



Polaris Q2FY12 result update—Strong quarter

CMP: Rs.145
Target Price: Rs.246
Recommendation: BUY

Stock Info

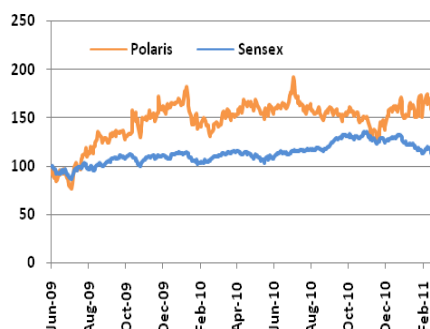
BSE Group	B
BSE Code	532254
NSE Symbol	POLARIS
Bloomberg	POL.IN
Reuters	POLS.BO
BSE Sensex	17735
NSE Nifty	5335

Market Info

Market Capital	Rs.1455cr
Equity Capital	Rs.50cr
Avg. Trading Vol.	77429
52 Wk High/ Low	213/115
Face Value	Rs.5

Shareholding Pattern (%) (30th Jun. 2011)

Promoters	29.1
Domestic Institutions	11.2
Foreign Institutions	23.9
Non Promoters Corp.	3.8
Public & Others	32.1
Govt. Holdings	-



28th October, 2011

Key Highlights:

- Inline results:** Polaris posted their Q2FY12 results which was inline with our expectation. In USD terms, total revenue grew by 10.6% QoQ to \$111.3mn while in INR terms it grew by 13.2% to Rs.509.7cr. Their bottomline saw a robust growth of 21% QoQ to Rs.53.9cr. It is to be noted however that their bottom line was boosted by property sales of ~Rs.4cr.
- Healthy margin recovery:** Polaris saw a healthy margin recovery of around ~71 bps at EBIDTA level in Q2FY12. The margin improvement came mainly on the back of strong volume growth of 7.4% and an increased proportion of high margin product business. The product business' margin was at ~22% while the services margin was at 12%. We believe a low attrition rate of only 14% also supported margins. DSO however inched up to 57 days as compared to 52 in Q1.
- Intellect showing strong traction:** Polaris' product suite Intellect is seeing strong traction in the market with product revenue growing by a whopping 32.4% QoQ to Rs.139.3cr thus increasing its proportion of total revenue to 27% from 23% in the previous quarter. During the quarter, there were 12 Intellect wins (11 in the Q1FY12) which came across various banking and insurance verticals. The management is aiming to increase the proportion of Intellect revenue to 30% in a year's time which will not only help in sustaining margins, but will also help the company to build up a source of annuity revenue in the form of maintenance revenue. Revenue from the RBI's deal has also started to come in and expected to go up in the coming quarters.
- Resignation of CFO:** Polaris' CFO Mr. R. Srikanth who has been with the company since the last 5 years resigned and in his place, Mr.S.R.Ramaswami has taken over.
- Ups guidance again:** Polaris went for another upgrade of both their rupee and dollar guidance. They now expect their FY12 revenue to be at \$440-450mn compared to \$430-440 expected earlier. In rupee terms, they expect their revenues to be Rs.2014-2060cr. They have also upped their EPS expectation to Rs.22.65-23.47 per share (earlier Rs.21.95-22.35 per share). The company is seeing good all round traction from all its geographical segments which have given them the confidence to go for a second consecutive guidance upgrade. The company's cash position remains healthy at Rs.417cr.
- Valuations:** Polaris has been showing strong growth on a consistent basis. Its product revenue growth in the current quarter shows an increasing acceptability of its products suite and gives us further confidence that Polaris is all set to go to the next level. Though, the ouster of a top management official at such an important juncture is a matter of concern, but we hope that the new CFO will be able to live up to the high market expectation. Taking into account the stronger than expected traction that Polaris is witnessing we are raising our estimates for both FY12E and FY13E. We now expect Polaris to post an EPS of Rs.23.2 and Rs.26.1 per share vis-à-vis Rs.22.2 and Rs.24.0 expected earlier for FY12E and FY13E respectively. We therefore **increase our DCF based target price to Rs.246 from Rs.242 per share earlier** and retain our "BUY" call on the stock.

Financials:

Y/E March, (` in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	1353.8	1645.4	2077.8	2456.7
<i>Growth %</i>	<i>(1.8)</i>	<i>21.5</i>	<i>26.3</i>	<i>18.2</i>
Net Profit	152.8	202.5	229.9	259.4
<i>Growth %</i>	<i>16.9</i>	<i>32.5</i>	<i>13.6</i>	<i>12.8</i>
EPS	15.5	20.4	23.2	26.1
P/E(x)	9.4	7.1	6.3	5.6
P/BV(x)	1.6	1.4	1.1	0.9
EV/EBITDA(x)	6.0	4.8	3.3	2.2

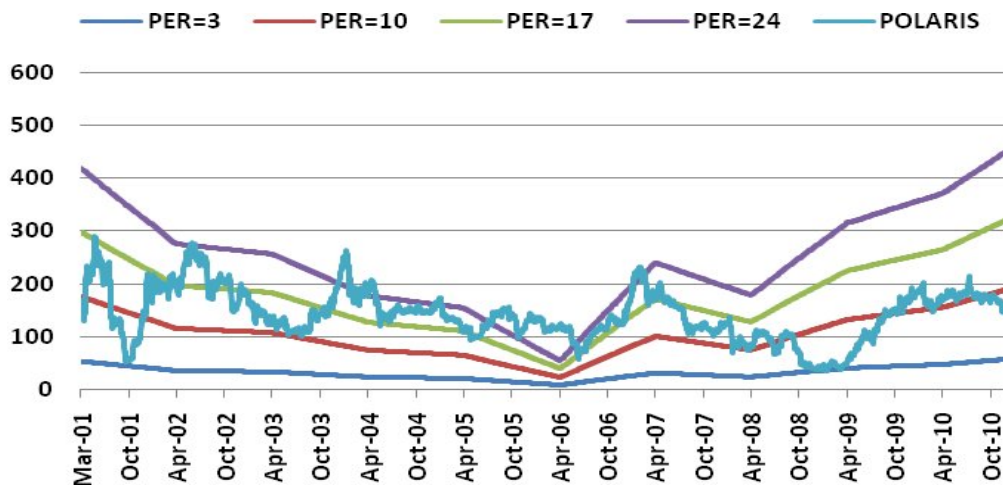
Source: Arihant Research



Quarterly results

Rs. in cr	Q2FY12	Q2FY11	YoY%chg.	Q1FY12	QoQ%chg.
Total Income	523.1	388.0	34.8%	455.8	14.8%
Expenditure					
Software development exp.	360.5	255.1	41.3%	308.5	16.8%
Selling and marketing exp.	54.2	41.0	32.0%	50.8	6.7%
General and Administrative exp.	33.0	31.6	4.4%	33.0	0.0%
Total Expenditure	447.6	327.7	36.6%	392.3	14.1%
Profit before int., dep. & amor.	75.5	60.2	25.4%	63.5	19.0%
Depreciation/Amortisation	11.2	8.4	32.7%	9.6	17.2%
Finance Charges	0.6	0.3	119.2%	0.5	18.8%
Profit after int., dep. & amor.	63.8	51.6	23.7%	53.5	19.3%
Other Income	8.9	5.4	65.5%	8.0	10.8%
Min. Int.	0.1	0.2	-50.0%	0.0	1000.0%
Profit before tax	72.8	57.1	27.4%	61.5	18.4%
Provision for taxation	18.9	9.0	109.7%	16.9	11.4%
Profit after tax	53.9	48.2	12.0%	44.6	21.0%
<i>effective tax rate%</i>	<i>25.9%</i>	<i>15.7%</i>		<i>27.5%</i>	
EPS	5.4	4.9	11.7%	4.5	20.9%

PE band



Source: Arianth Research



P&L Statement (consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	1353.8	1645.4	2077.8	2456.7
YoY%	-1.8	21.5	26.3	18.2
S/w dev. exp.	870.1	1072.4	1416.2	1682.3
SGA	261.6	300.0	349.5	394.0
Op. profit before int.,dep	222.0	272.9	312.1	380.4
Fin. charge	0.9	1.2	2.2	1.6
Depreciation	35.0	33.7	41.7	47.0
Other income	19.1	-	43.9	20.0
Fx. gains/loss	-26.4	-	-	-
Profit before tax	178.8	238.2	312.1	351.8
Total tax	25.5	35.9	81.8	92.0
PAT	153.3	202.3	230.3	259.8
Effective tax rate%	14.3	15.1	26.2	26.2
Shr of pft/loss of ass.cos.	-0.4	0.2	-0.3	-0.4
Net Profit	152.8	202.5	229.9	259.4
YoY%	16.0	33.1	0.2	0.0

Cash Flow Statement (consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax	178.8	238.2	312.1	351.8
Add: Depreciation	35.0	33.7	41.7	47.0
Other items	-13.5	-20.9	-5.8	-16.5
(Inc.)/Dec. in WC	82.9	-97.1	32.9	-25.9
Direct Tax Paid	-29.1	-53.5	-81.8	-92.0
Net Cash From Oper. Act	254.2	100.3	299.1	285.4
(Inc)/ Dec in FA	-34.7	-94.1	-42.0	-42.0
Int. & Dividend received	16.4	20.2	20.2	19.4
Acquisition of subsidiary	-34.7	-18.1	-	-
Other items	-145.3	18.0	-	-
Investing Cash flow	-198.3	-74.0	-21.8	-22.7
Dividend Paid	-34.6	-20.2	-20.2	-20.2
Other items	3.7	-	-	-
Net Cash from Financing	-30.8	-14.9	-20.2	-20.2
Translation loss/gain	-9.3	3.9	-	-
Net Cash Inflow/ (outflow)	15.9	15.4	257.1	242.5
Cash at beginning	105.4	123.7	142.2	399.3
Net Cash carried forward	123.7	142.2	399.3	641.8

Balance Sheet statement (consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Shareholder's fund:				
Equity Cap. (FV-Rs.5)	49.5	49.6	49.6	49.6
Reserve & Surplus	822.9	982.9	1209.1	1467.1
Min. Interest	-	2.5	2.5	2.5
Total Loans	2.5	7.9	7.9	7.9
Deferred tax	3.0	2.2	2.2	2.2
Total Liabilities	877.9	1043.0	1269.2	1527.2
Application of funds:				
Goodwill	50.6	64.4	64.4	64.4
Gross Block	559.9	607.9	649.9	691.9
Less Acc. Dep.	345.2	379.5	419.5	462.5
Net Block	214.7	228.5	230.5	229.5
CWIP	12.5	65.2	65.2	65.2
Investments	389.7	384.3	384.3	384.3
Deferred Tax asset	6.5	11.5	11.5	11.5
Sundry Debtors	174.6	227.2	250.5	296.2
Cash & bank balance	123.7	142.3	399.3	641.8
Loans & advances	208.4	300.2	353.0	403.0
Current Liabilities	246.2	291.7	387.5	455.4
Provisions	56.4	88.8	101.9	113.2
Net Current Assets	204.1	289.1	513.3	772.3
Total Asset	877.9	1043.0	1269.2	1527.2

Ratios				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Performance Ratios				
EBIDTA %	16.4	16.6	15.0	15.5
Net Profit %	11.3	12.3	11.1	10.6
Sales per share (SPS)	137.1	166.0	196.3	223.5
Price/SPS	1.1	0.9	0.7	0.6
Dividend %	70	70	70	70
Cash per share	12.5	14.4	40.3	64.8
Assets Turnover	1.5	1.6	1.6	1.6
Du Pont Analysis				
PAT / Net Sales	11.3	12.3	11.1	10.6
Net Sales / Assets	1.5	1.6	1.6	1.6
Assets / Equity	1.0	1.0	1.0	1.0
ROE %	17.5	19.6	18.3	17.1
Valuation Ratios				
Diluted EPS	15.3	20.3	23.2	26.1
Cash EPS	19.0	23.8	27.4	30.9
P/E	9.3	7.1	6.3	5.6
P/BV	1.6	1.4	1.1	0.9
EV/ EBIDTA	6.0	4.8	3.3	2.2
EV/ Sales	0.9	0.8	0.5	0.3
ROCE	25.3	26.2	24.6	24.9

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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