



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

19TH July 2018

RAMCO SYSTEMS LIMITED

BSE : RAMCOSYS

Sector: IT PRODUCTS

BSE: 532370

View - BUY

CMP : Rs. 343

Target Price: Rs 450 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Ramco Systems Limited (RSL) is a leading cloud-based technology company with global operations. It is engaged in providing Enterprise Resource Planning, Human Capital Management and Aviation Maintenance & Engineering (M&E) & Maintenance Repair & Overhaul (MRO) software to its customers across the globe.

RSL is an established player in ERP segment, with a track record of nearly three decades, and catering to a reputed clientele comprising industry majors such as the Danube Group, Emirates, Seagate, Air India and Schneider Electric, amongst others. It offers customised Human Capital Management (HCM) and ERP solutions for various industries and has developed considerable expertise in catering to the aviation and logistics sector. The overall growth prospects for both the domestic and global cloud-based ERP segment remain favourable, on the back of increasing demand from SMEs and large enterprise segments

INVESTMENT HIGHLIGHTS

Strong Financial Performance for FY18 –

RSL reported a strong set of FY18 numbers with net sales at Rs 469.30 crs as compared to a revenue of Rs 448.20 crs last year, with EBIDTA placed at Rs 75.80 crs from Rs 8.40 crs last year with the PAT placed at Rs 11.60 crs from Rs 10.80 crs

For RSL Q4FY18 was noteworthy with Sales at Rs 118 crs from Rs 114 crs, with EBIDTA at Rs 20.90 crs against a EBIDTA loss of Rs 28.70 crs with PBT at Rs 10.90 crs from a PBT loss of Rs 33.50 in Q4 last year. EBIDTA margins in Q4FY18 improved to 17.6% from a negative EBIDTA margin in Q4 last year.

RSL enjoys a strong clientele base across several verticals –

RSL caters to industry verticals like Aviation, Aerospace, Defence, Manufacturing, Logistics, Facility Management, Infrastructure, Real Estate, EPC and Energy/Utilities.

Some key marquee customers serviced by RSL include Danube, Makemytrip, Jumboforce, Valiram, DPLI, Emirates, Kerzner Int, DLF, AirIndia, Seagate, Kenya Airways, Dabur, Aditya Birla Fashion, Raddison, RAK Bank, Columbia Helicopters, Schneider Electric, Air Methods, ERA Helicopters, ITC, Poddar Education Network, Lubrizol, TVS Logistics, TMB and Asia Atlantic Airlines.

KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		NA
52 WK HI/LOW		572/318
NSE CODE		RAMCOSYS
BSE CODE		RAMCOSYS
MARKET CAP		RS 1050 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIIs	-	2%
FIIs	-	18%
PUBLIC	-	25%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	21	18	17
EBIDTA Gr%	37	48	22
PAT Gr%	280	78	28
EPS Gr%	280	78	28
EPS (Rs)	15.03	26.80	34.30
ROE %	8	13	14
ROCE %	11	15	16
P/E(x)		13	10



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RSL's product positioning is focused optimally with its large goldmine of IP to act as a key differentiator –

RSL is witnessing strong deal win traction across 3 sub-segments – ERP, HCM and Aviation. RSL is creating differentiation through incorporation of the latest innovations into its products. RSL has recently unveiled cloud-based Next-generation Finance solutions that can automate finance functions for small and medium organizations.

Similarly, it has used Blockchain and Virtual Reality technologies to create solutions for Aviation Maintenance and Engineering (M&E) segment. The Logistics vertical is driving the traction in the ERP business and now has clients spread across Australia, USA and SE Asia.

HCM continues to do well as its 45-country payroll capability on a unified platform is acting as a significant differentiator. Aviation segment has been able to add key logos in China but overall traction is still low given the continued challenges on rotor wings clients. Overall, the revenue traction has been affected by large incremental business moving to cloud-based model.

New Focus verticals and horizontal strategy to drive new ERP sales –

Logistics vertical has been identified as the blue ocean opportunity in the wide ERP segment. The vertical is witnessing strong traction on the back of e-commerce. RSL has also built an ERP, which takes care of a variety of aspects such as best route optimizer, cargo stacking, driver management, delivery proofing, speed monitoring, vehicle diagnostics, warehouse management, uberisation of transport on a single unified platform.

This unit has clients spread across markets such as US, Indonesia, Malaysia, India and Australia. It is getting significant interest in Australia and may see incremental traction, as one of its clients goes live by September across modules. Logistics vertical is also witnessing traction in demand for new software, as e-commerce giants need these transporters to be organized and trackable on a real time basis

Creating new business line through horizontal – Nextgen Finance software

RSL is advocating the need for self-running-finance proposition wherein the accounting needs of SMEs can be run through a cloud hosted shared standard large database that can eliminate the requirement of docile back office staff. RSL has recently been featured as a niche player in cloud-based core solutions provider category.

Payroll led differentiation driving momentum in HCM –

RSL now has a Payroll software for about 45 countries that covers around 70% of the global working population. The unified platform covering all HR modules (Talent/Performance Management, Time & Attendance), along with Payroll across Asia Pacific is culminating into a significant differentiator.

Expanding of contract scope by some fortune customer in new markets is helping it gain more new logos. It is now working on building Payroll software for UK and Ireland markets, and will gradually add more European countries as it gets comfortable around data protection acts. This wide payroll capabilities on a unified solution is now helping it win MNC clients against large giants such as Workday, ADP etc. It is also getting approached by a global HCM giant for white-labeling the payroll solution for Asia and the Middle East markets.



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New Opportunities in Aviation through Blockchain –

RSL owns leading solution for Aviation Maintenance and Engineering (M&E). The company has a significant market share in the civilian helicopter segment with a market share of 50%.

In the fixed wing segment, it has select customers and traction in airlines (as has been seen by the recent wins in China - world's largest aviation market) would drive revenue in this segment going forward.

The current industry opportunity is pegged at US\$300mn and is highly regulated, and RSL intends to tap into opportunities in the part-trading market. Part-trading market has about 40,000 small vendors and deals in reselling of aircraft parts. RSL is planning to target this market through a Blockchain offering, which would bring these part-suppliers listed on portals of M&E department to update availability, pricing and use-life history detail.

It has recently done a webinar along with Air France and Microsoft to demonstrate RSL's solutions for M&E using Virtual Reality/Augmented Reality capabilities. These kinds of offerings would expand the scope of the Aviation vertical to PBH (Power by the Hour), Part Resellers, Part Manufacturers and MROs through a shared database model.

ERP on cloud segment industry overview:

Cloud based systems are becoming more popular because of the flexibility options it offers

It avoids infrastructure costs, as all the services, computing, networking and storing can be done in different locations.

Employee cost can be saved as the companies need not require the technical abilities to maintain the systems. The cost of ERP implementation has significantly reduced by introducing the cloud based approach.

According to allied market research, Global ERP software market would grow by a CAGR of 7.2% during (FY14-FY20E) and would reach to \$41.69 Bn. We expect Ramco Systems has huge scope in Tier II ERP on cloud segment, as the Tier I segment has covered by the big players like SAP, Oracle and Microsoft. Also, the products of Tier II are specifically built to cater to single or multiple locations of deployment, which are easier to manage and support; and also solutions are provided to the specific industry verticals.

Ramco HCM on cloud segment –

Ramco systems strategy to position HCM as an independent product line is to improve focus on the segment and addressing the issues in Human Resources market which has resulted in the significant growth in deal traction from this segment. Ramco integrated global payroll on cloud for 35+ countries across the Middle East, ASEAN and most parts of Africa, with the launch of China payroll, Ramco capability now addresses 70% of the world's working population.

HCM market overview -

HCM application in cloud platform looks promising as number of factors linked to it, like increasing demand in companies in real time based solutions and analytics on workforce, as HCM applications provide assistance to businesses in improving their productivity and efficiency by offering proficient software solutions like core HR, work force management, performance management, recruiting, compensation management, employee collaboration and engagement. HCM segment is gaining traction from various industries such as manufacturing, BFSI (Banking Financial Services and Insurance), healthcare, retail, energy and utilities.



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Key Benefits here –

HCM provides their end-users, low operation and implementation cost for its solutions.

Flexible budget plans: HCM solutions can be deployed as on-premises and cloud by the organizations according to their budget.

Multi tenant benefit, Integration of HCM solution in the mobile devices, HCM solutions are flexible enough that they can be deployed on smart phones, wearables, laptops and other smart devices.

According to Markets and Markets research, HCM market to grow to \$17.49 Bn by FY20 with a CAGR of 9.8%.

HCM is consolidated with the big players such as SAP with a market share of 11% (No. 1 player in the pack), Workday 9%, Oracle 6% and other small players consolidated holding around 40% of market share.

Market players growth in this segment –

SAP is standing in the top position with the market share of 11% globally; app subscription revenue grew by 23.6% during FY18. Second top player, Workday is with the market share of 9% which has shown a subscription revenue growth of 58.2% during FY18 and Oracle witnessed subscription revenue growth of 38.1%.

On the other side, Ramco HCM segment has shown strong revenue growth during FY18 and has added the few big names like Dabur, Bureau Veritas, Kerzner International to the client portfolio and this has made HCM segment becoming the fastest growth engine for Ramco. We expect the strategy of positioning the HCM as separate product and improving the focus could improve the growth further.

Ramco generating major revenue from domestic markets (India) 28% America and Europe combined contribute 26%. In the case of the big players like SAP, Oracle and Workday, major revenue is generating from America and Europe.

Ramco has the scope of strengthening business in the domestic markets. Ramco delivers managed payroll services to 27 clients directly, and to another 52 through its partners, which use Ramco HCM as a platform. Its cloud payroll services supports over 110 organizations. It has a total of 250 clients, of which 170 are India based clients

Ramco Aviation Software & Aviation software market overview –

According to Frost Sullivan research, global aerospace IT solutions market is expected to grow to US\$ 8.9 Bn in 2020 with a CAGR of 2.8%. Total Maintenance, Repair and Operations (MRO) spending is estimated to be close to US\$ 68.5 Bn in 2017 and expecting to grow by 4.68% CAGR during FY15-FY24. North America, Eastern Europe and Asia Pacific are the three largest regions in the MRO sector during FY15 and expecting APAC will become the second largest region in MRO by FY24 on the back of fast pickup in growth.



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Ramco has strong foot print in APAC region which would benefit the growth in business in coming years. Aerospace IT solutions consolidated with the main players such as SAP, Ramco, Mxi technologies, Component control, Swiss Aviation software, Rusada, IFS and Oracle are few. Ramco has footprints in USA, Europe, APAC and Middle East markets, with strong efforts to strengthen the technological innovations and the geographical foot print in the region

Management Commentary & Recent Developments in FY18 –

Overview

Revenue has grown by 9%, Order Booking by 21%, and Net Profit by 10% in FY18

Q4 Order Booking is the highest ever quarterly booking, standing at \$29.21M

Focus on Logistics and Global Payroll shows up in the Order Booking. They make up 63% of the total Order Booking and 33% of total revenue in FY18

Average opportunity size in the funnel is increasing & share of Logistics and Global Payroll in the funnel continues to grow at a steady rate

The sensitivity of revenues to the % of cloud bookings is evident as we see a decrease in revenue this quarter

Cost efficiency

Focus on simplifying operations and automating implementation has started to yield results

Consequently, some of the cost elements– cost of delivery, hosting and travel expenses have decreased during the year

Other costs for the year includes exchange rate fluctuation gain of \$0.29M as against a loss of \$1.68M last year. It also includes provision for Doubtful Debts of \$3.5M as against \$6.78M for the last year

Unexecuted Order book

Unexecuted Order Book has increased by 32%, standing at \$153M by end of the year

HCM

Ramco HCM added three of the top Fortune 100 giants as its customer in Q4 2018

Revenue from HCM grew 100% this year with acceptance from Fortune 100 giants

Good traction picking up in Malaysia, Indonesia, Philippines and Singapore

HCM multi country payroll funnel opportunities are increasing at a healthy rate

ERP

Core ERP: Growth was stagnant this financial year. Expected to increase growth with automation on implementation

Logistics: The investments and focus on the Logistics product continue to fuel positive momentum.

Huge opportunities for 3PL in the US market

Future Outlook/Focus Areas Going Ahead –

BLUE OCEAN: Focus on multi country payroll and Logistics is working well for us, with majority of pipeline from the above areas

Focus will continue on automation of implementation, leading to conversion of unexecuted order book into revenue

Asia recorded the highest order booking for the quarter and is expected to continue the momentum

Aviation remained static this financial year, and will continue to focus on dominating the Heli, Special operations and MRO segments



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Artificial intelligence and Augmented reality –

BOTS into production – RSL has stated that it already has customers who use BOTS for HR services; and has its entire in-house HR Services into BOTS

VOICE – RSL intends aiming to become a Voice company, by taking the conversational experience a few notches ahead by building Voice based transactions using Amazon Alexa and Google Assistant

RSL is looking at improving implementation capability and reorganizing for scale and growth will be additional focus for FY19

Order inflow robust, revenue recognition remains soft, OPM improves

Ramco Systems recorded record wins of US\$29mn in Q4FY18, taking the total to US\$104mn (up 20% for FY18). It won two large deals with 30k+ employees in multi-country payroll within HCM vertical.

Despite strong order inflow in FY18, the revenue growth stood at a modest 9% due to weak revenue recognition impacted by lower ramp-up in some deals (client gets billed in cloud deals only when it goes live). It is facing these issues in some old deals whereas newer deals are getting addressed by using automation to improve the implementation cycle.

Aviation and Non-logistic (collectively 50% of revenue) continue to remain flat with no immediate growth triggers. However, total deal pipeline continues to remain robust at US\$500mn, as it continues to benefit from its differentiated offering in large blue ocean opportunity in two products, viz. (1) Integrated Logistics Solution for third party logistics players and (2) Multi-country Payroll that is targeted at large Fortune customers for their East market operations.

RSL has created a strategic differentiation to improve acceptance and positioning, such as (1) Identified key segments with multi-country payroll, integrated logistics ERP, (2) Present across all major locations in Asia to tap Eastern operations of large western brands, (3) Sells vertical and horizontal capabilities jointly (Example: Logistics + HCM + Financials or Aviation + HCM), as win ratios in such cases are better, and (4) Moving east-to-west, as investment, cost, acceptability, competition and product relevance factors are favorable in the developing markets

RSL enjoys a strong balance sheet with huge scalability potential going ahead –

RSL runs a strong business model covering multiple product segments across multi locations while it continues to invest on a sustained basis largely from its internal accruals.

RSL has virtually no debt on the balance sheet with total debts of Rs 38 crs as on FY18 as compared to a tangible networth of Rs 553.80 crs.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 45-50% and with capex funded largely from internal cash flows. Hence going ahead we expect both the ROCE and ROE to improve to 15% and 13% by FY20 from 1% and 2% in FY18.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 570 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 46 crs in FY19E. Thus on a conservative basis, RSL should record a EPS of Rs 15 for FY19E. For FY20E and FY21E our expectation is that earnings traction for RSL would continue to be strong wherein we expect a EPS of Rs 26 and Rs 34 respectively.

RSL has shown strong Topline and Earnings Visibility considerin the following factors. Firstly best ever order intake at US\$29mn secondly the HCM segment added US\$18.8mn of new orders in the quarter on annual segment revenue base of US\$23mn and thirdly the unexecuted order book stands at US\$153mn (2.1x of revenue).

We expect operating leverage will play out significantly over FY18-20E as the company has maintained strong control on headcount addition (added just 100) and R&D expenses (amortization). The company saw a 700bps margin expansion in FY18 with EBIT margin at 5.5%

Hence we believe that the RSL stock should be purchased at the current price for a price target of around Rs 450 over the next 18 months.

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FINANCIALS

For the Year Ended March Rs Crs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	449.2	469.2	570.00	675.00	790.00
EBIDTA	8.60	76.4	105.00	156.00	189.6
EBIDTA %	1.91	16.28	18.42	23.11	24.00
Interest	1.30	1.30	1.00	1.00	1.00
Depreciation	47.8	50.1	51.00	53.00	55.00
Non Op Other Income	10.01	9.7	11.00	11.00	11.00
Profit Before Tax	-30.4	34.7	64.00	113.00	144.60
Profit After Tax	11.1	12.1	46.00	82.00	105.00
Diluted EPS (Rs)	3.65	3.95	15.03	26.80	34.31
Equity Capital	30.4	30.6	30.6	30.6	30.6
Reserves	509.8	523.2	569.20	651.20	756.20
Borrowings	5.00	38.00	38.00	38.00	38.00
GrossBlock	309.4	320.00	360.00	390.00	430.00
Investments	14.5	14.5	14.5	14.5	14.5

Source Company our Estimates

KEY CONCERNS

Any sharp down turn in the Global IT sector can impact RSLs financials adversely.

Also any negative development on the currency side could also impact RSLs financials negatively

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