

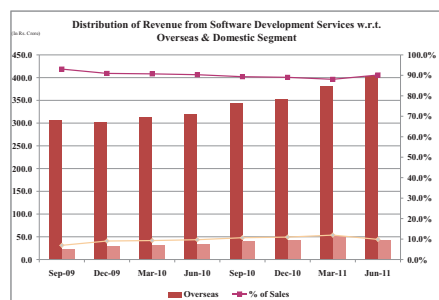


## Strong Top-line growth for Q1, FY 12

### Quarterly Operating Income w.r.t. Business Segments

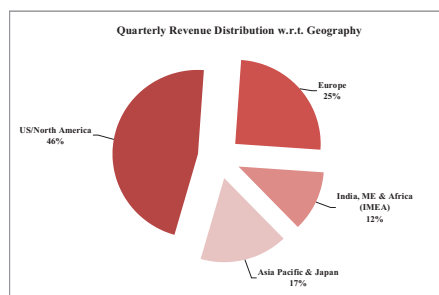
Units: Rs. Crore	Jun 11	% Growth	Jun 10	% Growth	Mar 11
Software Dev Serv	447.1	25.9%	355.2	2.9%	434.3
% of OI	99.3%	-	98.5%	-	99.3%
Income from BPM	3.1	-41.9%	5.4	-4.2%	3.3
% of OI	0.7%	-	1.5%	-	0.7%
Operating Income	450.2	24.9%	360.6	2.9%	437.5

Polaris registered strong revenue performance during the June quarter as Operating Income jumped up by 25% YoY and 3% QoQ to Rs 450 Crore (Q1, 12). In Dollar Terms, the Revenue growth was further better at 28% increase YoY to \$101 Mln (Q1, 12) from \$79 Mln last year. Under this, Software Development Services division contributed almost 99% of the OI and increased by 26% YoY and 3% QoQ to Rs 447 Crore (Q1, 12).



Source: Company Data, JRG Research

The Overseas business in the Software Dev division rose by 26% YoY to Rs 403 Crore (Q1, 12) while growth on the Domestic front too remain healthy at 28% to Rs 44 Crore (Q1, 12). With respect to the geographical balance, America contributed 47%, Europe 25%, IMEA 12% and Asia Pacific contributed 17%. The management has also enhanced its revenue guidance for FY 12 to \$430-440 Mln as against \$425-435 Mln earlier led by increase in size and number of deals.



Source: Company Data, JRG Research

### YoY OPM's decline owing to higher Software Dev expenses

Excluding the other income, Polaris's OPM's slipped to 13.9% (Q1, 12) falling by around 120 bps YoY from 15.1% (Q1, 11) while improve by nearly 80 bps QoQ. Fall in YoY margins was due to the higher Software Dev & BPM Exp which jumped up by 27% YoY to Rs 309 Crore (Q1, 12) and increase in the Selling & Dist Exp which accelerated by 30% YoY to Rs 51 Crore (Q1, 12).

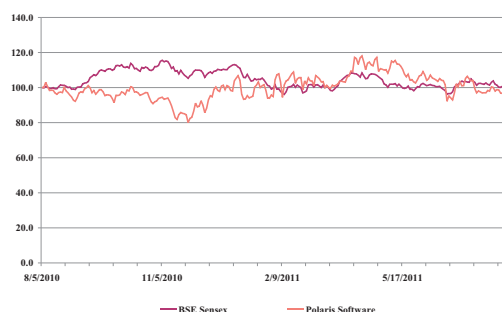
On the other side, despite salary hikes in the June quarter, QoQ



Industry: IT Software Products

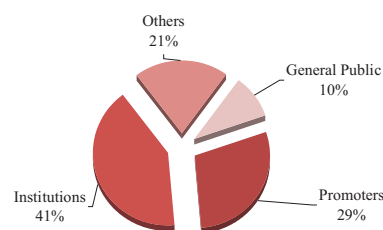
<b>Current Price</b>	<b>172</b>
<b>Target Price</b>	<b>228</b>
<b>Market Cap (Cr.)</b>	1708
<b>52 Week H/L</b>	215/132
<b>FV</b>	5
<b>Book Value/Share</b>	104
<b>BSE Sensx</b>	17998
<b>NSE Nifty</b>	5422
<b>BSE Code</b>	532254
<b>NSE Code</b>	POLARIS
<b>Reuters Code</b>	POLS.BO
<b>Bloomberg Code</b>	POL:IN

### 1 Yr Stock / Index Performance



Stock/Index Performance %	3 M	6 M	12 M
Polaris Software Labs	-11.0%	-10.7%	-3.7%
BSE Sensx	-1.2%	-0.3%	-1.0%
BSE IT	-2.9%	-7.9%	1.9%

### Share Holding Pattern as on Jun 30, 2011



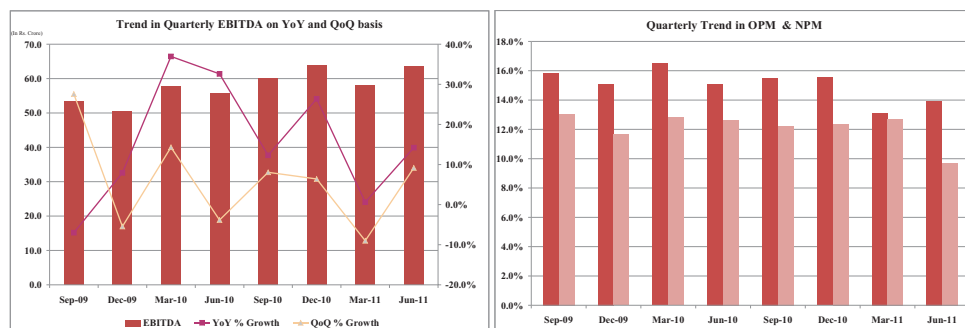
Particulars (In Rs. Crore)	FY 09	FY 10	FY 11	FY 12E
Operating Income	1353.8	1586.3	1908.0	2229.1
Operating Expenses	1131.7	1372.4	1636.1	1919.2
Operating Profit	195.6	239.3	284.4	330.0
Net Profit	152.8	202.5	212.2	233.8
EPS (In Rs.)	15.3	20.3	20.8	23.4

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margins expanded at a healthy rate and were boosted by better pricing in the IT services business coupled with a one-off reversal of S&M related bonus provision. Accounting the above things, the operating profit of the company grew at a slower pace on YoY basis 14.2% to Rs 64 Crore (Q1, 12) while sequentially operating profit performance was higher than sales growth.



Source: Company Data, JRG Research

### Lower other income and higher Tax outgo inflict Net Profit growth

Fall in other income combined with almost double Tax outgo imputed Bottom-line growth of the company which slipped by 4% YoY and 23% QoQ to Rs 45 Crore (Q1, 12). Other income for the company which included profit on sale of real estate of Rs 2 Crore rose by 17% YoY whereas slipped 54% QoQ to Rs 8 Crore (Q1, 12). It is imperative that sharp fall in other income on a quarterly basis was due to the high contribution from real estate sales of around Rs 10 Crore during the immediate preceding quarter.

In dollar terms too Polaris recorded a 2% YoY drop in Net profit to \$9.97 Mln from \$10.20 Mln and 22% QoQ slippage from \$12.72 Mln.

### Other key highlights of the quarter

In the Jun quarter, Polaris recorded 11 fresh deals in the Intellect product business that accounted for over 23% of its operating income. Overall contribution from Intellect topped Rs 105 Crores during the quarter. In Dollar terms, Intellect revenues grew 30 % YoY to \$ 23.5 Mln from \$18.1 Mln during the same quarter last year.

Moreover, the company signed its largest Intellect deal in the quarter with RBI to implement a centralized Core Banking Solution at all its offices encompassing all banking and accounting operations. The deal valued at \$55 Mln for end-to-end implementation includes System Integration and maintenance of software for a period of ten years.

The company entered two new emerging markets Sri Lanka and Bangladesh with transformational Intellect Core Banking deals in both countries

It also signed a MoU to form a Joint Venture Company - Sonali Polaris Financial Technology Ltd (SPFTL) with Sonali Bank and BCBL in Bangladesh to offer FT services for the country. Sonali Bank is the largest state-owned commercial bank in Bangladesh with 1,188 branches and operations in UK, the US, Middle East and India.

Quarterly Financial Performance - Polaris Software Lab Ltd.					
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Operating Income	450.2	24.9%	360.6	2.9%	437.5
Other Oper Income	5.6	-24.3%	7.4	1.8%	5.5
Software Dev/BPM Exp	308.5	27.0%	243.0	2.1%	302.2
% of OI	68.5%	-	67.4%	-	69.1%
Selling & Dist Exp	50.8	30.3%	39.0	1.1%	50.2
% of OI	11.3%	-	10.8%	-	11.5%
General Admin Exp	33.0	8.3%	30.5	1.6%	32.5
% of OI	7.3%	-	8.4%	-	7.4%
Operating Expenses	392.3	25.6%	312.4	1.9%	384.8
EBITDA	63.5	14.2%	55.6	9.2%	58.2
OPM	13.9%	-	15.1%	-	13.1%
Other Income	8.0	17.2%	6.8	-54.2%	17.5
Depreciation	9.6	22.5%	7.8	10.1%	8.7
Finance Charges	0.5	103.2%	0.2	26.7%	0.4
Profit Before Tax	61.5	13.0%	54.4	-7.7%	66.6
Tax Expense	16.9	115.4%	7.9	89.0%	9.0
% of Tax	27.5%	-	14.4%	-	13.4%
Adj Net Profit	44.6	-4.1%	46.5	-22.9%	57.8
NPM	9.7%	-	12.6%	-	12.7%

### Financial Valuations and Projections

Following the firm growth in Polaris's operating income during the first quarter of FY 12, we are fine-tuning our estimates for the fiscal year and also introducing FY 13 Estimates. We now anticipate Polaris's Operating Income to grow at a CAGR of 18.6% to Rs 2229 Crore (FY 13) as equated to Rs 1586 Crore (FY 11). While the revenue is seen higher, OPM's are seen stable around the sub 15% levels and result in the EBITDA growing at a CAGR of 17.4% to Rs 330 Crore (FY 13).

Due to the drop in other income contribution in FY 13E and lack of tax benefits post the withdrawal of STPI, Bottom-line performance is seen lower and pegged at 7.5% CAGR for the next two years to Rs 234 Crore for FY 13E as compared to Rs 203 Crore (FY 11).

Financial Projections - Polaris Software Lab Ltd.				
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EBITDA	195.6	239.3	284.4	330.0
OPM	14.4%	15.1%	14.9%	14.8%
Adj Net Profit	152.8	202.5	212.2	233.8
NPM	11.4%	12.3%	10.8%	10.3%

### Recommendation

Polaris is persistently enhancing its product basket (specifically through Intellect™) in almost all forms of banking and financial operations and has gained acceptance amongst leading financial institutions across the globe.

At the Trailing market price of Rs 172, the stock is trading at 8.3X and 7.3X its FY 12E and FY 13E earnings which offers good upside potential in the Medium to Long-term. Moreover, the company is almost debt-free and carries a Cash chest of over Rs 400 Crore (Jun quarter) aiding further support to our valuations. **We maintain our Rating and the Target price of Rs 228 on the stock.**

# indi trade



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