

## Ramco Systems Q2FY21

### Financial Results & Highlights

#### **Brief Introduction:**

Ramco Systems Limited operates as an enterprise software company in India, the Americas, Europe, APAC, the Middle East, and Africa. The company offers Ramco AviationSoftware, an enterprise-wide M&E/MRO software to address the needs of airlines, heli operators, MROs, and business aviation segments; Ramco VirtualWorks, a software meta model that captures data required to generate and deliver solutions in various technology platforms; and Ramco DecisionWorks for analytics/reporting. It also provides Ramco ERP on Cloud, a suite of products that covers enterprise functions, such as manufacturing; financial, supply chain, human capital, customer relationship, enterprise asset, and project management; process control; analytics; advanced planning and optimization; and connectors. In addition, the company offers Ramco Human Capital Management, a HR and talent management, and payroll software; and Ramco Logistics Software, a cloud based software that covers the needs of third-party logistics, freight forwarders, and parcel/courier service providers.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	85	85	0.00%	78	8.97%	163	171	-4.68%
PBT	16	20	-20.00%	16	0.00%	32	38	-15.79%
PAT	8	15	-46.67%	9	-11.11%	17	30	-43.33%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	165	151	9.27%	149	10.74%	314	293	7.17%
PBT	29	14	107.14%	28	3.57%	57	20	185.00%
PAT	17	7	142.86%	14	21.43%	31	10	210.00%

#### **Detailed Results:**

1. Consolidated revenues grew 9% YoY in Q2. Consolidated profits saw a phenomenal rise of 1.42 times YoY.
2. Similarly, H1 revenues showed growth of only 7% YoY but profit growth of 2.1 times YoY.
3. The company had a consolidated forex loss of 1.94 Cr in Q2.
4. The company retired borrowings of Rs 25.2 Cr. Debt as of 30<sup>th</sup> Sep 2020 was at Rs 49.75 Cr.
5. Cash & cash equivalents for the company was at Rs 16.4 Cr as of 30<sup>th</sup> Sep 2020.
6. Q2 witnessed the highest ever EBITDA figures.

### Investor Conference Call Highlights

1. The company signed 5 million dollars plus deals in Q2.
2. Quarterly order bookings stood at \$26.53 million, which was up 24% QoQ.
3. EBITDA margin in Q2 was at 31%.
4. The company entered the USA in Q2. It also made its entry into Europe with Cyprus and Turkey being launched this quarter.
5. The company also entered Macau and is looking to add 8 new countries in Europe and 6 new countries in Africa in the next 12 months.
6. The global market potential for RAMCO is currently at \$20 billion and growing steadily.
7. The management states that the company's USP is its consolidated global platform to process payroll. This helps in a) one single vendor giving payroll compliances for these countries b) uniformity in quality and the reporting and c) getting down to the last level of transaction in the payroll world.
8. 37% of revenues come from recurring customers.
9. The company added 5 large multinationals in Q2 which are One of the global Agri major company with more than 10,000 employees, one of the top-10 global dairy company with 5,000 employees, one of the top five logistics major with 15 countries, one of the large Fortune 500 & healthcare major and one of the large leading beverage and food majors in the Australia region.
10. The company is getting global acceptance with global IT majors like Oracle & Workday partnering up with Ramco.
11. The company has an unexecuted order book of about \$164 million at the moment.
12. 65% of the order wins were more than US\$1 million in Q2.
13. The company doesn't expect travel expenses to come back to the pre-covid level as it is more efficient for the company and client to have virtual meetings.
14. The DSO for the company remains high as the payment cycle for small customers is large. The management states that this will come down once larger clients get signed on.
15. The company has signed on 2 of the world's largest aircraft OEMs as customers. Due to the increased compliance in this, the company is seeing inroads into the US defense sector.
16. The company has multiple pricing models for the HRP segment.
17. The main crux behind the payroll business is how fast can you get things running and how do you charge the setup fees. Typically, the company should be able to go live in 3 months.
18. The company is indeed seeing a shift towards the PEPM (per employee per month) model from the traditional license model.
19. The partnership with Oracle & Workday involves them providing prospects to the company and Ramco paying these partners a referral fee. Ramco also has connectors built to their applications.

20. In the PEPM model, costs are automatically accounted for with revenue while development costs are amortized over 10 years. There are no deferred costs involved.
21. The company maintains a wage bill at below 50% of revenues and prefers to hire local nationals in low-cost countries or for strategic clients like US defense sector customers.
22. Q1 is the quietest quarter for Ramco typically. The rest of the year is evenly distributed.
23. The company is bidding for contracts worth \$500 million currently and is in an advanced stage in about \$200-211 million. The unexecuted order book of \$165 million will be executed in the next 2-4 years.
24. 60% of deals chased by Ramco are for HR & payroll.
25. The company booked a deal from a group of four ports and two logistics companies in Malaysia for \$5 million for enterprise asset management (EAM). This deal is completely by Ramco end-to-end and also includes logistics & HR components.
26. The increase in SG&A expenses in Q2 was mainly on account of special incentives offered by Ramco to stave off a business contraction in H1.
27. These incentives have gone away from 1<sup>st</sup>
28. The HRP business unit is deploying in AI/ML in payroll processing and rolling out Anomaly engine. It is also implementing a Self-explaining payslip and the reasoning engine, which automatically gives a reason why errors normally occur.

#### **Analyst's View:**

Ramco is a fast-growing enterprise software player disrupting the market with its multi-tenanted cloud and mobile-based enterprise software in the area of HCM and Global Payroll, ERP, and M&E MRO for Aviation. Ramco Systems focuses on Innovation and Culture to differentiate itself in the marketplace. On the Innovation front, Ramco has been focusing on moving towards Cognitive and Robotic ERP. Some of the recent positive developments such as sustained cost control, increased acceptance of remote implementation/sales, and partnership with Oracle & Workday for its Payroll business has led to better than expected numbers for the company. It remains to be seen whether this earning momentum can carry on in the quarters to come. The price has shot up a lot in a short period of time making the current valuation look very expensive at the moment. Nevertheless, Ramco Systems is one stock to watch out for in the IT product space.

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