

Digital acceleration drives stellar performance; beats on all count

- OFSS reported strong results beating on all counts with a revenue growth of 5% YoY at Rs 13.4bn (DE at Rs11.5bn). OPM for the quarter stood at 49.6% up 316bps YoY (up 700bps QoQ) significant beat to our estimate of 39.5%. PAT was up 27% YoY on higher other income (up 49% YoY) and reduced ETR of 32% (this is normalised rate now).
- Despite the travel restrictions and typical in-person behaviour in many markets; OFSS signed new Licences worth US\$29.5mn (highest over last 14 quarter) that included 15 new deals including 8 in developed markets (refer Exhibit 6) and also witnessed 22 go-lives during the quarter.
- Improved deal momentum led by Digital acceleration theme (Banks investing both on creating digital channels as well as towards innovative credit initiatives across globe post COVID), significant savings on cost due to remote operations (cumulatively saved about Rs490mn in Travel and Other expenses) could extend the overall earnings momentum significantly hereon.
- Global leadership in underpenetrated CBS business, unmatched access, superior technology, integrated & reliable offering would ensure that OFSS emerge as most preferred vendor in the segment. Superior pricing and brand appeal would mean stronger profitability, improved cash generation (FCF Yield 6%+) and generous pay-outs. We continue to maintain OFSS as our preferred pick with Buy rating on the stock with DCF based TP of Rs4000 (implies 19x on FY22E PER).

Signed \$29.5mn in new Licences; 15 deal spanning across 32 countries

OFSS added 15 new deals that included 20 different product modules with strong demand across product offerings – 5 Universal Banking, 5 Digital Experience, 3. The demand for Implementation & AMC (up 16% YoY, contributed ~29% revenues) revenues were led by strong demand from customers towards enhancement that were required on short notice given various innovative credit-norms initiated by Central Banks across the globe (Ex: Moratorium on loans, Credit guarantees by Central banks and so on). Overall Product revenues were up 5% YoY. Services revenues accounted for 10% of total revenues and were up 4% YoY.

Clocked best ever profitability at 49.6%

OFSS reported overall EBIT margins at 49.6% for the quarter led by improved growth momentum (Product margins stood at 56%) and significant savings on SG&A specifically towards Travel and Other Expenses. We expect half of these gains to sustain in near term.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	13,373	12,751	4.9	12,635	5.8
Total Expense	6,472	6,563	(1.4)	6,983	(7.3)
EBITDA	6,901	6,188	11.5	5,652	22.1
Depreciation	266	265	0.2	274	(3.0)
EBIT	6,635	5,923	12.0	5,378	23.4
Other Income	435	293	48.5	(25)	(1872.5)
Interest	0	0		0	
EBT	7,070	6,216	13.7	5,354	32.1
Tax	2,272	2,442	(7.0)	2,661	(14.6)
RPAT	4,798	3,774	27.1	2,692	78.2
APAT	4,798	3,774	27.1	2,692	78.2
			(bps)		(bps)
Gross Margin (%)	59.2	59.8	(56)	56.2	301
EBITDA Margin (%)	51.6	48.5	307	44.7	687
NPM (%)	35.9	29.6	628	21.3	1457
Tax Rate (%)	32.1	39.3	(715)	49.7	(1758)
EBIT Margin (%)	49.6	46.5	316	42.6	705

CMP	Rs 2,960
Target / Upside	Rs 4,000 / 35%
BSE Sensex	38,423
NSE Nifty	11,323

Scrip Details

Equity / FV	Rs 429mn / Rs 5
Market Cap	Rs 255bn
	US\$ 3bn
52-week High/Low	Rs 3,263/Rs 1,506
Avg. Volume (no)	49,093
NSE Symbol	OFSS
Bloomberg Code	OFSS IN

Shareholding Pattern Jun'20(%)

Promoters	73.4
MF/Banks/FIs	5.5
FII	13.9
Public / Others	7.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	17.4	14.9	14.0
EV/EBITDA	9.6	8.7	8.1
ROE (%)	25.4	25.9	27.5
RoACE (%)	24.1	24.1	25.5

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	48,613	52,618	57,865
EBITDA	22,287	24,731	26,449
PAT	14,622	17,009	18,163
EPS (Rs.)	170.3	198.1	211.5

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Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	13,373	11,583	12,182	15.5	9.8	Strong licence signings drove revenue beat
Sales	6,635	4,577	5,848	45.0	13.5	
EBIT	49.6	39.5	48.0	1,010 bps	160 bps	Stronger growth and significant cost savings in SG&A led to OPM beat
EBIT Margin (%)	4,798	3,297	4,386	45.5	9.4	
PAT	13,373	11,583	12,182	15.5	9.8	Strong licence signings drove revenue beat

Changes in Estimates

Given sustained demand environment for new Licence sales for the company despite travel restrictions, we believe the company may see some gains out of need for digital acceleration by Banks towards creating Digital channel and thus have built in higher growth rate for FY21/22E leading to revenue upgrade of about 10% in FY21/22E. higher growth and increased cost control would drive up profitability further up and as a result we have increased our EBIT margin estimate by 420/320bps for FY21/22E respectively; which has resulted in EPS upgrade of 20%/14% in FY21/22E.

Exhibit 2: Change in estimates

(Rs mn)	FY20	FY21E			FY22E		
	Actual	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	685	649	711	9.6	711	761	7.1
YoY growth (%)	(2.0)	(5.2)	3.8%		9.5%	7.1%	
Revenues	48,613	48,024	52,618	9.6	52,602	57,865	10.0
EBIT	21,223	19,574	23,660	20.9	21,893	25,339	15.7
EBIT Margin (%)	43.7	40.8	45.0		41.6	43.8	
Net profits	14,622	14,168	17,009	20.1	15,871	18,163	14.4
EPS (Rs)	169.7	164.4	197.4	20.1	184.2	210.8	14.4

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics	FY20	FY21E	FY22E
Licence revenue signed (US\$ mn)	76.2	88.0	101.5
INR revenue growth (%)	(2.0)	8.2	10.0
EBIT margin (%)	43.7%	45.0%	43.8%
EPS growth (%)	5.5	16.3	6.7
USD/INR	71.0	74.0	76.0

Source: Company, DART

Exhibit 4: Quarterly and TTM Performance Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	12M ending Q1FY20	12M ending Q1FY21
Revenues (in US\$ mn)	183	165	163	174	181	(1.5)	4.1	697	682
Revenue (inc. Fx gain)	12,751	11,625	11,601	12,635	13,373	4.9	5.8	48,891	49,234
Operating Expenditure	6,563	6,441	6,339	6,983	6,472	(1.4)	(7.3)	27,502	26,235
Cost of revenues	5,130	5,298	5,214	5,535	5,455	6.3	(1.4)	21,577	21,503
as % of sales	40	46	45	44	41			44	44
SG&A expenses	1,433	1,142	1,125	1,448	1,017	(29.0)	(29.8)	5,925	4,732
as % of sales	11	10	10	11	8			12	10
EBITDA	6,188	5,184	5,262	5,652	6,901	11.5	22.1	21,390	22,999
Depreciation	265	256	268	274	266			671	1,064
EBIT	5,923	4,928	4,994	5,378	6,635	12.0	23.4	20,719	21,935
Other Income	293	435	596	(25)	435	48.7	(1,874.6)	1,573	1,442
PBT	6,216	5,363	5,589	5,354	7,070	13.7	32.1	22,291	23,377
Total Tax	2,442	1,775	1,022	2,661	2,272	(7.0)	(14.6)	8,677	7,730
Reported PAT	3,774	3,588	4,567	2,692	4,798	27.1	78.2	13,614	15,646
Reported EPS	44	42	53	31	53	21.0	69.1	158	179
Margins (%)						(bps)	(bps)		
EBIDTA	49	45	45	45	52	(307)	687	44	47
EBIT	46	42	43	43	50	(316)	705	42	45
EBT	49	46	48	42	53	(412)	1,050	46	47
PAT	30	31	39	21	36	(629)	1,458	28	32
Effective Tax rate	39	33	18	50	32	716	(1,758)	39	33

Source: Company, DART

What to expect next quarter?

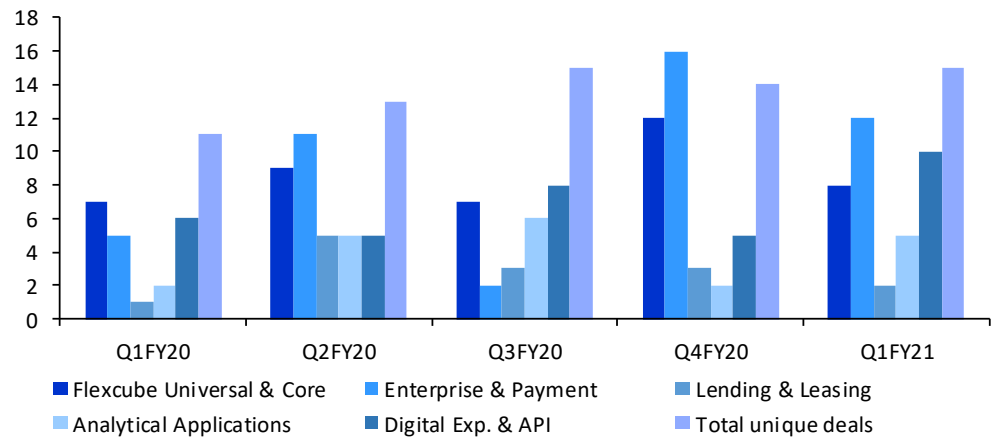
We expect revenue growth momentum to continue in Q2 with 8% growth on YoY basis (QoQ basis it would go down given typically weak quarter from seasonal perspective for OFSS) and OPM gains of about 30bps QoQ at 42.7%. PAT is expected to grow by 7.5% as we have factored in higher ETR of 33% for Q2.

Exhibit 5: What to expect next Quarter

(Rs Mn)	Q2FY21E	Q1FY21	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	162.5	180.7	164.9	(10.1)	(1.5)
Sales	12,022	13,373	11,625	(10.1)	3.4
EBIT	4,811	6,635	4,928	(27.5)	(2.4)
PAT	3,369	4,798	3,588	(29.8)	(6.1)
EPS (Rs)	39.1	53.0	41.7	(26.3)	(6.1)
EBIT Margin (%)	40.0	49.6	42.4	(960 bps)	(238 bps)

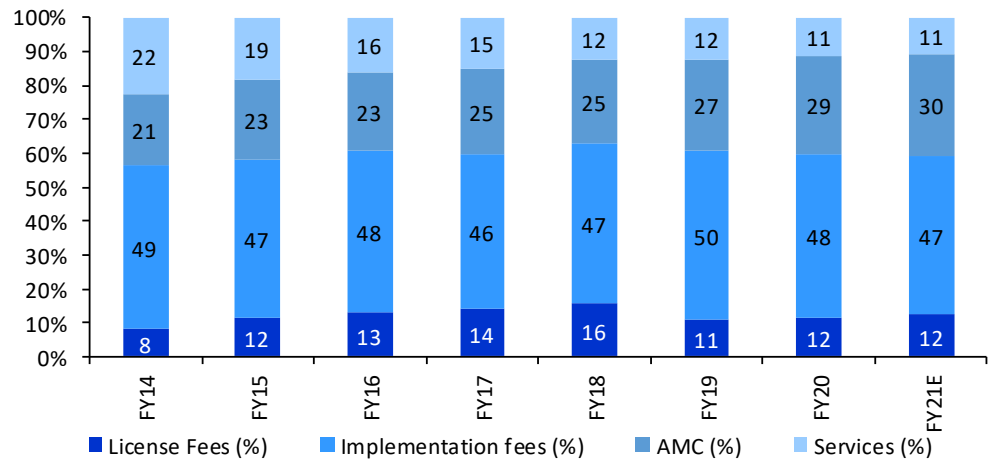
Source: Company, DART

Exhibit 6: Product and module sales quarterly



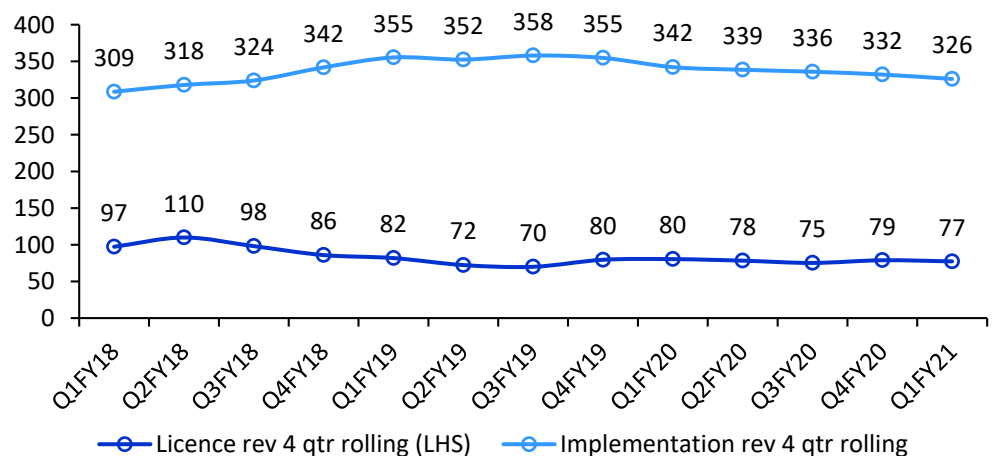
Source: DART, Company, *Product count differs because some deals are for multi products

Exhibit 7: Revenue mix trends



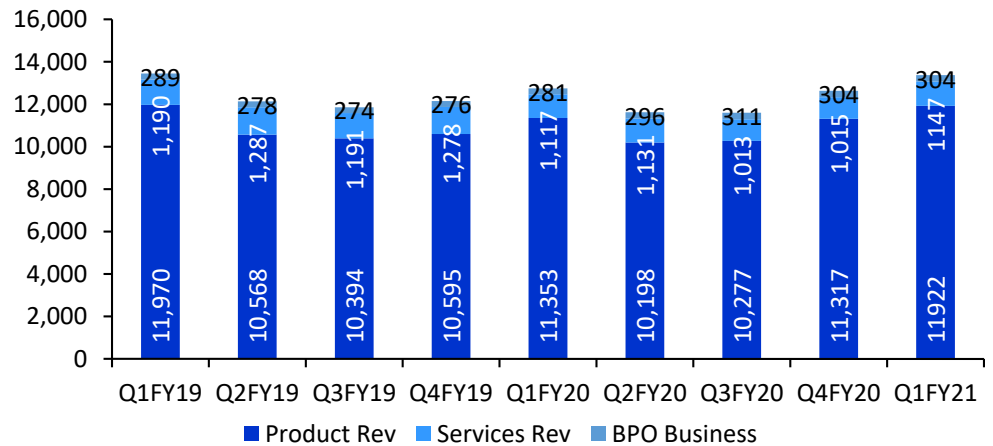
Source: Company, DART

Exhibit 8: License and implementation revenues on 4-quarter rolling basis



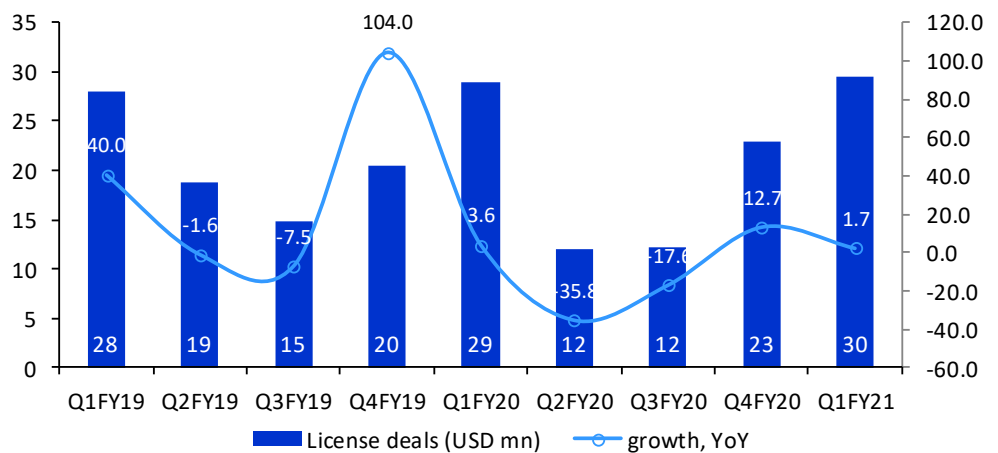
Source: Company, DART

Exhibit 9: Revenue Breakup in Product, Services and BPO business



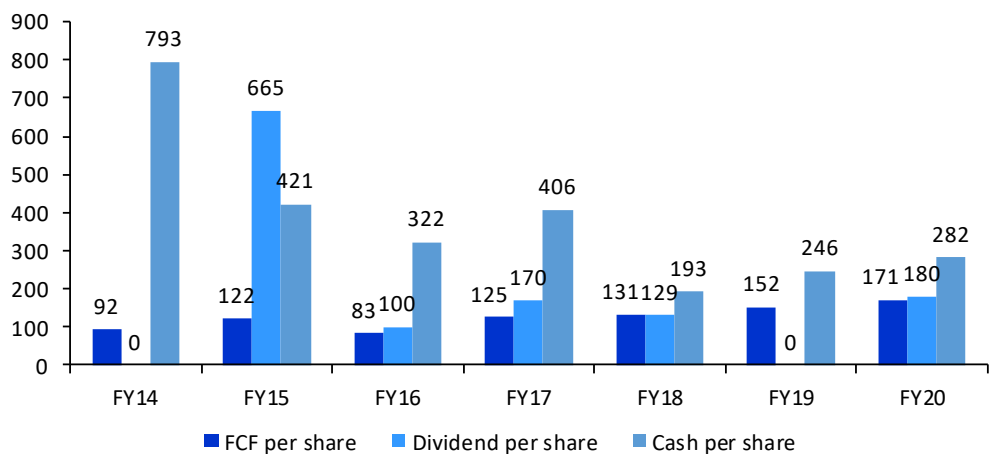
Source: Company, DART

Exhibit 10: Licensed Deal Wins momentum continues



Source: Company, DART

Exhibit 11: Dividend payouts to get revived as robust FCF generations continues



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	49,589	48,613	52,618	57,865
Total Expense	28,143	26,326	27,887	31,416
COGS	21,958	21,178	23,348	26,346
Employees Cost	0	0	0	0
Other expenses	6,185	5,148	4,540	5,070
EBIDTA	21,447	22,287	24,731	26,449
Depreciation	537	1,064	1,071	1,110
EBIT	20,909	21,223	23,660	25,339
Interest	0	0	0	0
Other Income	1,761	1,299	1,635	1,770
Exc. / E.O. items	0	0	0	0
EBT	22,670	22,522	25,295	27,109
Tax	8,811	7,901	8,286	8,946
RPAT	13,859	14,622	17,009	18,163
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	13,859	14,622	17,009	18,163

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	65,044	66,175
Net Worth	49,365	65,696	65,473	66,605
Total Debt	1,335	5,058	5,145	5,238
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	50,700	70,753	70,618	71,843

Applications of Funds

Net Block	8,537	18,909	18,887	18,882
CWIP	5	0	0	0
Investments	9,567	1,549	1,549	1,549
Current Assets, Loans & Advances	43,206	59,755	60,162	61,909
Inventories	0	0	0	0
Receivables	9,475	9,254	10,016	11,015
Cash and Bank Balances	11,563	13,316	12,961	13,709
Loans and Advances	0	0	0	0
Other Current Assets	22,168	5,533	5,533	5,533
Less: Current Liabilities & Provisions	10,614	9,460	9,981	10,498
Payables	568	355	448	505
Other Current Liabilities	10,047	9,105	9,533	9,993
<i>sub total</i>				
Net Current Assets	32,592	50,295	50,182	51,411
Total Assets	50,700	70,753	70,618	71,843

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	55.7	56.4	55.6	54.5
EBIDTA Margin	43.2	45.8	47.0	45.7
EBIT Margin	42.2	43.7	45.0	43.8
Tax rate	38.9	35.1	32.8	33.0
Net Profit Margin	27.9	30.1	32.3	31.4
(B) As Percentage of Net Sales (%)				
COGS	44.3	43.6	44.4	45.5
Employee	0.0	0.0	0.0	0.0
Other	12.5	10.6	8.6	8.8
(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	348	324
FA T/O	5.8	2.6	2.8	3.1
(D) Measures of Investment				
AEPS (Rs)	161.0	170.3	198.1	211.5
CEPS (Rs)	167.2	182.7	210.6	224.5
DPS (Rs)	0.0	180.0	200.1	200.3
Dividend Payout (%)	0.0	105.7	101.0	94.7
BVPS (Rs)	573.3	765.2	762.6	775.8
RoANW (%)	28.7	25.4	25.9	27.5
RoACE (%)	28.0	24.1	24.1	25.5
RoAIC (%)	52.6	44.0	41.1	43.8
(E) Valuation Ratios				
CMP (Rs)	2960	2960	2960	2960
P/E	18.4	17.4	14.9	14.0
Mcap (Rs Mn)	254,874	254,874	254,874	254,874
MCap/ Sales	5.1	5.2	4.8	4.4
EV	244,646	214,963	215,406	214,751
EV/Sales	4.9	4.4	4.1	3.7
EV/EBITDA	11.4	9.6	8.7	8.1
P/BV	5.2	3.9	3.9	3.8
Dividend Yield (%)	0.0	6.1	6.8	6.8
(F) Growth Rate (%)				
Revenue	9.5	(2.0)	8.2	10.0
EBITDA	18.4	3.9	11.0	6.9
EBIT	19.5	1.5	11.5	7.1
PBT	23.2	(0.7)	12.3	7.2
APAT	12.0	5.5	16.3	6.8
EPS	11.0	5.8	16.3	6.8

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	13,796	15,218	15,996	16,644
CFI	2,208	(13,841)	880	1,135
CFF	(12,497)	(474)	(17,231)	(17,031)
FCFF	13,057	14,683	15,396	16,009
Opening Cash	8,061	11,563	13,316	12,961
Closing Cash	11,563	13,316	12,961	13,709

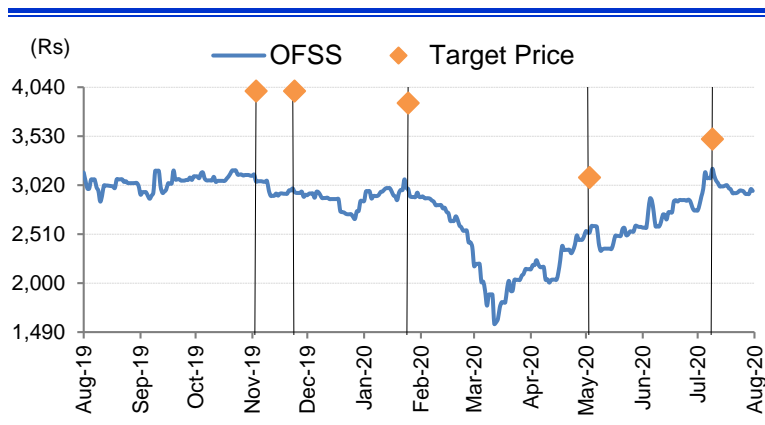
E – Estimates

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.)
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
Jul-20	Buy	3,500	3,191

*Price as on recommendation date

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