



## Economy News

- ▶ Three leading GSM operators have withdrawn their petition before the Telecom Disputes Settlement & Appellate Tribunal (TDSAT), in which they had challenged the recommendations of the sectoral regulator on 2G spectrum including a one-time fee for holding radio waves beyond 6.2 Mhz. (BS)
- ▶ LODHA Developers has agreed to pay an arm of the Maharashtra government Rs 40.50 bn over a period of five years for the right to construct a multi-storied apartment complex and a truck terminus in the central Mumbai suburb of Wadala, the biggest-ever land deal in the city and an indication of rapid demand recovery in the realty market. (ET)
- ▶ The government on Tuesday said it has achieved 95% of its farm loan disbursement target of Rs 3250 bn for 2009-10 fiscal. (ET)

## Corporate News

- ▶ STATE-owned telecom operator, **MTNL** plans to issue a fresh tender to select a franchise partner for its 3G operations. The operator had invited bids in July 2009 for a franchise deal to sell the 3G mobile services on a revenue-sharing basis and had short listed Virgin Mobile and Spice Group. (ET)
- ▶ THE retail arm of **Reliance Industries (RIL)** has cut its losses as a new centralised supply chain brought savings, and shoppers started spending more as the Indian economy returned to a high growth path after the slowdown of 2008. (ET)
- ▶ **Hotel Leelaventure** has deferred its plans to raise Rs 7.5 bn through QIP (qualified institutional placement) by couple of months, as it is awaiting the opening of its forthcoming Delhi property. (BL)
- ▶ Construction Company **HCC** on Tuesday said it has been awarded a contract worth Rs 8.88 bn by the Nuclear Power Corporation of India (NPCL) to build the main plants for units 7 and 8 of the Rajasthan Atomic Power Project. (ET)
- ▶ Budget carrier **SpiceJet Ltd** plans to raise up to \$75 million through a share sale in India or overseas. Wilbur L Ross, who invested \$80 million in SpiceJet in July 2008 through foreign currency convertible bonds, is exploring exit options, say media reports. (BS)
- ▶ **Mahindra & Mahindra (M&M)**, the country's largest maker of sport utility vehicles (SUV), is looking to buy a strategic stake from private equity players Global Environment Fund and Draper Fisher Jurvetson in the Bangalore-based electric carmaker, Reva Electric Car Company. (BS)
- ▶ Bangalore-based **GMR Infrastructure** plans to raise up to Rs 50 bn through various instruments to fund its expansion plans. The company in April raised around Rs 14 bn through the qualified institutional placement (QIP) route. (BS)
- ▶ FMCG player **Marico** today announced the acquisition of the aesthetics skincare business of Singapore-based Derma Rx Asia Pacific Pte Ltd. The deal, for an undisclosed sum, was done through Kaya, which is Marico's wholly-owned subsidiary that delivers skincare solutions through its range of Kaya Skin Clinics. (BS)

### Equity

		% Chg			
	25 May 10	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	16,022	(2.7)	(9.7)	(2.5)	
NIFTY Index	4,807	(2.8)	(9.7)	(2.3)	
BANKEX Index	10,066	(2.6)	(9.6)	2.4	
BSET Index	4,935	(2.5)	(8.7)	(4.6)	
BSETCG INDEX	13,114	(3.1)	(7.3)	(2.7)	
BSEOIL INDEX	9,585	(2.6)	(4.1)	(0.1)	
CNXMcap Index	7,389	(2.6)	(7.8)	3.1	
BSESMCAP INDEX	8,176	(3.4)	(11.6)	1.3	
<b>World Indices</b>					
Dow Jones	10,044	(0.2)	(10.4)	(2.7)	
Nasdaq	2,211	(0.1)	(12.4)	(1.2)	
FTSE	4,941	(2.5)	(14.1)	(7.7)	
Nikkei	9,460	(3.1)	(15.0)	(6.3)	
Hangseng	18,986	(3.5)	(11.2)	(7.0)	

### Value traded (Rs cr)

	25 May 10	% Chg - Day
Cash BSE	3,440	(11.5)
Cash NSE	12,586	2.0
Derivatives	149,626	26.2

### Net inflows (Rs cr)

	24 May 10	% Chg	MTD	YTD
FII	(882)	(40)	(9,027)	20,684
Mutual Fund	288	(38)	(498)	(7,762)

### FII open interest (Rs cr)

	24 May 10	% Chg
FII Index Futures	19,385	8.8
FII Index Options	52,836	3.0
FII Stock Futures	28,539	(2.6)
FII Stock Options	1,566	(2.2)

### Advances / Declines (BSE)

25 May 10	A	B	S	Total	% total
Advances	10	245	NA	255	14
Declines	194	1369	NA	1,563	84
Unchanged	0	42	NA	42	2

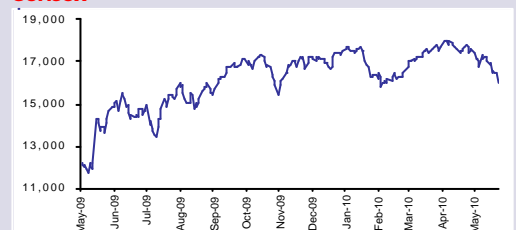
### Commodity

		% Chg			
	25 May 10	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	69	0.9	(17.6)	(13.0)	
Gold (US\$/OZ)	1,204	1.1	4.3	7.7	
Silver (US\$/OZ)	18	0.2	(1.5)	9.3	

### Debt / forex market

	25 May 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.7	7.7	8.1	7.9
Re/US\$	47.70	46.98	44.40	46.41

### Sensex



Source: Bloomberg

## EVENT UPDATE

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## ORACLE FINANCIAL SERVICES LTD (OFSL)

PRICE: Rs.2059

TARGET PRICE: Rs.2493

RECOMMENDATION: BUY

FY11E PE 18x

We interacted with the management recently to get views on the evolving macro scenario. The management has indicated an improving demand scenario with relatively lower lead time for projects and faster decision making. M&A activity within the BFSI vertical and regulatory / compliance issues are also expected to help business flows in the future. However, the evolving situation in Europe is causing some concern. 4QFY10 results were below expectations at the PAT level. License revenues grew by 12% YoY and services revenues were 11% lower QoQ. Forex loss of Rs.870mn also impacted overall profits. Sustainability of high growth rates and margins is critical, in our opinion. We tweak FY11 EPS estimate to Rs.116 (Rs.125 earlier). While valuations are not un-demanding, we believe that, these can be sustained in view of the improving macro scene and expected improvement in growth rates. There can be potential gains from Oracle's offer, if any, to buy-back shares and de-list the company. We maintain a BUY. Price target is at 2493 (Rs.2513). A delayed recovery in user economies and a sharper-than-expected rupee appreciation are key risks to our earnings estimates.

## Summary table :

Rs mn	FY09	FY10E	FY11E
<b>Sales</b>	<b>29354</b>	<b>28740</b>	<b>33124</b>
Growth %	22.4	-2.1	15.3
EBITDA	7755	10281	10795
EBITDA margin %	26.4	35.8	32.6
<b>Net profit</b>	<b>8125</b>	<b>7737</b>	<b>9751</b>
Net cash (debt)	15490	22046	34559
<b>EPS (Rs)</b>	<b>97.0</b>	<b>92.3</b>	<b>116.3</b>
Growth %	92.9	-4.8	26.0
CEPS	103.9	98.1	123.1
DPS (Rs)	6.0	6.0	6.0
ROE %	25.9	19.9	20.5
ROCE %	28.6	22.9	23.3
M Cap/Sales (x)	5.9	6.0	5.2
EV/EBITDA (x)	22.2	16.8	16.0
<b>P/E (x)</b>	<b>21.2</b>	<b>22.3</b>	<b>17.7</b>
P/Cash Earnings	19.8	21.0	16.7
P/BV (x)	4.9	4.0	3.3

Source : Company, Kotak Securities - Private Client research

## A conducive macro scene...

- In our interaction, the management indicated that, the macro scene had improved in 4QFY10 as compared to the previous quarter.
- With developed economies showing signs of stability and some growth, clients are more confident about their businesses. The sentiment had thus improved among clients and decision making is faster than earlier.
- What is also leading to more opportunities is the M&A activity within the BFSI sector. The compliance and regulatory compulsions have also results in more demand for companies like OFSL.
- Nine customer projects "went live" during the quarter with OFSL products and 15 new customers were added.

## ... led to higher order bookings

- With an overall improvement in the sentiment, business flows to OFSL improved and the total order intake during 4QFY10 was much better at \$31mn as compared to \$26mn in the previous quarter.
- The tank size stood at about \$117mn at the end of March 2010, marginally lower v/s \$120mn in the previous quarter.
- During 4QFY10, the company added 15 new customers for products.
- While the momentum for FLEXCUBE has continued, Reveleus and Mantas solutions are also experiencing traction with leading banks. In 4QFY10, Reveleus was listed in "The Top 10 companies and Technologies of 2009" by Bank Technology News. Reveleus and Mantas had key wins in Austria, Kenya, Kuwait and Malaysia.
- During the quarter, Oracle PrimeSourcing Consulting Services won orders from top tier banks in the US & EMEA regions in the specialized domain areas of Portfolio Management, Payments, and Business Intelligence.

**4QFY10 results**

Rs mns	3QFY10	4QFY10	% QoQ	4QFY09	% YoY
<b>Revenues</b>	<b>7272</b>	<b>7578</b>	<b>4.2</b>	<b>7949</b>	<b>-4.7</b>
Expenditure	4408	4510		4808	
<b>EBIDTA</b>	<b>2864</b>	<b>3067</b>	<b>7.1</b>	<b>3141</b>	<b>-2.3</b>
Depreciation	117	114		137	
EBIT	2747	2953	7.5	3004	-1.7
Interest	0	0		0	
Other inc	-294	-707		441	
<b>PBT</b>	<b>2453</b>	<b>2246</b>	<b>-8.4</b>	<b>3445</b>	<b>-34.8</b>
Tax	180	686		413	
<b>PAT</b>	<b>2273</b>	<b>1560</b>	<b>-31.3</b>	<b>3032</b>	<b>-48.5</b>
Share of Pft / (loss)	0	0		-1	
<b>Adjusted PAT</b>	<b>2273</b>	<b>1560</b>	<b>-31.3</b>	<b>3031</b>	<b>-48.5</b>
E.O items	0	0		291	
<b>EPS (Rs)</b>	<b>27.1</b>	<b>18.6</b>		<b>36.2</b>	
OPM (%)	39.4	40.5		39.5	
GPM(%)	37.8	39.0		37.8	
NPM(%)	31.3	20.6		38.1	

Source: Company

**Revenues higher**

- Revenues for the quarter were higher by about 4% QoQ though they fell by about 5% YoY.
- The sequential improvement was brought about by the products business where revenues rose 12% QoQ. This is over and above the 10% QoQ growth reported in 3QFY10.
- License revenues continued to report good growth for the second successive quarter after lackluster performance in 1HFY10. License revenues jumped to Rs.1.54bn (36% QoQ). However, this is in continuance of the trend seen over the past few fiscals, wherein the second half of the fiscal has been much better.
- AMC revenues continued their steady growth and are now a sizeable 23% of the overall product revenues, bringing in some stability to the overall product revenues stream.
- Services revenues de-grew by 11% QoQ. We believe that, a large part of this fall was due to the appreciation in the rupee during the quarter. The company also continued to focus on improving and sustaining margins.
- The employee strength in the services business increased on a net basis for the second successive quarter after about 7 successive quarters of reduction and this is a positive, in our view.

**EBIDTA margins were higher QoQ**

- On an overall basis, margins improved by about 110 percentage points sequentially as the contribution of product revenues increased and the absolute profitability in products business improved to 52% v/s 49.6% QoQ.
- We believe that, a higher proportion of license revenues helped in improving margins and will be a key determinant of margins going forward.

## Financials and Recommendation

- We have tweaked our earnings estimates for FY11.
- We expect the company to report revenues of Rs.33.12bn in FY11 with EBIDTA margins at about 33%.
- Product revenues are expected to grow by about 18% to Rs.22bn. Services revenues are expected to rise by about 13% YoY to Rs.10.36bn.
- EBIDTA margins are expected to be lower because of the expected rupee appreciation and expected increase in salaries from 1QFY11.
- We have assumed the rupee at an average of Rs.45.5 / USD for FY11.
- We expect a PAT of Rs.9.75bn, resulting into an EPS of Rs.116.

## Recommendation

- We see the Oracle relationship as a key differentiator for OFSL and believe this could open up significant business opportunities for the company in addition to having endowed it with an MNC parentage.
- The macro scene has also improved and this is expected to lead to better growth rates in FY11. Europe remains a concern, though.
- Thus, we maintain BUY with a revised price target of Rs.2493 based on FY11 earnings.
- We note that, the quarterly earnings are pretty volatile and may surprise on either side.
- A revised open offer by Oracle, if any, with a view to increase its stake further and de-list the stock from the bourses, will be an upside trigger, though we assign low probability to the same, for now.

## Risks

- A delayed recovery in major user economies may impact our projections.
- A sharp acceleration in the rupee beyond our estimates may impact our earnings estimates for the company.

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Sun Pharma	1587	2.5	1.0	0.53MLN
Cipla	313	-0.1	(0.1)	1.33MLN
ABB	827	-0.3	(0.1)	0.32MLN
<b>Losers</b>				
RIL	986	(3.6)	(21.7)	5.77MLN
L&T	1,559	(4.5)	(13.3)	1.86MLN
Infosys	2,533	(2.6)	(11.2)	1.10MLN

Source: Bloomberg

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