

Management's discussion and analysis of financial condition and results of operations

Technology trends in the financial services industry and outlook

The banking industry in the next decade will enter a new phase of hyper-scale connectivity. This connectivity will go far beyond today's mobile revolution and will involve complex networks and ecosystems of banks, firms, devices, and humans.

With the turn of the decade the industry is only just beginning to get comfortable with the idea of building new business models and strategies that can take advantage of the prevailing digitally driven ecosystems. However, shedding legacy systems and culture, executing a futuristic vision, and becoming a truly modern financial establishment will require more than just incremental change. Banks will have to pick up the pace of transformation if they are to meet changing consumer expectations, beat a highly agile competition and achieve success in this new phase of hyper scale connectivity.

Advanced technologies like AI, Machine Learning, Block Chain and Biometrics are also gaining traction within the financial services industry. Forward looking organizations are exploring adaptive and predictive analytics, Internet of Things (IoT), and intelligent automation capabilities to make better predictions of outcomes, improve decision making as well as offer human-like customer experiences with efficiency and at scale.

The Application Programming Interface (API) economy offers banks the opportunity to commercialize resources like data, services and other capabilities to directly create business value. As the API economy continues to evolve, Open Banking capabilities will increasingly become table stakes for banks. These capabilities will enable them to sell and deliver improved products, services, and experiences, access existing and new customers, tap new markets and drive revenue growth.

Cloud adoption is gaining popularity in the financial services industry. What was once perceived as an unsure business step was now seen as an opportunity to reduce costs and grow the business. Your company applies a modern approach to assist banks rapidly adopt and realize the benefits of running their applications on Cloud. We have launched new initiatives and programs that enable customers to expedite their transition to the Cloud in a safe and cost-effective manner.

In the recent weeks there has been growing concern on the spread and impact of COVID-19. The global pandemic poses a challenge to healthcare systems, businesses and communities around the world. Banks and financial institutions are confronting a new reality as the ramification of the crisis is beginning to reverberate across the industry. In the months to come we will see surge in the use of online and self-service channels, new regulations will come into effect, there will be a boom in automation and increased need for digitized capabilities. As financial institutions prepare to meet these challenges, your company's solutions, are designed to help customers and prospects navigate such changes successfully. Our value proposition for the financial services industry remains very relevant today and even more so as global economies begin to recover. Our robust, IT infrastructure and processes enable us to deliver our support, services and software, anytime anywhere.

Oracle Financial Services Software is committed to empowering financial institutions to become more responsive, agile, collaborative, and insightful in what they do. Our solutions are architected to enable financial institutions, establish new business models, operate flexibly, respond proactively to market conditions, create new business opportunities and drive growth. Your Company's Analytical Applications power the top financial services companies in the world across Risk, Finance, Regulatory Compliance and Anti Financial Crime. These products are built on an industry-leading integrated data architecture that ensures sanctity of the source and curate data for reusability. These products enable financial institutions not just meet their Compliance and Regulatory needs, but also help monetize the investment in driving business benefit and improve overall profitability.

Business overview

Oracle Financial Services Software Limited, majority owned by Oracle, is a world leader in providing IT solutions to the financial services industry. With its experience of delivering value-based IT solutions to global financial institutions, Oracle Financial Services Software understands the specific challenges that financial institutions face: the need for building customer intimacy and competitive advantage through cost-effective solutions, while simultaneously adhering to the stringent demands of a dynamic regulatory environment.

Our mission is to enable financial institutions to excel through the effective use of information technology. Our dedicated research and development centers excel in innovation by developing world class products that strive to be ahead of the market. We offer financial institutions the world's most comprehensive and contemporary banking applications and a technology footprint that addresses their complex IT and business requirements.

VALUE RESEARCH PREMIUM

We offer a comprehensive suite of offerings encompassing retail, corporate, and investment banking, funds, cash management, trade, treasury, payments, lending, asset management, compliance, enterprise risk and business analytics, anti-financial crime among others. The products business (comprising product licensing, consulting and support) is our principal business segment. We also have two smaller business segments comprising of PrimeSourcing, our consulting services business (comprising IT application and technology services) and the business process outsourcing (BPO) services business.

These segments are described in detail below:

Products

The suite of solutions delivering a compelling Digital Experience, Digital Engagement and enabling comprehensive Data Management.

Oracle FLEXCUBE is a complete banking platform for retail, corporate and investment banking, consumer lending, asset management, and investor servicing including payments. Oracle FLEXCUBE can help banks jumpstart digital transformation and leapfrog their capabilities to stay relevant, competitive and compliant in a fast-evolving industry. With its modern, digital, shrink wrapped, pre-configured, interoperable, scalable and connected capabilities, Oracle FLEXCUBE Universal Banking can help catapult banks to the fore front of digital innovation and leadership.

Oracle FLEXCUBE equips banks for the era of physical and digital by helping them drive higher revenues, lower costs and improving service levels and convenience. It offers the right mix of digital self-service and assisted engagement capabilities, coupled with robust product processing functionalities that enable banks enhance customer experiences. Enabled by the latest User Experience and technologies like Machine Learning, Natural Language Processing and Intelligent Assistants, Oracle FLEXCUBE empowers bankers with new insights, predictions and capabilities to personalize customer engagement while automating and streamlining routine processes. Oracle FLEXCUBE offers banks the agility to adapt architectures to suit different transformation paths and diverse operating / business models through a componentized architecture that is increasingly built on micro services. Its 1600 + APIs and Business Services enables banks to open up data and services to third party developers to drive new ways to collaborate and build revenue streams in the age of Open Banking.

Oracle FLEXCUBE offers comprehensive functional capabilities across multiple lines of business and supports new business capabilities and functionalities, regulatory compliances and country specific localizations. It enables banks to standardize operations across multiple countries, transform their processes, address niche business requirements, respond faster to market, and manage compliances. Oracle FLEXCUBE offers out of the box support for multiple standards and regulatory directives such as SWIFT GPI, SEPA Instant, PSD2, PAD, and FATCA phase III etc. and includes data privacy features.

Oracle Financial Services Analytical Applications (OFSAA) is a suite of industry leading applications catering to the critical areas of Risk, Finance, Treasury, Front office, Regulatory Reporting and Compliance, including the areas of Financial Crime. These products are built on a unified data architecture leveraging new age technologies like Artificial Intelligence (AI)/ Machine Learning (ML) and Graph, to deliver high performance.

Oracle Financial Services Analytical Applications Infrastructure (AAI) provides state of the art tools/frameworks/libraries that support building OFSAA analytical applications and power their runtime across Risk, Finance, Treasury and Financial-Crime-&-Compliance domains. AAI's compute engines process data at scale exploiting hybrid compute engines that include Big-Data cluster. AAI supports business logic that is both deterministic and model based with powerful predictive analytics framework that delivers the foundation for Artificial Intelligence (AI)/Machine Learning (ML) and augmented learning. AAI's customer footprint is a testament to its enterprise nature and ability to address regulatory needs, real-time responsiveness and complex decision support systems for financial institutions across the globe. AAI's portfolio has approved global patents, with both US-Patents & Trademarks Office (US-PTO) and European Union Patents Office (EPO) gives it unique advantage.

Oracle Financial Services Financial Crime and Compliance Management (FCCM) suite comprises of a modern, comprehensive, and extensible suite of applications that enable financial institutions with advanced capabilities to effectively combat financial crime and comply with regulations while enhancing operational efficiency. Oracle FCCM's key offerings span across the entire financial crime and compliance management value chain including streamlined Know Your Customer checks and Sanctions screening, Anti Money Laundering (AML) Transaction Monitoring and Detection, efficient Enterprise Case Management, timely Compliance Regulatory Reporting and Management dashboards. The offerings are augmented by a comprehensive Data Management and Advanced Analytics capabilities to manage complex new generation threats. The key advanced analytics capabilities include an integrated analytics workbench for machine learning based scenario modelling, and embedded graph analytics-based data visualizations enabling discovery of hidden networks, entity resolution, advanced case investigations, and network pattern analysis.

Oracle Financial Services Enterprise Risk Management applications are industry-leading products that enable financial institutions to address a wide range of issues including:

- Support continuous compliance for complex Basel III post-crisis reforms covering Revised Standardized Approach for Credit Risk, Market Risk, FRTB, Counterparty Credit Risk, Large Exposures and Leverage Ratio guidelines due to be adopted by various jurisdictions from 2023 onwards.
- Managing risk across Treasury with integrated solutions covering interest rate risk, liquidity risk and funds transfer pricing.
- Improving forecasting and predictive modeling capabilities thru pre-built models that leverage Artificial Intelligence and Machine Learning methods.
- Unified IFRS 9/CECL solution using a modularized design approach, which allows for easier solution integration and client-specific extensions and enables FIs to perform granular calculations on a common dataset.
- Oracle Financial Services Hedge management and IFRS valuation products caters to Hedge Management, IFRS9 based Hedge Accounting standards on Micro hedging, Fair valuations using inbuilt methods, IFRS13 Fair Valuation Level Allocation, and Disclosure requirements of IFRS7.

Oracle Financial Services Analytical Applications for Customer Insight suite of products comprise of Banking & Insurance Performance Analytics and Retail Customer Analytics products which are front office applications aimed at promoting topline growth through data driven insights into customer behavior. The solution helps improve top-line growth with improved profitability by managing the profitable customer journeys and their lifecycle with the bank. The banks have an added flexibility of deploying the Performance Analytics solution on cloud.

Oracle Banking Digital Experience brings new comprehensive capabilities to banks seeking a digital transformation, customer and product acquisitions, business services, including payments innovation and customer financial insight. Built on open standards architecture, it provides a full range of business essentials out-of-the-box, including digital account and loan origination, digital wallets and mobile payments. It also offers self service capabilities for corporate customers in the areas of supply chain finance, corporate lending and facility management, liquidity and virtual account management, and trade finance and cash management.

Oracle Banking APIs are targeted at helping banks embarking on an Open API journey. Banks can take advantage of ready to consume APIs to accelerate their initiatives to tap new opportunities presented by PSD2 and Open Banking. Oracle Banking APIs enable banks to build seamless partnerships with third-party technology organizations, easily integrate with corporate client applications and reduce the time between API ideation and delivery.

Oracle Banking Liquidity Management enables banks to run a centralized liquidity management solution. The solution supports traditional liquidity management methods like pooling and sweeping as also the advanced methods such as interest optimization. The solution enables banks to provide in-depth visibility into cash positions of customers, thereby helping them manage their daily liquidity in a consolidated and effective manner. The solution also provides advanced techniques such as additional avenues for higher yield investments with flexibility to cater to country regulatory restrictions, which in turn helps businesses to remain competitive and grow steadily despite all odds.

Oracle Banking Virtual Account Management provides comprehensive support for banks to enable their corporate customers to manage their banking accounts efficiently. Pre-integrated with Oracle Banking Liquidity Management, Oracle Banking Payments and Oracle FLEXCUBE DDA, the solution helps banks offer comprehensive support for virtual accounts. With Oracle Banking Virtual Account Management, corporates can ensure rationalization of number of real accounts and at the same time manage corporate liquidity efficiently.

Oracle Banking Corporate Lending is an end-to-end digitally enabled lending solution. The solution enables easy integration with banks' internal and external systems of customers, partner banks and agencies which supports open interface (Open API) standards and eliminates processing overheads to deliver a faster loan processing. It allows banks to embrace digital capabilities across the enterprise from credit management, origination to servicing. Its flexible reporting capability and its ability to integrate with vendors and credit bureaus enables banks to comply effectively with new regulations. The solution provides banks the capability to finance large and complex loan requirements of corporate customers either through bilateral loans, syndicated loans by partnering with other banks or secondary loan trading. It enables banks to offer flexible loan terms such as revolving and non-revolving commitments, flexible interest rates and fees, different payments options, multiple rollover options and flexible disbursement facility.

Oracle Banking Corporate Lending Process Management is built to accelerate the process of origination and servicing of corporate loans, enhance digital experience and empowers banks to address customers' financing needs. Its flexible servicing capabilities enables banks to undertake revolving and non-revolving commitments, manual and automated payments, flexible rollover options and multiple types of disbursement facilities. Banks can now easily close loans with an efficient workflow that ensures settlements and legal proceeding are undertaken smoothly. An Open API enabled solution, Oracle Banking Corporate Lending Process Management allows banks to create new and connected experiences for their customers.

Oracle Banking Credit Facilities Process Management is a comprehensive credit management solution that enables banks to accelerate credit origination, pre-qualify wide variety of credit lines and enhance customer experience and track exposures to customers in real-time and mitigate business risks. The solution allows for periodic re-evaluation of collaterals and customers' credit worthiness throughout the credit lifecycle. Banks can also proactively track utilizations, collateral leverages, credit and risk scores, and covenants to ensure customers are meeting compliance requirements.

Oracle Banking Enterprise Limits and Collateral Management offers a single source for managing exposure across a business portfolio. It enables centralized collateral management, limits definition, tracking and exposure measurement for effective exposure management and resource utilization.

Oracle Banking Trade Finance Process Management provides comprehensive support for banks to enable their corporate customers manage trade finance operations efficiently. Banks can help corporates improve their trade service quality levels, expand trade operations to a global scale and ensure compliance with regulatory requirements without incurring additional costs. With Oracle Banking Trade Finance Process Management, banks can enable corporates to manage a wide range of trade services including guarantees, documentary credit and collections through intelligent automation.

Oracle Banking Supply Chain Finance is a comprehensive digitized end-to-end solution that supports the full lifecycle of supply chain finance across receivables and payables offering supplier centric financing and buyer centric financing.

Oracle Banking Payments helps financial institutions improve straight through processing, support real-time and immediate payment settlement, and reduce time-to-market while driving innovation. The solution is designed to enable banks to rapidly respond to evolving standards while maintaining complete operational control and providing high fidelity insight. Oracle Banking Payments supports global as well as local payment standards.

Oracle Financial Services Lending and Leasing combines the power of Oracle's comprehensive, industry-leading lending, and leasing solution with the simplicity, elasticity and security of Oracle Cloud and empowering lending institutions to grow and improve profitability of their core lending business. The solution supports complete consumer lending operations and lifecycle processing from origination to servicing, collections, delivering accurate, actionable information from a single data source to help lending institutions make faster and more informed decisions about loans, reduce risk, effectively manage the loan life cycle and manage delinquencies and losses. Its intuitive interface, navigation and context-based account and customer sessions help boost user productivity.

Oracle FLEXCUBE Investor Servicing is a process enabled-transfer agency and investor servicing solution. It helps financial institutions manage the complete fund lifecycle and reduce operational costs through process automation across fund structures, intermediary hierarchies, and investors. Oracle FLEXCUBE Investor Servicing, an ISO 20022 compliant solution, enables enhanced STP processing through support for a wide variety of SWIFT NET Fund messages. With a comprehensive business rules engine for products such as hedge funds, mutual funds and investment linked products and fee structures, Oracle FLEXCUBE Investor Servicing allows fund management companies to configure and launch new products rapidly.

Oracle Banking Platform is a comprehensive suite of business applications for large global banks. Oracle Banking Platform is designed to help banks respond strategically to today's business challenges and progressively transform their business models and processes, driving productivity improvements across both front and back offices and reducing operating costs. The solution supports banks as they grow their businesses through new distribution strategies, including multi-brand or white labeling, to tap new markets and enterprise product origination supporting multi-product and packages to drive an increased customer-to-product ratio. The solution provides a holistic view of the customer relationship across all products and services.

Oracle Banking Platform is designed as a native service-oriented architecture (SOA) platform, helping banks implement key enterprise services, deliver and enrich channel capabilities, drive process improvements and tie it in with their existing applications and technology landscape. Through pre-integrated enterprise applications and the underlying Oracle technology, the solution can also help to reduce in-house integration and testing efforts, ultimately, reducing IT costs and improving time-to-market. Oracle Banking Platform provides a comprehensive suite of applications that makes the replacement of core systems viable for large banks, enabling strategic choices as well as providing a high level of flexibility and value.

Oracle Banking Enterprise Product Manufacturing is a comprehensive suite of product master data management capability for the banking domain. It provides functionality to define financial products under current accounts and savings account, loans, term deposits, credit cards, investment and retirement accounts and insurance (consumer credit, lenders mortgage and home and content insurance types). Oracle Banking Enterprise Product Manufacturing helps banks create innovative products faster, add features to existing products, and set prices based on customer relationships. By designing differentiated product bundles, banks can optimize their product portfolio.

Oracle Banking Enterprise Collections is an enterprise-class collections platform designed to assist financial institutions with managing repayments of their consumer loan portfolios. The solution enables financial institutions in

identification of delinquent accounts, and accurate tracking and monitoring of delinquent accounts with high standards of efficiency. The solution covers the delinquent life-cycle of a consumer loan starting from the identification of the symptoms of delinquency to tracking delinquency and impairment.

Oracle Banking Enterprise Originations is an enterprise-class platform covering the entire origination process from prospecting through fulfillment. Oracle Banking Enterprise Originations enables banks to simplify complex origination processes and deliver seamless customer experience throughout the origination lifecycle. The solution operates across channels, providing a common origination process for both assisted and self-service customers.

Services

Oracle Financial Services PrimeSourcing offers a comprehensive suite of consulting and application services addressing retail, corporate, and investment banking, funds, cash management, trade, treasury, payments, lending, private wealth management, asset management, compliance, enterprise risk and business analytics. PrimeSourcing offerings encompass end-to-end consulting partnership, providing comprehensive business and technology solutions that enable financial services enterprises to improve process efficiencies, optimize costs, meet risk and compliance requirements, define IT architecture, and manage the transformation process. PrimeSourcing services are rendered through centers located in India, by onsite teams operating at the customers' premises and on-site centers located in other parts of the world. With customer demands changing rapidly to outcome transformational engagements, there is a clear opportunity for PrimeSourcing to integrate its deep domain knowledge with the product offerings of Oracle, thereby providing a compelling value.

Oracle Business Process Outsourcing Services (BPO) offerings excel in providing cost effective and high quality BPO services ranging from complex back-office work to contact center services for the banking, capital markets, insurance and asset management domains. This comprehensive ecosystem of BPO services is backed by a mature process and consulting framework. The BPO offerings are ISO 9001 certified for quality management and ISO 27001 certified for information security management.

Our revenues

Our revenues comprise three streams - license fees, annual maintenance contract (post contract support - PCS) fees for our products and consulting fees in respective business segments.

License fee

Our standard licensing arrangements for products provide the bank a right to use the product up to a limit on number of users or sites or such other usage metric upon the payment of a license fee. The license fee is a function of a variety of quantitative and qualitative factors, including the number of copies, users, modules and geographical locations supported. The licenses are perpetual, non-exclusive, personal, non-transferable and royalty free.

Annual maintenance contract (PCS) fees

Customers typically sign an Annual Maintenance Contract with us under which, we provide technical support, maintenance, problem resolution and upgrades for the licensed products. These support agreements typically cover a period of twelve months and are renewed for further period of twelve months.

Consulting fee

We provide consulting services to our customers. The customer is typically charged a service fee on either a fixed price basis or a time and material basis based on the professional efforts incurred and associated out of pocket expenses. Both PrimeSourcing and BPO businesses comprise only of consulting services. In products business, our customers can optionally avail our consulting services related to the implementation of products at their sites, integration with other systems or enhancements to address their specific requirements.

The revenues generated from license fees and consulting services rendered by us depends on factors such as the number of new customers added, milestones achieved, implementation effort, etc. Therefore, such revenues typically vary from quarter to quarter and year to year. The annual maintenance contracts generate steady revenues and could grow to the extent that new customers are entering a support agreement.

Analysis of our consolidated financial results

The following discussion is based on our audited consolidated financial statements, which have been prepared in accordance with Indian Accounting Standards (referred to as "Ind AS") as prescribed under Section 133 of the Companies Act, 2013 (the 'Act') read with relevant Rules of the Companies (Indian Accounting Standards) Rules, 2015 (as amended).

The consolidated financial statements include Oracle Financial Services Software Limited ("the Company"), its subsidiaries and Controlled Trust (together referred to as "OFSS group" as described in note 1 to the consolidated financial statements) ("the Group") as at March 31, 2020.

VALUE RESEARCH PREMIUM

You should read the following discussion of our financial position and results of operations together with the detailed consolidated Ind AS financial statements and the notes which form integral part of such financial statements. Our fiscal year ends on March 31 of each year.

Performance summary

(Amounts in ₹ million)

Year ended March 31, 2020	Products	Services	BPO Services	Total
Revenue	43,145.69	4,275.92	1,191.15	48,612.76
Operating expenses	(21,786.24)	(3,497.92)	(803.05)	(26,087.21)
Unallocable expenses				(1,776.13)
Income from operations	21,359.45	778.00	388.10	20,749.42
Operating margin	50%	18%	33%	43%
Profit for the year				14,622.17
Profit margin				30%
Year ended March 31, 2019				
Revenue	43,527.29	4,945.07	1,116.67	49,589.03
Operating expenses	(22,061.72)	(4,309.46)	(793.30)	(27,164.48)
Unallocable expenses				(1,515.60)
Income from operations	21,465.57	635.61	323.37	20,908.95
Operating margin	49%	13%	29%	42%
Profit for the year				13,858.98
Profit margin				28%

Our total revenues in the fiscal year ended March 31, 2020 were ₹ 48,612.76 million, decrease of 2% over our total revenues of ₹ 49,589.03 million in the fiscal year ended March 31, 2019. The decrease in revenues was primarily attributable to decrease in the revenues from our services business.

Income from operations in fiscal 2020 was ₹ 20,749.42 million representing decrease of 1% from ₹ 20,908.95 million in fiscal 2019. The profit for the year in fiscal 2020 was ₹ 14,622.17 million, as against ₹ 13,858.98 million in fiscal 2019.

Revenues from operations

Products revenues

Our products revenues represented 89% and 88% of our total revenues in the fiscal year ended 2020 and 2019 respectively. Our products revenues were ₹ 43,145.69 million in the fiscal year ended March 31, 2020, decrease of 1% from ₹ 43,527.29 million during the fiscal year ended March 31, 2019.

The percentages of our revenues are as follows for different streams:

	Year ended March 31, 2020	Year ended March 31, 2019
License fees	13%	12%
Consulting fees	55%	57%
PCS fees	32%	31%
Total	100%	100%

Services revenues

Our services revenues represented 9% and 10% of our total revenues for the fiscal year ended March 31, 2020 and March 31, 2019 respectively. Our services revenues were ₹ 4,275.92 million in the fiscal year ended March 31, 2020, decrease of 14% from ₹ 4,945.07 million in the fiscal year ended March 31, 2019.

The percentage of total services revenues from time and material contracts was 68% in fiscal year 2020 and 69% in fiscal year 2019, with the remainder of our services revenues attributable to fixed price contracts.

Business Process Outsourcing (BPO) Revenues

Our revenues from BPO services in the fiscal year ended March 31, 2020 were ₹ 1,191.15 million, an increase of 7% over our revenues from BPO services of ₹ 1,116.67 million in the fiscal year ended March 31, 2019.

Finance income and other income, net

Our finance and other income primarily comprises of interest on bank deposits and foreign exchange gain/loss. Our finance and other income in the fiscal year ended March 31, 2020, was ₹ 1,773.39 million, as compared to ₹ 1,760.92 million in the fiscal year ended March 31, 2019. The higher interest income on bank deposits of ₹ 1,597.02 million is on account of higher surplus cash balance resulting in an overall increase in finance and other income.

Expenses**Operating expenses**

The operating expenses consist of costs attributable to the compensation expenses for employees, project related travel expenses, professional fees paid to vendors, the cost of application software for internal use, selling and marketing expenses (including commissions payable to our partners), research and development expenses, product advertising and marketing expenses, finance cost, contribution against Corporate Social Responsibility and overhead expenses associated with support functions such as human resources, finance, facilities and infrastructure, IT along with depreciation and amortization. We recognize these expenses as incurred.

Research costs are expensed as incurred. Software product development costs are expensed as incurred unless technical feasibility of project is established, future economic benefits are probable, the OFSS group has an intention and ability to complete and use or sell the software and the cost can be measured reliably. Software product development costs incurred subsequent to the achievement of technical feasibility are not material and are expensed as incurred.

Employee costs

Our employee costs related expenditure decreased by 4% to ₹ 21,178.01 million in the fiscal year ended March 31, 2020 from ₹ 21,958.10 million in the fiscal year ended March 31, 2019. Employee costs relate to salaries and bonuses paid to employees.

Travel related expenses

Our travel related expenditure decreased by 9% to ₹ 2,255.81 million in the fiscal year ended March 31, 2020 from ₹ 2,466.95 million in the fiscal year ended March 31, 2019. Travel costs relate to airfare, accommodation and other related expenses incurred on travel of our employees on projects, sales and marketing and for internal assignments.

Professional fees

Our professional fees related expenditure decreased by 3% to ₹ 1,452.45 million in the fiscal year ended March 31, 2020 from ₹ 1,492.07 million in the fiscal year ended March 31, 2019 representing 3% of revenue from operations for the year ended March 31, 2020. Professional fees include services hired from external consultants for various projects.

Finance cost

Finance cost for the fiscal year ended March 31, 2020 is ₹ 473.65 million on account of interest on lease liability and income tax.

Other expenses

Our other expenditure decreased by 35% to ₹ 1,439.61 million in the fiscal year ended March 31, 2020 from ₹ 2,225.79 million in the fiscal year ended March 31, 2019. The other expenses represent 3% and 4% of revenue from operations for years ended March 31, 2020 and 2019 respectively. Other expenses primarily consist of Corporate Social Responsibility expenditure, various facilities costs, application software, communication and other miscellaneous expenses.

Depreciation and amortization

Depreciation and amortization comprises of depreciation on Property, plant and equipment and on Right-of-use asset. Our depreciation and amortization charge was ₹ 1,063.81 million and ₹ 537.17 million for the year ended March 31, 2020 and March 31, 2019 representing 2% and 1% of revenues from operations respectively.

Operating Margin

Operating profit for the year ended March 31, 2020 is ₹ 20,749.42 million as against ₹ 20,908.95 million during the year ended March 31, 2019.

Income taxes

The Company has exercised the option permitted under Section 115BAA of the Indian Income Tax Act, 1961 as introduced by The Taxation Laws (Amendment) Ordinance, 2019. Accordingly, the Company has recognized provision for income tax and re-measured its deferred tax asset at the rate prescribed in the said section. Our provision for income taxes in the fiscal year ended March 31, 2020 was ₹ 7,900.64 million as against ₹ 8,810.89 million in the fiscal year ended March 31, 2019. Our effective tax rate was 35% and 39% in the fiscal year 2020 and 2019, respectively. Income taxes also include foreign taxes representing income taxes payable overseas by us in various countries.

Profit for the year

As a result of the foregoing factors, net profit has increased by 6% to ₹ 14,622.17 million in fiscal year 2020 from ₹ 13,858.98 million in fiscal year 2019.

Analysis of our unconsolidated results

The following discussion is based on our audited unconsolidated financial statements, which have been prepared in accordance with Ind AS as prescribed under Section 133 of the Companies Act, 2013 (the 'Act') read with relevant rules of the Companies (Indian Accounting Standards) Rules, 2015 (as amended).

You should read the following discussion of our financial position and results of operations together with the detailed unconsolidated Ind AS financial statements and the notes which form integral part of such financial statements. Our fiscal year ends on March 31 of each year.

Performance summary

(Amounts in ₹ million)

Year ended March 31, 2020	Products	Services	Total
Revenue from operations	31,668.22	3,586.86	35,255.08
Operating expenses	(13,588.88)	(2,183.01)	(15,771.89)
Unallocable expenses	–	–	(1,088.99)
Income from Operations	18,079.34	1,403.85	18,394.20
Operating margin	57%	39%	52%
Profit for the year			15,826.56
Profit margin			45%
Year ended March 31, 2019			
Revenue from operations	31,886.35	3,922.62	35,808.97
Operating expenses	(13,462.46)	(2,574.78)	(16,037.24)
Unallocable expenses	–	–	(1,297.08)
Income from Operations	18,423.89	1,347.84	18,474.65
Operating margin	58%	34%	52%
Profit for the year			12,824.70
Profit margin			36%

Our total revenues in fiscal 2020 were ₹ 35,255.08 million as against ₹ 35,808.97 million in fiscal 2019.

Income from operations in fiscal 2020 was ₹ 18,394.20, as against ₹ 18,474.65 million in fiscal 2019. The profit for the year in fiscal 2020 was ₹ 15,826.56 million, as against ₹ 12,824.70 million in fiscal 2019.

Revenues from operations

Products revenues

Our products revenues represented 90% and 89% of our total revenues in the fiscal year 2020 and 2019 respectively. Our products revenues were ₹ 31,668.22 million and ₹ 31,886.35 million in the fiscal year ended March 31, 2020 and March 31, 2019 respectively.

The percentages of our products revenues are as follows for different streams:

	Year ended March 31, 2020	Year ended March 31, 2019
License fees	14%	13%
Consulting fees	50%	52%
PCS fees	36%	35%
Total	100%	100%

Services revenues

Our services revenues represented 10% and 11% of our total revenues in the fiscal year 2020 and 2019 respectively. Our services revenues were ₹ 3,586.86 million and ₹ 3,922.62 million in the fiscal year ended March 31, 2020 and March 31, 2019 respectively.

The percentage of total services revenues from time and material contracts was 71% in both the fiscal years 2020 and 2019, with the remainder of 29% of our services revenues attributable to fixed price contracts.

Finance income and other income, net

Our finance and other income primarily comprises of interest on bank deposits and foreign exchange gain/loss. Our finance and other income were ₹ 1,691.59 million in the fiscal year ended March 31, 2020, as compared to ₹ 1,389.50 million in the fiscal year ended March 31, 2019. A higher surplus cash balance has resulted in higher interest income on bank deposits of ₹ 1,448.26 million for the fiscal year ended March 31, 2020.

Expenses

Operating expenses

The operating expenses consist of costs attributable to the compensation expenses for employees, project related travel expenses, professional fees paid to vendors, the cost of application software for internal use, selling and marketing expenses, research and development expenses, finance cost, bad debts, impairment loss (reversed) on contract assets, contribution against Corporate Social Responsibility and overhead expenses associated with support functions such as human resources, finance, facilities and infrastructure, IT along with depreciation and amortization. We recognize these expenses as incurred.

Research costs are expensed as incurred. Software product development costs are expensed as incurred unless technical feasibility of project is established, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the software and the cost can be measured reliably. Software product development costs incurred subsequent to the achievement of technical feasibility are not material and are expensed as incurred.

Employee costs

Our employee costs related expenditure increased to ₹ 11,909.23 million in the fiscal year ended March 31, 2020 from ₹ 11,896.09 million in the fiscal year ended March 31, 2019. Employee costs relate to salaries and bonuses paid to employees in India and at overseas branches, stock compensation charge to eligible employees along with staff welfare activities for employees.

Travel related expenses

Our travel related expenditure decreased by 8% to ₹ 1,593.78 million in the fiscal year ended March 31, 2020 from ₹ 1,741.70 million in the fiscal year ended March 31, 2019. Travel costs relate to airfare, accommodation and other related expenses incurred on travel of our employees on projects, sales and marketing and for internal assignments.

Professional fees

Our professional fees related expenditure decreased by 4% to ₹ 1,311.47 million in the fiscal year ended March 31, 2020 from ₹ 1,366.75 million in the fiscal year ended March 31, 2019 representing 4% of revenue from operations for the years ended March 31, 2020 and March 31, 2019. Professional fees include services hired of external consultants for various projects and support services.

Finance Cost

Our finance cost expenditure was ₹ 80.18 million in the fiscal year ended March 31, 2020 on account of Interest on lease liability and income tax.

Other expenses

Our other expenditure decreased by 38% to ₹ 1,134.50 million in the fiscal year ended March 31, 2020 from ₹ 1,827.80 million in the fiscal year ended March 31, 2019. The other expenses represent 3% and 5% of revenue from operations for the year ended March 31, 2020 and year ended March 31, 2019 respectively. Other expenses primarily consist of Corporate Social Responsibility expenditure, provision for diminution in value of investment, bad debts and Impairment loss (reversed) on contract assets, various facilities and infrastructure costs, application software, communication, auditors' remuneration and other miscellaneous expenses.

Depreciation and amortization

Depreciation and amortization charge comprises of depreciation on property, plant and equipment and on right-of-use asset. Our depreciation and amortization charge was ₹ 831.72 million and ₹ 501.98 million for the year ended March 31, 2020 and 2019 representing 2% and 1% of revenues from operations respectively.

Operating Margin

Operating profit for the year ended March 31, 2020 is ₹ 18,394.20 million as against ₹ 18,474.65 million during the year ended March 31, 2019. Our operating profit margin was 52% for both the fiscal years 2020 and 2019.

Income taxes

The Company has exercised the option permitted under Section 115BAA of the Indian Income Tax Act, 1961 as introduced by The Taxation Laws (Amendment) Ordinance, 2019. Accordingly, the Company has recognized provision for income tax and re-measured its deferred tax asset at the rate prescribed in the said section. Our provision for income taxes in the fiscal year ended March 31, 2020, was ₹ 4,259.23 million as against ₹ 7,039.45 million in the fiscal year ended March 31, 2019. Our effective tax rate was 21% and 35% for the fiscal years ended March 31, 2020 and March 31, 2019 respectively. Income taxes also include foreign taxes representing income taxes payable overseas by the Company in various countries.

Profit for the year

As a result of the foregoing factors, net profit for the year ended March 31, 2020 is ₹ 15,826.56 million as against ₹ 12,824.70 million during the year ended March 31, 2019.

Other metrics

Key financial ratios

The following table summarizes significant changes in key financial ratios for the year ended March 31, 2020 and March 31, 2019.

	Consolidated		Unconsolidated	
	2020	2019	2020	2019
Financial Performance				
Operating profit / revenue from operations	43%	42%	52%	52%
Profit after tax / revenue from operations	30%	28%	45%	36%
Financial Position				
Current Ratio	6.3 times	4.1 times	9.6 times	5.6 times
Return on total equity	22%	28%	29%	33%
Days of sales outstanding	63 days	63 days	41 days	48 days

Trade receivables

As per Consolidated financials, trade receivables as of fiscal March 31, 2020 and 2019 were ₹ 9,253.66 million and ₹ 9,474.76 million respectively. As per unconsolidated financials trade receivables as of fiscal March 31, 2020 and 2019 were ₹ 4,154.31 million and ₹ 4,866.30 million respectively.

VALUE RESEARCH PREMIUM

The Group periodically reviews its trade receivables outstanding as well as the ageing, quality of the trade receivables, customer relationship and the history of the client. The following table represents the ageing of our trade receivables:

Ageing in days	Consolidated		Unconsolidated	
	2020	2019	2020	2019
0-180	93%	88%	98%	71%
More than 180	7%	12%	2%	29%
Total	100%	100%	100%	100%

Geographic breakup of revenues

The following table represents the percentage breakup of our consolidated and unconsolidated revenues for our products and services business by region:

	Year ended March 31, 2020			Year ended March 31, 2019		
	Products Revenues	Services Revenues	Total Revenues	Products Revenues	Services Revenues	Total Revenues
Consolidated						
Americas (NAMER)	28%	73%	34%	29%	69%	33%
Europe, Middle East, Africa (EMEA)	37%	17%	34%	37%	22%	35%
Asia Pacific (JAPAC)	35%	10%	32%	34%	9%	32%
Total	100%	100%	100%	100%	100%	100%
Unconsolidated						
Americas (NAMER)	23%	70%	27%	23%	67%	28%
Europe, Middle East, Africa (EMEA)	43%	18%	41%	42%	22%	39%
Asia Pacific (JAPAC)	34%	12%	32%	35%	11%	33%
Total	100%	100%	100%	100%	100%	100%

Customer concentration

The percentage of total revenues during fiscal years 2020 and 2019 that we derived from our largest customer, largest five customers and largest ten customers on consolidated and unconsolidated basis is provided in the accompanying table. The Company contracts end customers in several countries through the local subsidiary of Oracle Corporation. Entities under common control are considered as a single customer for the purpose of reporting customer concentration.

	Products Revenues		Services Revenues		Total Revenues	
	2020	2019	2020	2019	2020	2019
Consolidated						
Largest customer	48%	52%	18%	15%	44%	47%
Top 5 customers	61%	61%	57%	55%	56%	57%
Top 10 customers	67%	66%	78%	77%	62%	62%
Unconsolidated						
Largest customer	77%	74%	98%	98%	79%	77%
Top 5 customers	89%	89%	100%	100%	90%	90%
Top 10 customers	93%	93%	100%	100%	94%	94%

Internal control systems and their adequacy

Oracle Financial Services Software group has in place adequate systems for internal control commensurate with the size of the business operations of the Company and documented procedures covering all financial and operating functions. These systems are designed to provide reasonable assurance with regard to maintaining adequate controls, monitoring economy and efficiency of operations, protecting assets from unauthorized use or losses, and ensuring reliability of financial and operational information. The Group continuously strives to align all its processes and controls with global best practices.

Opportunities and threats

The financial services industry is witnessing a paradigm shift towards unparalleled customer choice and convenience with next generation digital technologies. Several innovative operating and business models are emerging driven by shifts in the way both retail and corporate customers consume financial services. Oracle is committed to understanding the needs of its customers and helping them transform their systems with front to back solutions and digital capabilities that enable them to not just respond quickly and effectively to changing market conditions and dynamics, but to also create business opportunities and drive growth. While Geo-political issues are impacting mobility and the cost of doing business, our deep domain expertise, strong partner network, and high brand value, remain our strengths; resulting in continued momentum of new customer additions.

Our opportunities come from:

- Financial Institutions looking to leverage new technologies and create alternative revenue streams
- Evolving regulatory mandates driving IT spend
- Our expanding solution footprint with new solutions for Financial Crime Prevention and Corporate Banking

The opportunities also throw up new challenges:

- Increased competition from vendors with digital solutions and new players
- Negative pressure on pricing as customers seek to streamline their IT budgets
- Uncertainties caused by COVID-19 pandemic

Liquidity and capital resources

Our capital requirement relate primarily to financing the growth of our business. We have historically financed the majority of our working capital, capital expenditure and other requirements through our operating cash flow. During fiscal year 2020 and 2019, we generated cash from operations of ₹ 15,218.19 million and ₹ 13,796.12 million respectively as per consolidated financials and ₹ 14,846.69 million and ₹ 10,526.77 million respectively as per unconsolidated financials.

We are a zero-debt company. We expect that our primary financing requirements in the future will be capital expenditure and working capital requirements in connection with the expansion of our business. We believe that the cash generated from operations will be sufficient to satisfy our currently foreseeable capital expenditure and working capital requirements.

Human capital

We are a globally integrated organization having seamless team-work with collaboration and a good understanding of the nuances of different geographical cultures with a strong backbone of our own Company culture and business conduct guidelines.

As at March 31, 2020, the Company had 6,474 employees (March 31, 2019 - 6,503) and the OFSS Group had 8,001 employees (March 31, 2019 - 8,054).

Talent acquisition and retention

We recruit graduates and post-graduates from top engineering and business schools. We also hire domain experts from the banking industry creating a right mix of employees with functional and technology expertise. We also aim to be the best in class inclusive employer having employees across the regions in all the markets we operate. We maintain above Industry standard for gender hiring as well.

We invest in continuous learning of our employees and engage them in programs that develop agility to work in a constantly transforming ecosystem. The blend of functional knowledge and technical expertise, coupled with in-house training and real-life experiences in working with financial institutions, makes our employees unique. We leverage the virtual libraries across the organization and also use on-line learning from leading learning portals.

We have in-house curiosity club and work on creating patents which are unique to our domain. We encourage employees to author peer-reviewed technical papers and business case studies. We conduct learning games such as 'Battle of Brains' to encourage employees look at incremental innovation for solving real business issues.

Employee experience and well-being

We also invest in employee health and well-being through a variety of programs. We have a comprehensive Employee Assistance Program for helping employees cope with the various life stages and changes with resilience and acceptance as a person. We have crèche services for the wards of our woman employees at close quarters to the offices to enable them to get back to regular work faster and easier. Our woman employees are part of the global Oracle Woman's Leadership initiative and undergo specialized programs for developing future woman leaders.

Performance management and career development

Our performance review system helps us identify strengths of our employees as well as areas of improvement. The employees go through learning plans that address the areas of improvement and a talent review program that helps build a talent pipeline. The reviews also help identify the top talent who are nurtured with a personalized leadership development program at both, local and global levels, working with the best in class Universities and thought leaders.

Our Oracle University also helps us get training in both technology and functional domains. All our employees are continuously equipped with the necessary learning which helps them to address the changing functional and technical environments, and evolving customer requirements.

Rewards and recognition

Our reward mechanism is geared towards recognizing the achievements. We have a number of recognition programs which recognize the achievements both at a specific project level as on the basis an overall contribution to the organization goals. Our Pacesetter Awards program recognizes individual excellence and such high achievers get nominated for high-end, future focused learning from premium learning agencies.

Risks and concerns

The Company has a robust plan for managing the risks faced in its global operations. The Risk Management Committee reviews the risks, possible impact and the mitigation plan. Listed below are the some of the major risks, their impact and the mitigation plan.

Risks	Mitigation Plan
<p>Disruption to business activities due to COVID-19 pandemic</p> <p>The depth and duration of the current economic declines attributable to the COVID-19 pandemic, and any potential economic recoveries, are currently unknown. During lock-down situations or restrictions due to a pandemic or calamity, the Company's routine business operations may be adversely affected.</p>	<p>Modifications to employee travel and work locations, including work from home, enabled by robust IT and data security infrastructure and business continuity processes allow the Company to effectively respond to such restrictions and deliver customer commitments.</p>
<p>Currency Volatility</p> <p>A substantial portion of the Company's revenue is generated in foreign currencies, while majority of the Company's expenses are incurred in Indian Rupees. The functional currency of the Company is the Indian Rupee. Exchange rate fluctuations can significantly impact the Company's revenues, operating results, cash flows and total assets which are reported in Indian Rupees.</p>	<p>The Company manages its foreign currency risk by hedging a part of receivables in major currencies using forward contracts as a hedge instrument. This helps the Company to minimize the foreign exchange rate volatility.</p>
<p>Competition</p> <p>The Company faces competition from established global, as well as regional and local IT products and service providers. The Company also faces competition from new-age players who offer niche solutions.</p>	<p>The Company continues to invest in enriching its IT solutions technically and functionally as relevant to each market segment. A unique combination of state-of-the-art IT products along with end-to-end consulting solutions for the financial services industry makes the Company competitive in the market. The Company also aims to ensure that product differentiation expands the market.</p>
<p>Economic and political conditions</p> <p>The Company has presence across most continents and serves customers in over 150 countries. It faces risks due to changes in respective political environments, state of economies, GDP growth, inflation and other major changes in economic policies that are out of the Company's control.</p>	<p>The Company aims to proactively avoid situations with overt political or other risks. The Company, through its resources and presence of its parent, carefully assesses the local situation to minimize impact of such risks on its growth strategies as well as safety of its employees.</p>

Risks	Mitigation Plan
<p>Litigation</p> <p>Legal claims can arise from commercial disputes, intellectual property entitlements and employment related matters, among others. The risk increases due to vast geographic presence of the Company's operations and nature of its business. Litigation can be lengthy, expensive and disruptive. The results of litigation cannot be predicted, and an adverse decision could result in monetary damages or injunctive reliefs that could affect the business, operating results or financial condition of the Company.</p>	<p>The Company has extensive processes to monitor and mitigate risks associated with customer contracts in their local jurisdictions. The Company conducts regular awareness sessions for its employees on applicable laws, immigration policies, mobility restrictions, data security, IP management, etc. The Company has a strong whistle blower mechanism for reporting of issues and concerns by employees.</p>
<p>Cyber Security</p> <p>Due to the nature of its offerings, there is a risk of disruption or damage to the Company from any incidence involving compromise of data resulting in financial loss, reputational damage or legal claims.</p>	<p>The Company has implemented cyber security controls as per the NIST framework as also per ISO 27001 standard to detect, prevent and remediate data breach threats. These controls are continuously monitored for their effectiveness. The Company maintains appropriate firewalls, access controls and infrastructure services which are invoked at different points to mitigate risks.</p>
<p>Intellectual Property Rights</p> <p>Protecting intellectual property rights is crucial to the success of the Company, as any misappropriation or misuse of the intellectual property rights could harm its competitive position. There is also a risk of infringement claims by third parties. Such claims could lead to expensive litigation and even loss of IPR ownership.</p>	<p>The Company relies on a combination of copyright protection laws, license contracts, confidentiality agreements, nondisclosure and other contractual confidentiality conditions to protect the Company's proprietary intellectual property rights. The Company has developed a highly secured IT environment that prevents unauthorized access to its intellectual property assets. The Company's release processes are extensive tested to ensure that no unauthorized third-party IP is included in its products or services.</p>
<p>Change in Business Model</p> <p>Rapid technological advances, changing delivery models, evolving standards in software development, changing and increasingly sophisticated customer needs and frequent new product introductions and enhancements characterize the industry in which the Company operates. Inability to adapt to these changes may adversely affect the Company's market share and impact future growth.</p>	<p>The Company keeps close watch on the present and future competition and offerings, their market share, customer preferences, technological advancements and respective competitive advantages to make required modifications to its market strategy and business plan.</p>
<p>Data Privacy</p> <p>Protection of customer and personal data is an area of increasing concern globally. Several countries and economic blocks have promulgating legislations, e.g., GDPR by the European Union. Certain legislations carry severe consequences for non-compliance or breach. Any violation, security breach, observed non-compliance or inadequacy of privacy policies and procedures can result in substantive liabilities, penalties and reputational impact.</p>	<p>The Company has a strong data privacy program that operates globally and has processes to keep track of newer legislative promulgations. The program involves strong internal controls, documentation policies, upgraded contract framework and employee awareness. The Company also ensures that its vendors follow the data privacy norms and conducts regular audits of the processes and systems used by them.</p>
<p>Global Regulations & Compliance Requirements</p> <p>The Company's operations are spread globally, and it needs to manage a multi-cultural workforce, different political and economic conditions, complex tax regulations and local compliance requirements. Exposure to diverse work environments, immigration requirements, labor laws, etc. may impact the performance of the Company in each of such jurisdictions. Regulations which restrict mobility could also lead to the Company's inability to effectively service certain customers leading to loss of revenue.</p>	<p>The Company believes in adopting and adhering to globally recognized corporate governance practices and continuously benchmarking itself against such norms. The Company, through its local offices, aims to ensure compliance with applicable local laws and engages services of professional advisors whenever required. The Company has strong tax and mobility compliance programs globally.</p>

