OFFER FOR SALE NOTE – 22 May 2013

Oracle Financial Services Software Ltd.

Recommendation	**SUBSCRIBE**
CMP (22/05/2013)	**Rs. 2420**
Floor Price	**Rs. 2275**
Sector	**IT Software**

Stock Details	
BSE Code	532466
NSE Code	OFSS
Bloomberg Code	OFSS IN
Market Cap (Rs crs)	20,345
Free Float (%)	19.73%
52- wk HI/Lo (Rs)	3414/2360
Avg. volume BSE (Quarterly)	26,800
Face Value (Rs)	5.0
Dividend (FY13)	NIL
Shares o/s (Crs)	8.41

Relative Performance	1Mth	3Mth	1Yr
OFSSS	-2.7%	-17.6%	3.0%
Sensex	6.3%	3.0%	25.0%

Shareholding Pattern	31 Mar 13
Promoters Holding	80.27%
Institutional (Incl. FII)	6.93%
Corporate Bodies	1.17%
Public & others	11.63%

Kavita Vempalli Research Analyst
(022 3926 8173) kavita.vempalli@nirmalbang.com

Amrita Burde Research Associate
(022 39268223) amrita.burde@gmail.com

Sunil Jain HOR Retail
(022 3926 8196) sunil.jain@nirmalbang.com

SUBSCRIBE FROM A LONG TERM VIEW

Oracle Financial Services Software Ltd (OFSS) is a leading vendor of applications software and services to the global financial services industry. Promoters of the company (Oracle Corporation's Mauritius subsidiary) hold 80.3% of the stake implying 19% public share holding. Promoter has announced to reduce their stake through an 'offer for sale' (OFS) to comply with minimum 25% public shareholding requirement. OFSS proposes to sell an aggregate of 4.43 mn shares representing 5.3% of the total share capital of the company.

OFSS's sheer dominance in its core banking and risk analysis space along with the thrust to improve margins by providing high value services to its customers provides it an edge in the market space. Moreover, leveraging Oracle Corp's wide spread presence would also act as a major growth driver for the company. The offer for sale opens today at a floor price of Rs 2,275 and the issue size is of Rs.1007.9 crore. At this price the share is offered at PE of 16x on FY14E EPS which is on the lower end of the band in last 4 years. We feel at the offer price the stock is available at attractive valuations. Considering the positioning of the company and high cash generation **we recommend to subscribe for OFSS's offer for sale.**

Investment Rational

OFSS's Flexcube positioned on the Top

'Flexcube' is the flagship product of OFSS offering core banking solutions and has had the largest number of deployments of ~ 500 as of FY13. Market size for this product is expected to be ~ $24bn and penetration is as low as ~ 20%. In addition, OFSS has another product called 'Reveleus' which is equally leading in the Business Intelligence and Risk Management space. Citibank is the largest customer and contributed nearly 18% to the company's total revenues in FY13 and continues to be the growth driver for OFSS. Moreover, OFSS is yet to leverage on the parent Oracle Corp's wide penetration across 145 countries globally with nearly 4,00,000+ customer base. Gartner expects Global Financial services to grow at a CAGR of 7.6% during FY12-FY14 and we believe OFSS's products to poise further growth for the company with improvement in discretionary spending with an uptick in global economy.

Margin improvement due to scale efficiencies

OFFS's EBIT margins have grown at a CAGR of 23% during FY06-FY13. Product sales margins have moved up from 35% in FY06 to 41% in FY13 and services margins have moved up from 14% to 23% during the same period. Over the period of time, OFFS has transformed its services business into better proposition with focus on high value addition and reduction of low margin accounts. We feel OFSS would now concentrate on better growth in the services business with consolidation of its business accounts.

Strong Balance Sheet

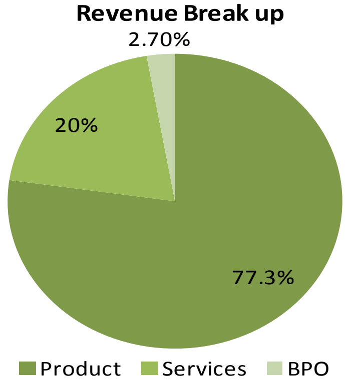
OFFS is a debt free company with cash of Rs.5471 crore as of FY13 and CPS of Rs.651. Cash Flow from operations has grown at a CAGR of 40% during FY06-FY13 to Rs.1127 crore.

Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs crs)	Margin (%)	PAT (Rs crs)	Margin (%)	EPS (Rs)	PE (x)	EV/Sales	EV/EBITDA
FY11A	2996.9	4.3%	1122.0	37.4%	1111.0	37.1%	132.5	18.3	15.5	20.4%
FY12A	3146.7	5.0%	1111.1	35.3%	909.3	28.9%	108.3	22.3	14.7	19.6%
FY13A	3474.0	10.4%	1219.2	35.1%	1075.1	30.9%	128.0	19.0	12.2	19.2%

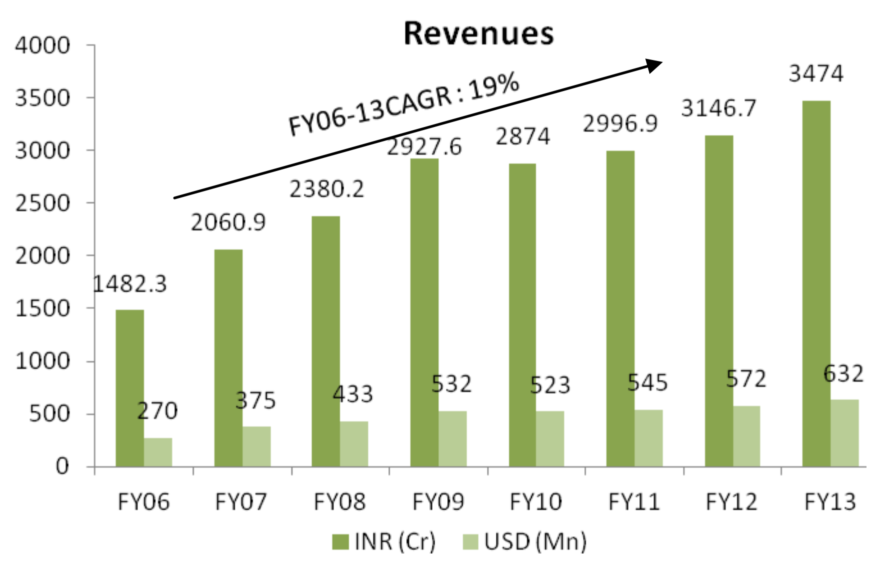
Company Description

Oracle Financial Services Software Ltd was founded in 1992. It was previously Citigroup's entity named Citicorp Information Technology Industries Ltd. (CITIL). In 2000, it was renamed as i-flex Solutions Ltd. In 2005, Oracle Corp acquired majority stake in i-flex and later in 2008 it was again renamed as Oracle Financial Services Software Ltd. Oracle currently owns 80.3% stake in the company through its subsidiary – Oracle Global (Mauritius) Ltd.

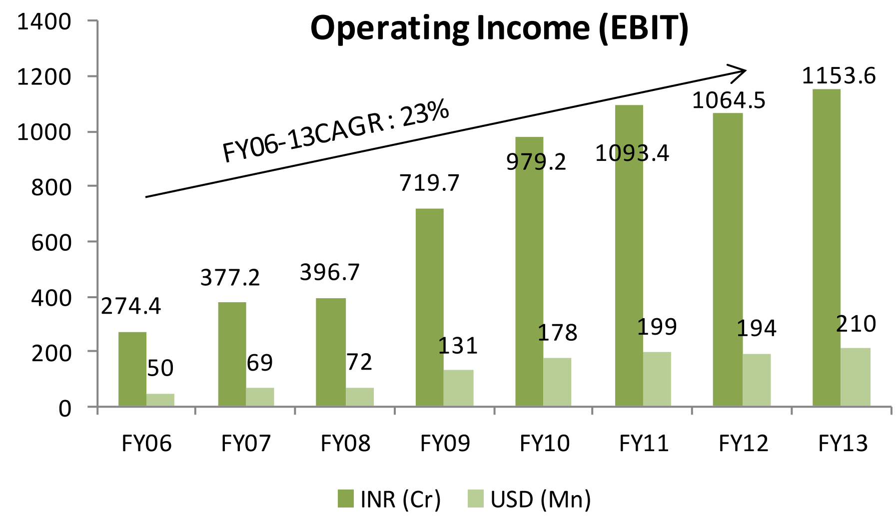
OFSS is entirely focused on banks and financial services companies. It has two major business segments - the products business under the name Oracle FLEXCUBE (comprising product licensing, consulting and support) and consulting services (comprising IT application and technology services). The company's smaller business segment offers BPO services to financial institutions.



Source: Company data



Source: Company data



Source: Company data

Offer for Sale Announcement:
Oracle Financial Services Software Ltd (OFSS) has 80.3% of its stake held by it's promoter - Oracle Global (Mauritius) Ltd., implying 19.7% public share holding. The company has announced that the promoters intend to reduce their stake to 75% through an 'offer for sale' (OFS).

Oracle Financial Services Software Ltd (OFSS) **proposes to sell an aggregate of 4.43 mn shares representing 5.3% of the total share capital of the company at a floor price of Rs 2275.**

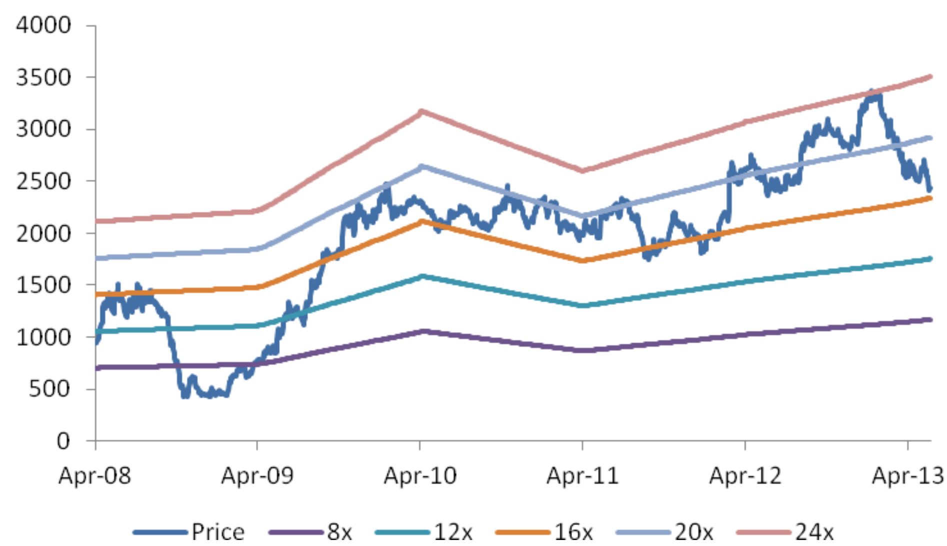
Details of the Offer for Sale	
Name of the seller (Promoter)	Oracle Global (Mauritius) Ltd
Date and time of opening and closing of sale	The sale shall take place on May 22 2013 from 9.15 am to 3.30 pm
Allocation Methodology	The allocation shall be on a "price-priority basis at multiple clearing prices" A minimum of 25% of the sale will be reserved for allocation to mutual funds and insurance companies subject to receipt of valid bids above the clearing prices. In the event of any under subscription by them, the unsubscribed portion will be available to other bidders.
Name of the seller's broker	Morgan Stanley India Company Private Ltd. and Deutsche Equities India Private Ltd.

Source: Company data, Nirmal Bang Research

Valuation

OFSS's sheer dominance in its core banking and risk analysis space along with the thrust to improve margins by providing high value services to its customers provides it an edge in the market space. Moreover, leveraging Oracle Corp's wide spread presence would also act as a major growth driver for the company. The offer for sale opens today at a floor price of Rs 2,275 and the issue size is of Rs.1007.9 crore. At this price the share is offered at PE of 16x on FY14E EPS of Rs. 143 which is on the lower end of the band in last 4 years. We feel at the offer price the stock is available at attractive valuations. Considering the positioning of the company and high cash generation **we recommend to subscribe for OFSS's offer for sale.**

1 year forward P/E Band



FINANCIALS

Profitability (Rs. In Cr)	FY11A	FY12A	FY13A
Revenues	**2996.9**	**3146.7**	**3474.0**
% change	*4.3%*	*5.0%*	*10.4%*
EBITDA	**1122.0**	**1111.1**	**1219.2**
% change in EBIDTA	*9.1%*	*(1.0%)*	*9.7%*
Depn & Amort	40.8	46.6	65.5
Operating income	**1081.2**	**1064.5**	**1153.7**
Interest	0.0	0.0	0.0
Other Income	166.8	421.7	459.5
PBT	1248.0	1416.9	1613.2
Tax	137.0	507.6	538.1
Tax rate%	*11.0%*	*35.8%*	*33.4%*
PAT	**1111.0**	**909.3**	**1075.1**
EPS	132.5	108.3	128.0

Quarterly (Rs. In Cr)	Jun.12	Sep.12	Dec.12	Mar.13
Revenue	**946.3**	**793.5**	**852.8**	**881.5**
EBITDA	**385.2**	**219.4**	**283.6**	**331.0**
Dep	13.8	18.7	16.4	16.6
Op Income	**371.4**	**200.7**	**267.2**	**314.4**
Interest	0.0	0.0	0.0	0.0
Other Inc.	172.4	54.0	134.3	98.8
PBT	543.8	254.8	401.5	413.1
Tax	175.7	97.3	133.2	131.8
PAT	**368.1**	**157.4**	**268.3**	**281.3**
EPS (Rs.)	43.83	18.75	31.94	33.47

Performance Ratio	FY11A	FY12A	FY13A
PAT growth (%)	43.6%	-18.2%	18.2%
EBITDA margin (%)	37.4%	35.3%	35.1%
PAT margin (%)	37.1%	28.9%	30.9%
ROCE (%)	20.4%	19.6%	19.2%
ROE (%)	22.9%	15.5%	15.7%

Per Share Data	FY11A	FY12A	FY13A
BV per share	644.3	752.2	881.1
Dividend per share	0.0	0.0	0.0

Financial Health (Rs. In Cr)	FY11A	FY12A	FY13A
EQUITY and LIABILITIES			
Share Capital	42.0	42.0	42.0
Reserves and Surpplus	5363.7	6275.4	7364.4
Share Application money	0.1	0.1	0.0
Non Current Liabilties			
Long term borrowings	0.0	0.0	0.0
Deferred Tax Liabilities (Net)	9.2	9.3	4.0
Other Long term Liabilities	25.5	22.9	27.7
Long term provisions	49.6	56.4	60.1
Current Liabilities			
Trade Payables	15.2	27.2	23.7
Other Current Liabilities	521.9	691.8	770.4
Shert Term Provisions	102.3	93.0	124.5
Total	6129.3	7218.0	8416.8
ASSETS			
Non Current Assets			
Fixed assets (Incl CWIP)	381.9	427.1	399.1
Goodwill on consolidation	608.7	608.7	608.7
Non Current Investments	0.0	0.0	71.2
Deferred Tax Assets (Net)	75.5	70.7	0.0
Long Term loans and Adv	648.2	496.3	612.8
Other non current assets	0.2	0.3	0.1
Current Assets			
Current Investments	1.0	1.0	1.0
Trade Receivables	809.5	897.2	728.0
Cash and cash eq	2902.2	3947.6	5471.0
Short term loans and adv	293.6	293.9	79.0
Other current assets	408.7	475.2	446.0
Total	6129.3	7218.0	8416.8

Valuation Ratio	FY11A	FY12A	FY13A
Price Earnings (x)	18.3	22.3	19.0
Price / Book Value (x)	3.8	3.2	2.7
EV / Sales	5.8	5.2	4.3
EV / EBITDA	15.5	14.7	12.2

Source: Company, Nirmal Bang Research

NOTES

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001
Fax. : 022 3926 8010