



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Management Meet @ Dalal & Broacha

Not Rated

Current Price	2873
52 Week Range	2832/4655

Key Share Data

Market Cap (Rs.Bn)	247.95
Market Cap (US\$ Mn)	3446
No of o/s shares (Mn)	85.81
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) '000	36.66
BSE Code	532466
NSE Code	OFSS
Bloomberg	OFSS:IN

Price performance



% Shareholding	June-19	Mar-19
Promoters	73.48	73.50
Public	19.65	19.24
Others	6.87	7.26
Total	100	100

- Management's primary goal is to drive growth in Licensing Revenue (10.5% of total revenue as of FY19). This goal is further reinforced by company's policy of linking top management bonuses solely with Licensing revenue.
- Although Licensing growth is the primary goal, Margin stability is at the core of this focus. No business will be taken up at the cost of margins.
- **Geographical View:**
 - Asia (mainly Japan and excl-China) (27% of products revenue [which is 89% of total revenue]), Middle East, Africa and Eastern Europe (~41% of product revenue) should be strong and are showing lots of activity. Japan has reported solid performance with 3 large deals so far.
 - Americas (26% of products revenue) and Western Europe show slower growth. Penetration in the US very low with only Top 2 banks out of 100 completely transformed.
 - Penetration in China & Russia remains a struggle as banking is not tuned to global level while LATAM also displays challenges as big banks face economic challenges
- **Last few years have been challenging due following factors**
 - Slow take off of Oracle Banking Platform
 - Banks (in US and Western Europe) delaying decision making
 - Confusion amongst top management of banks between chasing growth and digital transformation
- Company decided to invest in AI, Analytics, Cloud and Digital initiatives vis-à-vis issuing dividends. Company currently figuring out how to slice products to offer on cloud and see minimal impact of shift to cloud.
- R&D will continue to be maintained at same rate and company policy of expensing R&D should continue
- Direct peers would be Finastra and Temenos
- **Industry Outlook:** The Global Fintech software market is expected to grow at a CAGR of 6-8% over the next few years and the industry size is expected to reach \$22-\$24bn.

Outlook and Valuation

We are positive on OFSS, given that, majority of global banks are still operating on legacy software and therefore low penetration levels and inevitable need for digitization serve as a massive opportunity. The company is currently transforming its offering through investments in AI, Cloud and automation. The stock is currently trading at 16x FY20E and 14.5x FY21E, at an EPS of Rs. 179 in FY20E and Rs. 198 in FY21E.

Consolidated Financials (In INR Mn)

Year	Net Sales	Growth	EBITDA	OPM%	PAT	% Growth	EPS	PE(x)	ROE(%)	ROCE(%)
FY 17	41309	6%	17300	42%	11850	13%	140	20.51	36%	28%
FY 18	45268	10%	18110	40%	12370	4%	145	19.80	26%	29%
FY 19	49589	10%	21450	43%	13860	12%	161	17.83	28%	25%
FY 20E*	52557	6%	23600	45%	15417	11%	179	16.04	24%	27%
FY 21E*	56847	8%	25811	45%	17078	11%	198	14.50	21%	28%

* As per Bloomberg Estimates



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