-grew 18% YoY which constitute Fixed price (29% of Rev) de-grew 21% YoY and T&M (15.6% of rev) de-grew 15% YoY in USD terms.
- **Product business growth:** Fixed price (25% of rev) de-grew 15% YoY, Time and Material business (75% of rev) de-grew 15% YoY.
- **EBIT Margin** improved by 200bps to 44% for the full year.
- **Net profit** declined by 9% YoY to INR 10 bn. Net Profit margin declined by 200bps YoY to 26%.
- **Total employees** in FY20, were 8,001 vs. 8,054 in FY19 including employees of subsidiaries a reduction of 0.7% in total employees over previous year. Attrition rate on TTM basis stands at 21% v/s 20% (FY19).

Balance Sheet Analysis

- **Deferred Tax asset** increased by 64% YoY to INR 1bn FY20. Due to absence of Tax on undistributed profits.
- **Cash & Cash equivalents** and other bank balances have increased by 59% YoY to INR 44bn FY20 an increase of INR 16bn in absolute terms.
- **Billed DSO** largely remained stable at 70 days' v/s 69 days (FY19). Unbilled Revenue stood at INR 2.1bn (down 29.5% YoY). Unbilled DSO stands at 29 days v/s 33 days. Billed + Unbilled DSO stands at 98 days' v/s 102 days (FY19).
- Oracle financial services issued about 0.1 shares in **ESOPs**.
- **Networth** stood at Rs65bn, accreting about Rs16.3mn during the year (skipped dividend for FY19).
- Also, announced annual **dividend of Rs180** per share and thus cash position will get altered by Rs15bn in Q1FY21. There was no dividend paid for FY19 – thus cash addition for the year is higher than usual.

Cash Flow Analysis

- Net Cash Flow from Operating Activities grew by 10% to 15.2 bn in FY20. **Operating cash flows** were at 104% v/s 100% in FY19 and free cash flows were at 100% v/s 94% in FY19 of Net income for the year. The **Free cash flow** to operating cash flow stands at 96% v/s 95% in (FY19).
- **Capital expenditure** decreased to INR 0.53bn v/s 0.73bn a decrease of 0.26bn on absolute terms.
- **Cashflow generation** remains strong in FY20 as well, with Net Income growth of 5.5% and working capital cycle of about 40 days that is equivalent to about 36% pf Net Income.
- **FCF generation** was also strong at Rs14.6bn given modest Capex of Rs535mn during the year. FCF/NI stood at 100% (LY 94%).

Exhibit 6: Cash flow and Capital deployed

| Cash-flow and Capital deployed | FY20 | FY19 | Change Abs |
|------------------------------------|-------------|-------------|-------------------|
| Cashflow Data (Rs mn) | | | |
| OCF | 15,218 | 13,796 | 1422 |
| FCF | 14,683 | 13,057 | 1626 |
| Net Income | 14,622 | 13,859 | 763 |
| | FY20 | FY19 | Change bps |
| OCF/Net Income | 104 | 100 | 453 |
| FCF/Net Income | 100 | 94 | 620 |
| FCF/OCF | 96 | 95 | 184 |
| Working Capital | | | |
| WC Days (ex Cash) | (33) | (40) | (7) |
| Billed Receivables days | 69 | 70 | 0 |
| Unbilled Receivables days | 29 | 33 | (4) |
| Total DSO | 98 | 102 | (4) |
| Payable days | 5 | 7 | (2) |
| Other current liabilities | 126 | 130 | (4) |
| Working Capital (absolute – Rs mn) | 5327 | 4312 | 1015 |
| Fix Assets (Rs mn) | | | |
| Capex | (535) | (739) | 204 |
| Goodwill | 6087 | 6087 | 0 |

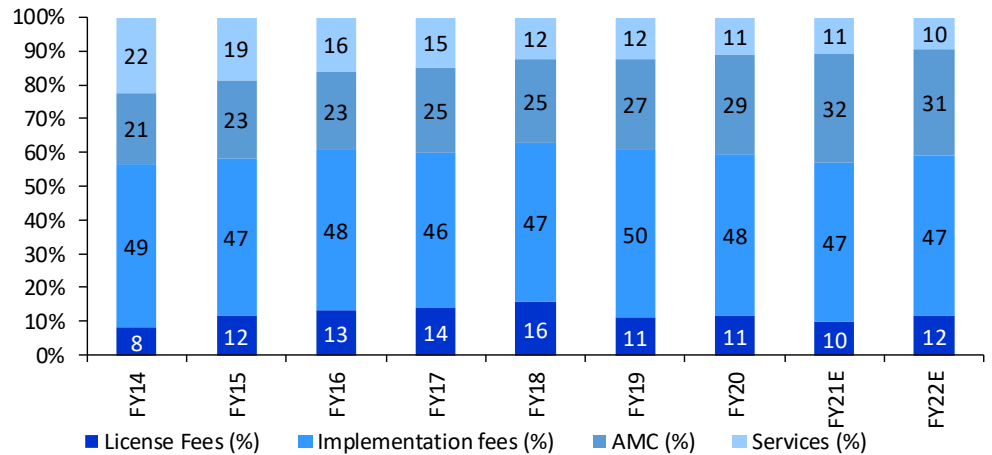
Source: Company, DART

Exhibit 7: Quarterly and Full year performance trends

| (Rs mn) | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | YoY (%) | QoQ (%) | FY19 | FY20 | YoY (%) |
|-------------------------|--------|--------|--------|--------|--------|--------------|--------------|--------|--------|---------|
| Revenues(USD mn) | 172.8 | 183.5 | 164.9 | 162.9 | 173.6 | 0.5 | 6.6 | 712.4 | 684.9 | (3.9) |
| Revenue | 12,149 | 12,751 | 11,625 | 11,601 | 12,635 | 4.0 | 8.9 | 49,589 | 48,613 | (2.0) |
| Operating Exp. | 6,931 | 6,563 | 6,441 | 6,339 | 6,983 | 0.8 | 10.2 | 28,143 | 26,326 | (6.5) |
| Cost of revenues | 5,328 | 5,130 | 5,298 | 5,214 | 5,535 | 3.9 | 6.2 | 21,958 | 21,178 | (3.6) |
| as % of sales | 43.9 | 40.2 | 45.6 | 44.9 | 43.8 | | | 44.3 | 43.6 | |
| SG&A expenses | 1,603 | 1,433 | 1,142 | 1,125 | 1,448 | (9.7) | 28.7 | 6,185 | 5,148 | (16.8) |
| as % of sales | 13.2 | 11.2 | 9.8 | 9.7 | 11.5 | | | 12.5 | 10.6 | |
| EBITDA | 5,219 | 6,188 | 5,184 | 5,262 | 5,652 | 8.3 | 7.4 | 21,447 | 22,287 | 3.9 |
| Depreciation | 162 | 265 | 256 | 268 | 274 | | | 537 | 1,064 | 98.0 |
| EBIT | 5,056 | 5,923 | 4,928 | 4,994 | 5,378 | 6.4 | 7.7 | 20,909 | 21,223 | 1.5 |
| Other Income | 613 | 293 | 435 | 596 | (25) | (104.0) | (104.1) | 1,761 | 1,299 | (26.2) |
| PBT | 5,670 | 6,216 | 5,363 | 5,589 | 5,354 | (5.6) | (4.2) | 22,670 | 22,522 | (0.7) |
| Total Tax | 2,410 | 2,442 | 1,775 | 1,022 | 2,661 | 10.5 | 160.4 | 8,811 | 7,901 | (10.3) |
| Adjusted PAT | 3,260 | 3,774 | 3,588 | 4,567 | 2,692 | (17.4) | (41.1) | 13,859 | 14,622 | 5.5 |
| APAT after MI | 3,260 | 3,774 | 3,588 | 4,567 | 2,692 | (17.4) | (41.1) | 13,859 | 14,622 | 5.5 |
| Reported EPS | 37.9 | 43.8 | 41.7 | 53.2 | 31.4 | (17.2) | (41.0) | 161.4 | 170.0 | 5.3 |
| Margins (%) | | | | | | (bps) | (bps) | | | |
| EBIDTA | 43.0 | 48.5 | 44.6 | 45.4 | 44.7 | 178 | (62) | 43.2 | 45.8 | 260 |
| EBIT | 41.6 | 46.5 | 42.4 | 43.0 | 42.6 | 95 | (48) | 42.2 | 43.7 | 149 |
| EBT | 46.7 | 48.7 | 46.1 | 48.2 | 42.4 | (430) | (581) | 45.7 | 46.3 | 61 |
| PAT | 26.8 | 29.6 | 30.9 | 39.4 | 21.3 | (553) | (1,806) | 27.9 | 30.1 | 213 |
| Effective Tax rate | 42.5 | 39.3 | 33.1 | 18.3 | 49.7 | 721 | 3,142 | 38.9 | 35.1 | (379) |

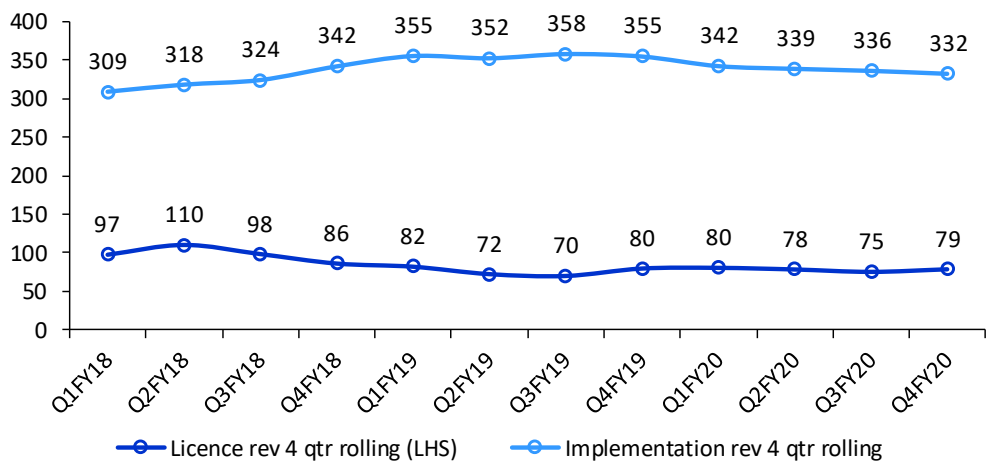
Source: Company, DART

Exhibit 8: Revenue Mix trends



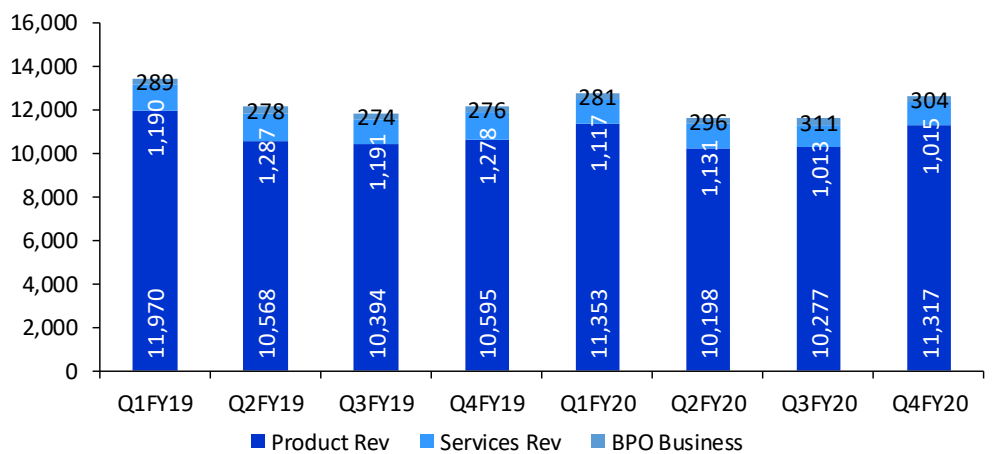
Source: DART, Company

Exhibit 9: License/Implementation – 4 quarter rolling basis



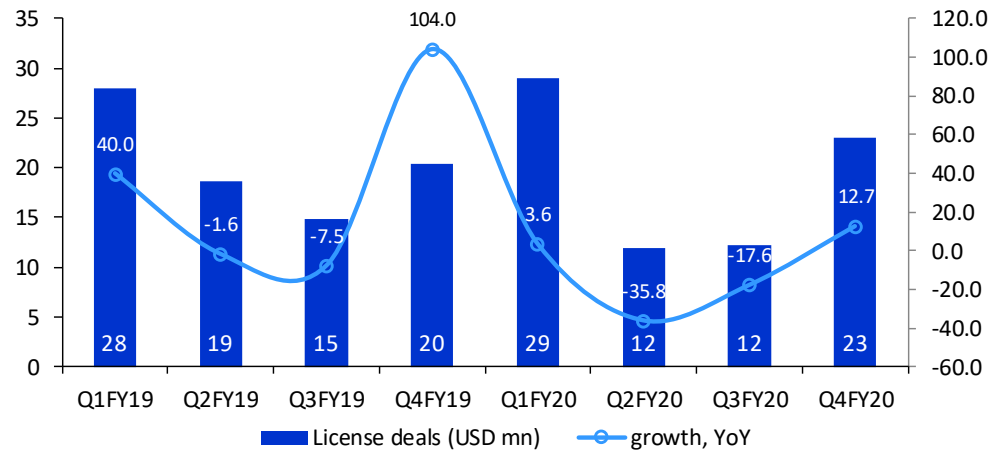
Source: DART, Company

Exhibit 10: Segmental Revenue breakup



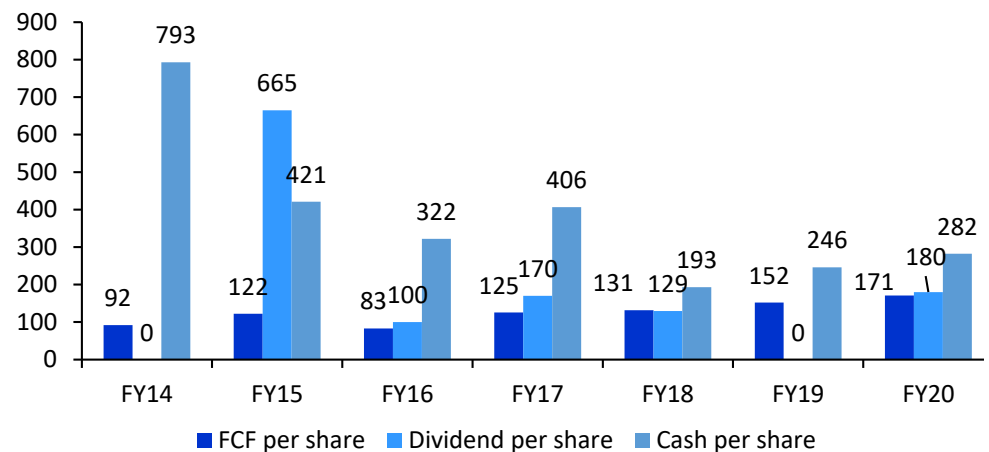
Source: DART, Company

Exhibit 11: License deal win momentum strong in Q4



Source: DART, Company

Exhibit 12: Dividend payouts to get revived as robust FCF generations continues



Source: Company, DART

Exhibit 13: Segmental performance

| Segmental Reporting | FY20 | FY19 | YoY (%) |
|-----------------------------|-------|-------|---------|
| Revenues (Rs mn) | | | |
| Products | 43146 | 43527 | (1) |
| Services | 4276 | 4946 | (14) |
| BPO | 1191 | 1117 | 7 |
| EBIT (Rs Mn) | | | |
| Products | 21359 | 21466 | 0 |
| Services | 779 | 636 | 22 |
| BPO | 388 | 323 | 20 |
| EBIT Margin (%) | | | |
| Products | 50 | 49 | 0.4 |
| Services | 18 | 13 | 42 |
| BPO | 33 | 29 | 13 |
| Revenue Contribution | | | |
| Products | 88 | 88 | 0.0 |
| Services | 10 | 10 | 0.0 |
| BPO | 2 | 2 | 0.0 |

Source: Company, DART

Profit and Loss Account

| (Rs Mn) | FY19A | FY20A | FY21E | FY22E |
|--|---------------|---------------|---------------|---------------|
| Revenue | 49,589 | 48,613 | 48,024 | 52,621 |
| Total Expense | 28,143 | 26,326 | 27,566 | 29,535 |
| COGS | 21,958 | 21,178 | 22,204 | 23,185 |
| Employees Cost | 0 | 0 | 0 | 0 |
| Other expenses | 6,185 | 5,148 | 5,362 | 6,350 |
| EBIDTA | 21,447 | 22,287 | 20,459 | 23,086 |
| Depreciation | 537 | 1,064 | 885 | 1,010 |
| EBIT | 20,909 | 21,223 | 19,574 | 22,076 |
| Interest | 0 | 0 | 0 | 0 |
| Other Income | 1,761 | 1,299 | 666 | 780 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 22,670 | 22,522 | 20,239 | 22,856 |
| Tax | 8,811 | 7,901 | 6,072 | 6,857 |
| RPAT | 13,859 | 14,622 | 14,168 | 15,999 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Profit/Loss share of associates | 0 | 0 | 0 | 0 |
| APAT | 13,859 | 14,622 | 14,168 | 15,999 |

Balance Sheet

| (Rs Mn) | FY19A | FY20A | FY21E | FY22E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 429 | 429 | 429 | 430 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 48,937 | 65,266 | 63,926 | 63,066 |
| Net Worth | 49,365 | 65,696 | 64,355 | 63,496 |
| Total Debt | 1,335 | 5,058 | 5,192 | 5,337 |
| Net Deferred Tax Liability | 0 | 0 | 0 | 0 |
| Total Capital Employed | 50,700 | 70,753 | 69,548 | 68,833 |

Applications of Funds

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net Block | 8,537 | 9,526 | 9,241 | 8,866 |
| CWIP | 5 | 0 | 0 | 0 |
| Investments | 9,567 | 10,932 | 11,380 | 11,851 |
| Current Assets, Loans & Advances | 43,206 | 59,755 | 58,931 | 58,650 |
| Inventories | 0 | 0 | 0 | 0 |
| Receivables | 9,475 | 9,254 | 9,142 | 10,017 |
| Cash and Bank Balances | 11,563 | 13,316 | 12,603 | 11,448 |
| Loans and Advances | 0 | 0 | 0 | 0 |
| Other Current Assets | 22,168 | 37,186 | 37,186 | 37,186 |
| Less: Current Liabilities & Provisions | 10,614 | 9,460 | 10,005 | 10,535 |
| Payables | 568 | 355 | 426 | 445 |
| Other Current Liabilities | 10,047 | 9,105 | 9,579 | 10,091 |
| <i>sub total</i> | | | | |
| Net Current Assets | 32,592 | 50,295 | 48,925 | 48,115 |
| Total Assets | 50,700 | 70,753 | 69,548 | 68,833 |

E – Estimates

Important Ratios

| Particulars | FY19A | FY20A | FY21E | FY22E |
|---|---------|---------|---------|---------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 55.7 | 56.4 | 53.8 | 55.9 |
| EBIDTA Margin | 43.2 | 45.8 | 42.6 | 43.9 |
| EBIT Margin | 42.2 | 43.7 | 40.8 | 42.0 |
| Tax rate | 38.9 | 35.1 | 30.0 | 30.0 |
| Net Profit Margin | 27.9 | 30.1 | 29.5 | 30.4 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 44.3 | 43.6 | 46.2 | 44.1 |
| Employee | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 12.5 | 10.6 | 11.2 | 12.1 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.0 | 0.1 | 0.1 | 0.1 |
| Interest Coverage | | | | |
| Inventory days | 0 | 0 | 0 | 0 |
| Debtors days | 70 | 69 | 69 | 69 |
| Average Cost of Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Payable days | 4 | 3 | 3 | 3 |
| Working Capital days | 240 | 378 | 372 | 334 |
| FA T/O | 5.8 | 5.1 | 5.2 | 5.9 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 161.0 | 170.3 | 165.0 | 186.3 |
| CEPS (Rs) | 167.2 | 182.7 | 175.3 | 198.1 |
| DPS (Rs) | 0.0 | 150.0 | 150.0 | 165.2 |
| Dividend Payout (%) | 0.0 | 88.1 | 90.9 | 88.7 |
| BVPS (Rs) | 573.3 | 765.2 | 749.6 | 739.5 |
| RoANW (%) | 28.7 | 25.4 | 21.8 | 25.0 |
| RoACE (%) | 28.0 | 24.1 | 20.2 | 23.1 |
| RoAIC (%) | 52.6 | 44.0 | 34.2 | 38.6 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 3191 | 3191 | 3191 | 3191 |
| P/E | 19.8 | 18.7 | 19.3 | 17.1 |
| Mcap (Rs Mn) | 274,799 | 274,799 | 274,799 | 274,799 |
| MCap/ Sales | 5.5 | 5.7 | 5.7 | 5.2 |
| EV | 264,571 | 266,541 | 267,388 | 268,688 |
| EV/Sales | 5.3 | 5.5 | 5.6 | 5.1 |
| EV/EBITDA | 12.3 | 12.0 | 13.1 | 11.6 |
| P/BV | 5.6 | 4.2 | 4.3 | 4.3 |
| Dividend Yield (%) | 0.0 | 4.7 | 4.7 | 5.2 |
| (F) Growth Rate (%) | | | | |
| Revenue | 9.5 | (2.0) | (1.2) | 9.6 |
| EBITDA | 18.4 | 3.9 | (8.2) | 12.8 |
| EBIT | 19.5 | 1.5 | (7.8) | 12.8 |
| PBT | 23.2 | (0.7) | (10.1) | 12.9 |
| APAT | 12.0 | 5.5 | (3.1) | 12.9 |
| EPS | 11.0 | 5.8 | (3.1) | 12.9 |

Cash Flow

| (Rs Mn) | FY19A | FY20A | FY21E | FY22E |
|--------------|----------|----------|----------|----------|
| CFO | 13,796 | 15,218 | 14,730 | 15,558 |
| CFI | 2,208 | (13,841) | 66 | 145 |
| CFF | (12,497) | (474) | (15,508) | (16,859) |
| FCFF | 13,057 | 14,683 | 14,130 | 14,923 |
| Opening Cash | 8,061 | 11,563 | 13,316 | 12,603 |
| Closing Cash | 11,563 | 13,316 | 12,603 | 11,448 |

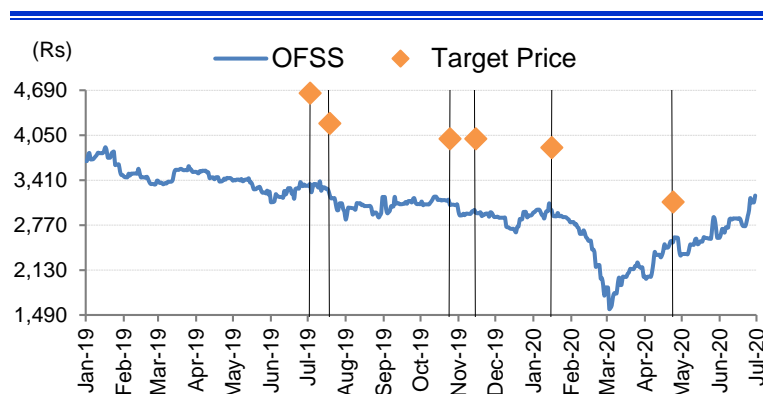
E – Estimates

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 (Rs.) | Price (Rs.) |
|--------|--------|----------|-------------|
| Jul-19 | Buy | 4,650 | 3,353 |
| Aug-19 | Buy | 4,220 | 3,199 |
| Nov-19 | Buy | 4,000 | 3,059 |
| Dec-19 | Buy | 4,000 | 2,951 |
| Feb-20 | Buy | 3,875 | 2,982 |
| May-20 | Buy | 3,100 | 2,526 |

*Price as on recommendation date

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| | | | |
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