Polaris Software Lab Limited Q2 FY2010 Earnings Conference call 20th Oct, 2009

Operator:

Thank you for standing by and welcome to the Q2 FY09-10 Polaris Investor earnings call presented by Polaris management.

At this time, all the participants are in a listen-only mood. There will be a presentation followed by a question and answer session at which time if you wish to ask a question please press *1 on your telephone.

I would like to hand the conference over to Mr. Srikanth, Executive Vice President and Chief Financial Officer of Polaris Software Lab Limited. Over to you, sir.

Mr. Srikanth:

Thank you.

Good evening ladies and gentlemen. Welcome you all to Q2 FY09-10 investor conference call.

I would like to record the financial highlights of this quarter. Our revenue for Q2 FY09-10 is Rs. 338.31 crores as against Rs. 325.53 crores in the immediate preceding quarter, showing an increase of 4% on quarter-on-quarter basis. Our revenue for this quarter in dollar terms is 69.93 million as against 66.61 million in the immediate preceding quarter, showing an increase of 5% on quarter-on-quarter basis.

Intellect product revenue contributed about Rs. 59.5 crores during this quarter representing 18% of our global revenue as against Rs. 60.78 crores in the immediate preceding quarter representing 18.67% of our global revenues.

For our BPO, Optimus, revenue for this quarter is Rs. 9.39 crores as against Rs. 10.4 crores in the preceding quarter. Optimus revenue contributed 2.78% of our revenue in the current quarter.

PRIL, our Retail InfoTech Company, revenue for this quarter is Rs. 2.64 crores as against Rs. 2.11 crores in the immediate preceding quarter.

SEEC, our insurance product company, revenue for the quarter is about Rs. 4 crores as against Rs. 4.18 crores in the immediate preceding quarter.

Gross margin stood at Rs. 117.65 crores in the current quarter as compared to Rs. 117.67 crores in the immediate preceding quarter and this is after considering the one time visa costs which we have incurred during the current quarter, about Rs. 3.7 crores during the current quarter.

Gross margin as a percentage to the revenue was about 35% in the current quarter as against 36% in the immediate preceding quarter. Of course this gross margin is also after considering the one time visa cost.

Operating profit before interest and depreciation stood at Rs. 53.87 crores. Operating profit before interest and depreciation as a percentage of revenue is 17% in the current quarter before considering the one time visa cost as against 16.97% in the previous quarter.

PAT for the current quarter is Rs. 35.2 crores as against Rs. 31.84 crores during the previous quarter showing an increase of 11% on a quarter-on-quarter basis. PAT for the current quarter in dollar terms is about $7.27 million as against $6.52 million, representing 12% growth on a quarter-on-quarter basis.

We incurred capital expenditure in the current quarter to the extent of Rs. 4.15 crores as against Rs. 7.92 crores in the immediate preceding quarter.

Our other income for the current quarter stood at Rs. 4.05 crores as against Rs. 4.29 crores in the previous quarter.

Our product operating margin for the current quarter is about 23% and services operating margin is about 17% for this quarter.

Our day sales outstanding (DSO) maintained at the level of 47 days for the current quarter as compared to the same 47 days in the preceding quarter.

Our cash and cash equivalence grew by Rs. 44.8 crores after paying Rs. 14.33 crores as dividend for the current quarter, resulting in our cash and cash equivalents at the end of September was about Rs. 446.34 crores as against Rs. 401.54 crores at the end of last quarter. The company is consistently able to convert EBITA margins into the free cash a quarter on quarter.

Our current quarter tax provision consists of gross tax provision to the extent of Rs. 5.93 crores, we have a deferred tax credit of Rs. 0.57 crores, we have a FBT credit of Rs. 0.54 crores and that was shown in the P&L and balance sheet of Polaris.

Dollar depreciated by 1.01% on a quarter-on-quarter basis. Current quarter our dollar rate was 48.38, and in the immediate quarter our dollar rate was 48.87. In the same quarter the previous year, our dollar rate was 43.80 and having said that our closing dollar rate was 48.11. We have accrued the exchange loss of Rs. 8.58 crores during this quarter as against Rs. 13.3 crores in the immediate preceding quarter.

Our production volume growth increased by 7.25% during the current quarter as compared to the previous quarter.

Some of the operational highlights, our onsite-offshore revenue mix for the current quarter stood at 51:49%. Our utilization for the current quarter stood at 81% as against 80% in the immediate preceding quarter. During the current quarter the company recorded 16 wins out of which 12 were our Intellect wins. Of the 12 Intellect wins 2 wins were in excess of USD $5 million. Our head count statistics at the end of September was 8805 total for the company as a whole consisting of Polaris 7109, Optimus 1492, SEEC 87, PRIL 117 as compared to the head count of 9192 at the group level as at the end of the previous quarter. Our staff/associate attrition for the current quarter stood at 12%.

So, here are our financial highlights and operational highlights and I would like to leave the floor to Arun for further remarks. Over to Arun.

Mr. Arun Jain:

Thank you Srikanth for updating the financial numbers to the investors and analysts.

I would like to introduce Govind who is on the call with me and Karthik Kaushik who heads the global sales and account management. He is joining us on this call from New York.

Mr. Govind:

Hello. This is Govind.

Mr. Arun Jain:

Okay. So this quarter if I look at it from the perspective of significant improvement or significant change we have seen in last quarter, I think the market has started opening up and there is a clear signal available in the financial technology space. There is a easing of the pressure on the financial institutions. To relook at the way they were looking at technology modernization, I think they now are comfortable and are able to discuss the next year to five year plans and Polaris has a significant role to play there. When we embarked our journey five years back to be an integrated Services and Product Company, a lot of doubts were there, but today I think banks are looking at a company which can deliver them the integrated solution of the products and services together, because they are looking for solutions with accountability on the latest in the market place. And that is where Polaris can play a significant role.

Looking at the quantitative basis of translating these elements into the numbers, I would say our services business we have two important elements. Our revenue growth is close to 5% in dollar terms and 4% in rupee terms, but in the onsite to offshore ratio what Srikanth has highlighted is 53.5% on onsite ratio has come down to close to 51.5% ratio, so the 200 basis points have been shifted from onsite to offshore, so actual business volume growth is close to 7.25% in terms of the work we deliver to the customer in a single quarter.

Then there is apprehension on Citi account, how is it growing, they are selling shares, is there any strategic element to it. I would like to annul the fears away by saying that they are selling some of the shares after six years of participating in our journey. It is kind of profit booking in small numbers which is happening. I am suggesting that this is a better way as more FIIs or mutual fund can participate in the growth journey of Polaris as a financial technology leader. In this quarter alone Citi account has grown over 6% compared to 5% of overall business. Citi account has grown 6% in a single quarter, so that is sustained. Even the last quarter it grew by 5-6% quarter on quarter. So that is a very healthy sign from the business side where we are taking advantage of consolidating the business and leveraging our practices which we implemented using OTIF and other innovations on the quality side.

On service side, I think the growth is happening. On Intellect side we achieved two milestones in this quarter - we crossed 100 clients by winning 12 more deals in market place. The second movement is the size of the deal, so as a company measurement we always look at it when we go to market three years back first thing is we need to have service foot print and then we need to have light house implementations, and then the third stage is size of the deal. So, now we are in the third stage of our strategy roll out, and the third stage of the strategy roll out is size of the deal and there we are seeing the deal sizes which we started from a less than half a million dollar deal. In last quarter Srikanth puts in the financial highlights that there are two deals we signed which are over $5 million. So, $0.5 million to $5 million is a journey, last quarter I announced we won two deals around $2 million each from the Intellect sale, and now this quarter it reached to $5 million. It does not mean next quarter it will be $10 million, but I think we have reached to that milestone where the $5 million deals, the organization is capable of. And customer trusts their core businesses to be designed, developed and architected with an end to end delivery perspective including products and services and entrust $5 million plus deals to Polaris. Yes we have aspiration, I think we have aspiration to fight the battle of the deal size between $20 to 50 million on banking modernization, but we know that is a stage four of participating in such large bids of $50 million bids. It may take another 18 months time for us to get ready for those $50 million deals, there is a huge opportunity of modernization which we are sitting on, and there we can play big boy game at that point in time. I think we are going and establishing our trust with the customer we are deploying and creating value for them.

The question going forward I think rupee appreciating, definitely there could be a concern on the perspective of EBITDA margin, because EBITDA margins are proportional to the rupee value. Though we are protecting our PAT margins by hedging the numbers, but EBITDA margins definitely get hit because of the rupee appreciation. And second is I think the market is opening up, we have optimized the organization significantly at 81% utilization, I think we are finding short in servicing some of the fulfillment where the new orders are coming in. So, we are sitting today with the problem statement that our fulfillment engine needs significant attention of going to fulfill the requirement which is coming on the table. So definitely we need to now open the door cautiously that if we are running at 81% utilization we should run on high 70s utilization rather than 81% level of utilization. So, those are the two concerns which come in, and the third concern is obviously which is coming in or which we need to plan for, I will not say concern, because now the market is improving and salary process will also be restarting. So we need to open the tap on that front also without impacting our forecast ability or predictability of our revenue. We are considering how we can reward people on their performance and reward the people selectively during the next two quarters till it becomes clearer. So, we are opening the tap slightly, very carefully and cautiously, but both the taps - recruitment tap as well as salary cost tap, needs to be opened. I draw the confidence from Govind and Srikanth that they have a cost management which is of a very highest order that they are able to predict almost 99.25% on the cost side. So whatever taps we are opening they are controlling the tap to ensure that we are not going out of the cost structure beyond 0.1% level. Similarly on the sales side where we have a big opportunity when we participate in the big events like Sibos and we found 70 large customers looking for a opportunity where they want to modernize some of their platforms were actively engaged, and those engagements are significantly large. We need to engage, and hence our engagement capability and engagement infrastructure from Karthik side, and Karthik is putting up a detailed plan that for 2010-2011. What kind of engagement team he requires for each of the solutions which I am calling moving from $2 million to $5 million bucket, how this engagement teams will be built over the next four quarters and how do we ensure that our sales and marketing cost does not cross 11% but still we can grow the business. So may be in the few quarters, here and there one percent, half to one percent here and there, the cost will go up on the engagement side which I will be cautiously investing into sales funnel.

The final element is the Laser Soft acquisition and there will be few questions which were there, that why do we acquire a company when we already have product in the same space. Do we collide with the same product? I think we are now looking the five spaces in the financial technology space which is from the global bank to the global challenger bank to the country specific bank and the co-operative banks and small rural banks which are there. So there are five categories of the banks. We are feeling that we were not playing in the field of the local country bank and below that co-operative bank and rural bank and those segments are available to some of our competitors. With Laser Soft we can be catering to tier three, tier four, tier five customers, while tier one and tier two customers which are in the range of $2 million plus deals can be with the Intellect GUB. They have humongous experience of 23 years and they have a most efficient cost structure for running this application. So, they have used the technology to the highest advantage to our minds which is running at one of the customer where it is supporting 20 million customers. So, Corporation Bank is one of the largest banks which is they are supporting over the last few years, which is one of the most efficient banks from a technology perspective and South Indian Bank has won many awards because of technology efficiency, so we would like to take and bring that success to the many more banks in the same space and leverage the entire market spectrum in the financial technology space. So, that is the purpose of the Laser Soft acquisition or that is the objective of the Laser Soft acquisition besides expanding on the 40 accounts they have where we didn’t have a foot print because of the late entry into the financial technology space in India. So, with this almost we have 80% of the customers in Indian banking and financial industry as our customer either through Laser Soft or through Intellect, so that makes puts us in clear top three players in the Indian banking sector, and that was the second reason for Laser Soft acquisition.

So, that is my perspective. I would like now any other points which Srikanth or Govind or Karthik you want to add to what I updated?

Mr. Govind:

I think it is comprehensive and I think update was crystal clear.

Mr. Arun Jain:

Okay. So, we will leave the floor for the question answer session.

Operator:

Certainly sir.

At this time, participants who wish to ask any questions, kindly please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key.

First in line we have a question from Mr. Srivatsan from Spark Capital. You may go ahead please.

Mr. Srivatsan:

Yeah hi! If you just look at the top 10 growth of 5% and the volume growth of 7%, what has been the offshore shift; it looks like more offshore shift than pricing cut.

Mr. Srikanth:

Yeah, it is more of offshore shift which is happening over the last four quarters, if you observe it at one point of time onsite was 58% and it came down to 51% now.

Mr. Srivatsan:

In terms of effort mix where does it stand now?

Mr. Govind:

It is 25:75.

Mr. Srivatsan:

Okay, and just in terms of 12 deals that we have won in Intellect during this quarter, is it possible just to give which products, which functionalities products of Intellect and which geographies these deals are?

Mr. Arun Jain:

I think these deals are very well distributed. There are deals almost 5-6 deals are from Asia Pacific, 3 from Europe, and 3 from North America and South America together.

Mr. Srivatsan:

In terms of product are these more in core banking or wealth management?

Mr. Arun Jain:

Again, I would say it was a mixed bag this time. We have a liquidity deal which is a cash management area. Then we have two or three deals in the wealth management area. Portals, a very hot area, we have got three large deals. Karthik you can highlight some more deals, I have to just recollect all the deals in a functional horizon.

Mr. Karthik:

We are seeing tremendous action in the space of cash payments, which is very active in the Europe market. We are seeing core active in the Asian markets, and we have actually made very interesting entry into brokerage space and core banking in the US. So that is the spread.

Mr. Srivatsan:

Okay sure. In terms of the trend we used to AAA, AA, and A accounts, of these wins would there be any AAA accounts that you would have broken into in the Intellect deals, means we cross sold any to existing AAA accounts?

Mr. Karthik:

Arun I can take that.

Srivatsan, at the high level, you know, if you look at the top 10 or top 20 banks today in the market place, either by asset size or by stakeholder value as S&P defines it, we have today crossed 11 of the 20 in terms of presence of Intellect. So, we are very much in line with the strategy that Arun had defined, which he has been following consistently. Our interest was to open tier one and make our presence felt, and the way we have participated is we have gone in with our modernization approach, so we have been transforming departmental solutions and that is why we have been able to get our foot hold in. So, we have active presence, I repeat in 11 of the 20 top banks, you can pick the names from the S&P list.

Mr. Srivatsan:

Okay sure, I will come back later for questions. Thank you.

Operator:

Thank you sir.

Next in line we have a question from Dhanya from Dow Jones. You may go ahead please.

Ms. Dhanya:

Yeah, my question is related to Laser Soft acquisition. I just wanted to know, you talked about the acquisition being EPS accretive. Just wanted to know how much it is going to add to your earnings, #1. And my second question is, do you think the rising rupee is going to pressurize your EBIDTA margins going forward?

Mr. Srikanth:

From the acquisition of Laser Soft perspective, it is EPS accretive to Polaris shareholders, because our present PE multiple is about 11 times and you know the valuation which we worked it out was in the range of 7.5 times, so from that perspective it is an EPS accretive.

And you know rupee appreciation actually impacting on EBITDA, yes this is definitely a risk actually going forward, but having said that we also have a natural hedging actually from our onsite perspective. We have a hedge actually for the current year $50 million at the average rate of Rs. 45.34 actually at this point of time, and this is actually factored in our EPS guidance, which we gave actually.

Mr. Arun Jain:

I would like to highlight, big dilemma we had in April 2008 that how do we handle the currency to build up a predictable EPS for the investors, and that was a concern investor has shown consistently to us that your EPS is not predictable and you are fluctuating up and down. Though the reason may not be internal and may be external, but to our investors we were not able to communicate. So, we had to spent almost 2-3 hours in the board meeting discussing what shall we do about it, because that was a feedback coming constantly over three years that our margins fluctuate, and we are not able to forecast the number for you. So, we said let us look at the annual plan on a particular number, whatever the number we pick it up, the best possible number we take it up and hedge the plan for that number. So, we hedge the plan of 08-09 at the rate of Rs. 40 a dollar, then we hedged the business plan of 09-10 at Rs. 44 at a average price, it was Rs. 43 in the first quarter, it was Rs. 44 in second quarter, and Rs. 45 in third quarter, but on an annualized basis it was Rs. 44 average price which we hedged the business. 2010-11 we hedged the plan at Rs. 48.20, is our average price for $100 million for 10-11 plan. So, these three years we took a conscious bet at that time that we can show the consistent quarter on quarter growth and built up credibility with the investor on our EPS growth and EPS journey. So, that is how we are more focused on EPS number right now rather than the EBITDA number. Because you cannot monitor both the numbers simultaneously, so EBITDA will definitely will move up and down, but our EPS number or PAT number if you observe we have growing 10% at least over the last two quarters we are growing that number, we are looking that number should sustain between 8-10% profit growth for the next two to three quarters we should be able to maintain.

Ms. Dhanya:

Okay. So would you be able to throw some color as to what kind of EPS accretion are you seeing Laser Soft in terms of numbers?

Mr. Arun Jain:

EPS we are looking for the next 12 months period because it will be completed by 1st November, so if I am taking it 1st November 2009 to October 2010, we are expecting the revenue to be between 48-50 crores and EPS accretion of 0.80 to 1 rupee.

Ms. Dhanya:

Okay. Thank you.

Operator:

Thank you mam.

Next in line we have a question from Mr. Ritesh Khanna from BNK Securities. You may go ahead please.

Mr. Ritesh Khanna:

Thanks, my questions have been answered.

Operator:

Thank you sir.

Once again, participants who wish to ask any questions, kindly press *1 on your telephone keypad and wait for your name to be announced.

Next in line, we have a question from Mr. Nirav Dalal from Capital Market. You may go ahead please.

Mr. Nirav Dalal:

Good evening sir. Sir, I wanted to know what is the target onsite-offshore mix that you are looking at?

Mr. Arun Jain:

As of now, I don't think we have a target for onsite offshore.

Mr. Nirav Dalal:

How would you be comfortable the onsite?

Mr. Arun Jain:

I don't think we are planning a business that way. We are looking at how does customer solution will be provided. I think we are not planning anything onsite offshore. Typically, 50:50 is the best ratio which could be there, but there is nothing that type I would say. If we are getting good engagement at onsite, if it is 60:40, then also perfectly fine.

Mr. Nirav Dalal:

Okay. Sir, the second thing is the product business is only Intellect right?

Mr. Arun Jain:

Yeah, it is branded under Intellect suite. We have nine platforms in Intellect suite.

Mr. Nirav Dalal:

Okay, and that has the OPM of 23%?

Mr. Arun Jain:

That is right.

Mr. Nirav Dalal:

Right. Sir, could you comment on the head count, it has reduced, the Optimus head count has reduced quite a bit. It has been reducing since the last three quarters. So, any comment on that?

Mr. Govind:

Optimus has business primarily servicing domestic banking financial services customers. And as we are seeing the market the way it behaves at the banking segment for the past four quarters, there has been a lot of attrition of the business at Optimus and which is directly showing up as a reduction in head count.

Mr. Nirav Dalal:

Okay, and for the company as a whole where would it be heading?

Mr. Govind:

As we all can see the markets have started looking up and probably over the next few quarters it should be much better. We are cautiously optimistic about the likely improvement in the business, and I think Optimus will once again catch up with the growth path, and not only that we are also looking at exploiting the capabilities that we have built to address other vertical segments like insurance and telecom etc.

Mr. Nirav Dalal:

Okay, sir a comment on the utilizations, are these the optimum, 81%?

Mr. Govind:

We believe they are very very aggressive. Look at the situation when the business has started looking up, we believe as Arun indicated, we would prefer to have it in high 70s than 80 plus.

Mr. Nirav Dalal:

Okay. And sir about the demand scenario how is it different in US and Europe?

Mr. Govind:

Karthik your question.

Mr. Karthik:

Sure.

The difference is that clearly at least with what is visible to us is that we seem to have hit the bottom and we are on the way up again. There is anticipatory preparation in most of the large customers and where we are dealing, the financial services sector. So we are seeing anticipatory preparation for putting back the money into active investments, and lot of the large banks are actually preparing. All the ground work is reasonably done and they are looking at the primary indicators, and our anticipation is that starting January we should start seeing an active recovery in terms of investments flow back into the services space. US certainly is showing that. In Europe, the solutions business continues to be very active in terms of both the market environment and the consolidations, so for us both the markets have slightly different flavors, but the consolidation in Europe is giving us active solution and the services presence in the US is getting further and further strengthened with the way the market is slowly recovering.

Mr. Nirav Dalal:

Thanks a lot.

Operator:

Thank you sir.

Next in line, we have a question from Shraddha Agarwal from BNK Securities. You may go ahead please.

Ms. Shraddha Agarwal:

Hi sir, good evening.

I just wanted to check if your guidance for FY10 also includes numbers from Laser Soft?

Mr. Arun Jain:

No, not yet. Rs. 15 is without Laser Soft.

Ms. Shraddha Agarwal:

That is on organic basis then.

Mr. Arun Jain:

That is right.

Ms. Shraddha Agarwal:

And sir, your product revenue has once again shown a decline of 2%, and it declined by 8% in the last quarter, whereas most of the larger peers have shown a good traction coming from the product space in the BFSI domain. So, what was the reason behind sluggish revenue for products for Polaris?

Mr. Arun Jain:

I think this is a kind of various policy in the product business is slightly complex. We cannot monitor on the basis of the growth in a specific quarter because we follow very conservative policy of work getting completed only that revenue to be accrued into the books of accounts including license also in proportion to the work getting completed, and that is where our growth or slowdown in products revenue is not a direct representation of what wins we are having in the market place.

Ms. Shraddha Agarwal:

Okay. Sir, would you also be acquiring the people of Laser Soft, I mean the employees of Laser Soft, would those people be retained in Polaris now?

Mr. Arun Jain:

Obviously.

Ms. Shraddha Agarwal:

Okay sure, thanks.

Operator:

Thank you mam.

Our next question comes from Mr. Sanjeev Hoda from Reliance Securities. You may go ahead please.

Mr. Sanjeev Hoda:

Yeah hi! Good set of number. I have a couple of questions like what is happening on the SEEC revenue front because it is from the last three quarters has been down with CQGR of 16-17%, so any update on the same?

Mr. Arun Jain:

I think the SEEC revenue have started growing now. Karthik you can just point to this question may be.

Mr. Karthik:

Sure.

Sanjeev, the focus in the last couple of quarters was on the integration and we have now put a market facing integration plan already in action. We are seeing tremendous increase in the funnel and in conversion. So, the last two quarters we were spending time in doing cross training, because as you recognize the advantage or the benefit of SEEC was in the proliferation opportunity that Polaris could have provided with its distribution capabilities, so that is already in play. The last two quarters have seen a growth in funnel for SEEC of over three times and the closure opportunities are also very much in the play. Despite the market conditions we have actually gained entry not only in the US but also in Europe, Australia and in Asia into new logos with the SEEC products, and you will see the revenue impact of that quite soon into the numbers. Just to share with you one of the largest deals in the closure stages for SEEC is well in excess of the total revenue when we acquired SEEC, so you can imagine the scale of deals that has completely transformed and that benefit will slowly start accruing. As Arun described the accrual policy consistently is conservative, so the benefits of it you will start seeing in the forward quarters.

Mr. Sanjeev Hoda:

Okay, looks good. And other income, what is the classification of the other income, what kind of yield we are getting, because our cash is close to Rs. 445 crores, so what is the yield we are getting on our investments?

Mr. Srikanth:

Yeah, our other income for the current quarter was Rs. 4.02 crores, and we are getting actually little over 4% actually right now, and the yields have come down actually from the peak level of 6.58% actually to 4.02% as I speak.

Mr. Sanjeev Hoda:

Post tax.

Mr. Srikanth:

On a post tax basis, because these were all actually tax free income and so on, and you know we are looking at actually most of operations actually how to really leverage this and how to really increase this kind of income actually without compromising the capital. We are also working with some advisors and I think the results will come actually moving forward.

Mr. Sanjeev Hoda:

And what is the hedging position we are having at the end of the quarter?

Mr. Srikanth:

Hedging actually for the Q3 was $25 million, and Q4 was also $25 million at the average rate of Rs. 45.34, and for the next year we have $25 million each actually for each quarter and for the entire year it is actually a 100 million for the average rate of Rs. 48.20.

Mr. Sanjeev Hoda:

Okay, and if you look at the operational part, tax rate this quarter has been reduced because of the FBT credit and deferred taxes, what kind of tax rate we are expecting for FY10 and FY11?

Mr. Srikanth:

FY10 and FY11 because our STPI benefit is going to be valid actually till FY11 and our moderate tax rate would be in the range of 16.2% to 16.4%.

Mr. Sanjeev Hoda:

For the next two quarters you are talking about 16%?

Mr. Srikanth:

That is right.

Mr. Sanjeev Hoda:

And FY11 will be close to 17?

Mr. Arun Jain:

We will communicate later on.

Mr. Sanjeev Hoda:

Okay. Great. That is all from my side. Thanks.

Operator:

Thank you sir.

Next in line, we have a question from Shyamala Sitaraman from Financial Chronicle. Please go ahead.

Ms. Shyamala:

Hi, gentlemen, good evening. This is Shyamala. I just want to know, you were talking about recovery from January and all that, but still on a year ago quarter comparing to those numbers the revenue has actually come down some Rs. 351 crores and PAT growth has almost remained flat, so could you please comment on that?

Mr. Arun Jain:

Obviously I think there cannot be a comparison to last year. Last year was a watershed year in the financial sector and what should not have happened in the world happened in the last year. So I think those are not the numbers really but I think important point is from January onwards if you look at it we are growing sequentially quarter on quarter and that is what the industry is looking at as of now. For the IT segments, where the business of India was dependent on US and all the financial institutions, when such a big storm is coming I don’t think we can match those numbers which we had Rs. 351 crores or $80 million revenue last year, but now we have a consistent predictable number which can be sustainable.

Ms. Shyamala:

Okay, with the kind of recovery that you are talking about from January, when do you think that you can go back to the revenue levels that you had before the crash down or whatever?

Mr. Arun Jain:

If you see the last quarter, we grew almost 5% in revenue terms and 7.25% in business volume terms, so it was a good quarter for us. We don't want to forecast the numbers immediately on the revenue side, which you are forcing me to, but I am saying that there is a positive action which is there, but with the products and services mix we have an ability to forecast more of a EPS number than the revenue number. So, definitely the number which you are looking at, $80 million it should be reaching there quickly in next two to three quarters.

Ms. Shyamala:

Okay. Great. Thanks again. Thank you.

Operator:

Thank you mam.

Next in line, we have a question from Mr. Ram Prasad from Sundaram BNP. You may go ahead please.

Mr. Ram Prasad:

Good evening sir. Sir, could you give us some color in terms of manpower addition that you are looking at over the next 12 months, you know, we see that some of the industry players have started to hire. So what is our plan? Could you give us some sense on that, and you also talked about salary hikes on a very cautious basis, so what is the kind of salary hikes that we are looking at on an average for the year?

Mr. Arun Jain:

I think this is a very early stage to really give the numbers on the hiring. We definitely need to hire between 500 to 1000 people in the next four quarters definitely, but it could also be 2000 or it could be 500. It is a big range, and that is why we don't want to forecast that number. And on salary percentage, I would like to remain silent on it.

Mr. Ram Prasad:

Have the hikes happened already or we are in the process of going through with the hike sir?

Mr. Arun Jain:

I don’t want to comment on it, this particular question just reserve it for the Polaris management.

Mr. Ram Prasad:

Okay fine. Sir, in terms of Laser Soft what will be the strategy going forward, will Mr. Kamat continue along with the key members or do you have any kind of golden handshake there? What is the management change that will happen there, and would we merge the company directly or would we run the two businesses separately for some more time?

Mr. Arun Jain:

This we announced on Thursday. Mr. Suresh Kamat is a very key member of our core team. There are a very few people in the world who have dedicated themselves to build up a financial technology of the kind which Suresh came up and build over the 23 years, when he started the company in 1986. And that is why he could able to build up such a efficient software which is working in Corporation Bank and driving the value. So, we will be keeping him as a core member of our management committee and management team.

About financial structuring perspective, we would like to keep it as a separate subsidiary so that there is little disturbance to them and whatever journey they have undertaken that needs to be leveraged by our sales and marketing. We would want to use Laser Soft to provide big entry into Indian market space where they are not able to participate in a large deal where there is a limitation of balance sheet of less than 300 crores or less than 500 crores no company can participate in bids. We will enable them to participate in those large deals against current incumbents in that markets place. So, that is our strategy in broad terms which you are looking at.

Mr. Ram Prasad:

Fine. And you know I just wanted to understand the business growth in Citi as a entity, sorry if this has been a repetition. We have logged in a bit late. So how has been the Citi account doing in the last two three quarters and how do we see the Citi going?

Mr. Arun Jain:

If I say Citi account is growing sustained on the four quarters, then you will say other accounts are not growing, but I think it was this time we brought down Citi account almost 40% levels, now it is over 40% and over the three quarters it has grown over 6% quarter on quarter Citi account business itself. So, our sales team and account management team with Citi Bank is doing a fantastic job there.

Mr. Ram Prasad:

Fine. Sir, you also mentioned about the Citi stock sale that you attribute to profit booking, but is there any intent for them to look at even out floating more quantity in blocks, you know, what is their thought process in terms of reduction of their share holding in the medium term?

Mr. Arun Jain:

Let me be honest. What I protected Polaris is that the management control will be with the partner who shares the vision of the Polaris and that is protected by 30% holding of the company and preventing Citi not to sell to any strategic investor. Rest of it is I am not uncomfortable if somebody is doing a profit booking and not doing a profit booking. So, I am very indifferent to what Citi sells in the market place, I am very concerned about if any strategic play can happen on Polaris, which I protect it by 30% promoter stake in the company and clauses which enables me to state that they cannot sell to 20 strategic companies in the world. So, these two elements are protecting the company for choosing its destiny what we have chosen.

Mr. Ram Prasad:

Fine. Thank you very much sir.

Operator:

Thank you sir.

Next in line, we have a question from Mr. Ruchit Mehta from HSBC Asset Management. You may go ahead please.

Mr. Ruchit Mehta:

Sir, I just wanted to understand on the margin front, you know. Going forward we are looking at wage hikes as well, how do you see margins panning out over the next couple of quarters?

Mr. Arun Jain:

I feel it is going to be similar number, because it is 17.01 if I take back the 3.5 crores add back to the one time extraordinary cost, so it is a position of 17.01% which is the number, so between 16 to 17% will be there, but currency fluctuation I don't know what point it will stop on 31st December, so that is difficult to forecast.

Mr. Ruchit Mehta:

And this would be despite looking at wage hikes or adding new people as well?

Mr. Arun Jain:

Yeah, we are cautious we want to just maintain that, that is why we are not going over any major change. We have to be very cautious doing it, so we have brought the company in that level_______

Mr. Ruchit Mehta:

Hello?

Operator:

Excuse me sir?

Mr. Ruchit Mehta:

Hello.

Operator:

Just give me one moment, let me have a check.

Excuse me, we have the main speaker online. You may go ahead sir.

Mr. Arun Jain:

The EBIDTA margins I think is a concern because it is directly proportional to the revenue numbers, but on a cost number I think it will be structurally move quarter on quarter.

Mr. Srikanth:

It is 284 crores for the company.

Operator:

Shall we take up the next question sir?

Mr. Arun Jain:

Yeah.

Operator:

Next in line we have a question from Mr. Ranjit Shivram from PCS Security. You may go ahead please.

Mr. Ranjit Shivram:

Yes, thanks for taking my question. I would like to know, in the call you had previously mentioned that last year it was a watershed year so you cannot compare, but when you look into your numbers, your performance of this quarter compared to the same quarter last year it has not improved actually, from a 351 crores top line you have come down to 338 crores top line. So, I was not able to comprehend this. What is the reason for a decline in performance?

Mr. Karthik:

Arun, I will take it up.

I think if you look at it, you know, as you analyzed it, Arun and Srikanth mentioned a couple of things. If you look at, more than just saying the watershed year, you are fully aware that the market globally, the financial market had severe constraints, and as they constrained their primary reaction was to look at what all they could control in terms of their sundry expenditure. Now if you link that with the fact that our underlying volume growth has sustained and there is a significant shift in the onsite offshore ratio, we were actually able to prevent a fairly significant portion of potential revenue leakage which many of our other market-player peers have experienced by taking a lot of the business offshore giving our customers the benefit of cost at the same time not allowing any of the mission-critical applications that we support to go down. And that is actually reflecting in the steady revenue come back in the last two quarters for us. So, what you see predominantly is a significant adjustment taken on account of a very significant event that happened worldwide for which proactively given our presence in their core sector we were able to take precautious substantial action you know keeping in mind our shareholder benefit. So, at a very high level, that is the data view, if you want to take up your data view, otherwise, we are all aware of what the market environment was and because significant changes that were happening, some rational some fairly irrational decisions were made over the process in terms of adjustment of the baseline cost and many of that has impacted the overall market place including the Indian players. I hope we were able to give you a sense of both where the data lies and where the real story is coming together, and therefore some adjustments happened but the performance continues to be steady.

Mr. Ranjit Shivram:

Can we read it as your volumes have been the same but you did some adjustment in your pricing?

Mr. Karthik:

If you move onsite to offshore, pricing automatically gets adjusted.

Mr. Ranjit Shivram:

Is it because of that your revenues have declined year-on-year, because you had to compromise on your prices to maintain your volumes?

Mr. Karthik:

No, I did not say, you are saying that. I am saying that it is a big shift between from onsite to offshore.

Mr. Ranjit Shivram:

So, you mean to say that you had to move some workforce from onsite to offshore. So, in that case your margin should have improved, but your top line should remain the same. My question is why your top line has reduced year-on-year?

Mr. Arun Jain:

Top line will reduce year-on-year if you are shifting the people from onsite. A person who is getting $10,000 for onsite, if he moves to India, he will get $3000, $7000 will be shaved off from the top line. So, I am not able to understand where you are coming from because that is what Karthik has responded to your questions clearly that two things happen. One is that shift of 58% onsite to 51% shift to offshore is one driver for reduction in revenue because onsite rate is $60. It is not a compromise of the rate, and second is the price negotiation which industry has gone through in the first quarter. So if you are tracking IT stocks, there is the first quarter where every company negotiated and renegotiated the pricing with the customer and that is the second price elements which are there. These are the two elements which are reflected but the business volume remains same.

Mr. Ranjit Shivram:

So, to get more clarity, the onsite-offshore, the payments are done by your company or by the client, because generally when onsite-offshore, the offshore payment and the onsite payment is done by the company and not by the clients. So, that is what I was not able to understand.

Hello.

Operators:

Excuse me sir.

Mr. Ranjit Shivram:

Okay, I will move on to my next question, I just…..

Operator:

Sir, just give me one moment.

Mr. Ranjit Shivram:

Okay.

Mr. Arun Jain:

Hello.

Operator:

Excuse me sir?

Mr. Arun Jain:

Yeah just put back into the conference.

Operator:

Right sir.

Sir you want me to take up the next question?

Mr. Arun Jain:

Yes, you can take up the next question and for this person, may be we can request him to write to Srikanth. He will explain him in detail how it was in the financial sector and the technology sector.

Operator:

Thank you sir.

Next in line we have a question from Mr. Nithin Jain from IL&FS. You may go ahead, please.

Mr. Nithin Jain:

Congrats for the great results you had. I had a couple of questions. One is, when I am looking at the sales and marketing expenses as percentage of sales, your sales and marketing expenses as percentage of sales have dropped down marginally, you know that has been the industry trend. So, you know, it has dropped down by 20 basis points to 10.5%. What I am trying to understand is that do you foresee these expenses going up going forward in this financial year? That is one. And what is the kind of impact you think it will have on have EBITDA margin? That is my first question. Second question is, you know in terms of you know you are talking of your Citi revenues growing by 5%. I just wanted to understand how your non-Citi customers are responding, like JP Morgan, UBS, or Lloyds?

Mr. Arun Jain:

To respond to the first question on the sales and marketing expenses, I think the 20 basis points are some aberrations which happen on a percentage terms because when the revenue grew by 5% even the cost is absolute it will show a decline of 0.2% or something of that nature. So, between 10% and 11% is sales and marketing expenses which is there quite a constant since few quarters. So, that is the number we are retaining right now.

Your second question is very interesting that should we invest into sales and marketing when we are having tail wins in our favor? Yes, that is the dilemma we are having that how much to protect the EPS commitment to the shareholder and how much to invest back into our tail wins which are in our favor. So, still we are taking a conscious decision for next two quarters that we want to protect the EPS and we find the tail wins are becoming more stronger, then we will take a call and we will come back to the investor that we need to invest additional so much money and for the next year and put down money behind the tail wins to accelerate the aircraft faster. And to growth in the JPMC or UBS or those accounts which you mentioned about, I think it is a decent growth is happening in these accounts, so the over 6% growth in Citi accounts, the rest of the 4% growth will come from the other accounts.

Mr. Nithin Jain:

Okay, thanks.

Operator:

Thank you sir.

Our next question comes from Mr. Chaitanya Chowksi from JM Mutual Funds. You may go ahead, please.

Mr. Chaitanya Chowksi:

Good evening sir. I just wanted to understand your accounting policy for the product revenues in terms of license implementation and maintenance, if you can just tell us on that?

Mr. Srikanth:

Basically, our license revenue gets actually accrued in the books of account based on the work actually deployed and based on the implementation life cycle and based on the customization efforts. So, it is pro rata to the implementations and customizations efforts and it is not actually booked as a lumpy business actually in any one quarter.

Mr. Chaitanya Chowksi:

It is sort of percentage completion?

Mr. Srikanth:

That is right.

Mr. Chaitanya Chowksi:

Okay. And secondly sir, what sort of order book visibility do we have for the next two to three quarters? If it is possible to elaborate on that?

Mr. Srikanth:

We do not publicly share the order book situation because we have presence actually in US and EMEA and APAC, and also our licensing and implementations life cycle is actually different between country to country and region to region. So, we guide actually in a way that consistently if you really go back to last six quarters, out Intellect share of revenue to the global revenues of Polaris is always in the range of 17% to 18%. We believe that the 17% to 18% with the traction may continue and I think one of the mission which we are having actually as a company is that we being an integrated financial technology player for both products and services. In three years time actually from now that our Intellect share of revenue should be at least 30% actually to our global revenue.

Mr. Chaitanya Chowksi:

Okay. And sir, lastly in terms of the sales cycle, how do you see it currently. Has it come down say as compared to two-three quarters back or it is the same?

Mr. Karthik:

There is still sluggishness in the closure cycle. So, the sales cycle which got extended are still in the same tentativeness is still being felt, it is still there, and that is why earlier I had said that I still think there will be one more quarter before we start seeing some of that change back, but preparatory action is quite evident.

Mr. Chaitanya Chowksi:

Sir, just one thing. What are the number of days in terms of sales cycle, if you can just tell us currently?

Mr. Karthik:

Given that we have a spread between product and services and again regionally it is different. In a like-to-like basis traditionally in our typical product life cycle was six to nine months. Now, we are looking at another addition of between three and six months on that decisioning. Also the scale or the size of the deals had shrunk over the last many months; so it is the combination of both.

Mr. Chaitanya Chowksi:

Okay, sir. Thank you very much.

Operator:

Thank you sir.

Next in line we have a question from Mr. Ritesh Rathod from UTI Mutual Funds. You may go ahead please.

Mr. Ritesh Rathod:

Sir, how much is the Forex loss in the OCI line item in balance sheet?

Mr. Srikanth:

We had a Forex loss of Rs. 8.58 crores during this current quarter.

Mr. Ritesh Rathod:

That is in other income. How about in balance sheet reserve side, because we are having a hedge of some $150 million, so you will be incurring some loss on that front which would be in reserves and surplus?

Mr. Srikanth:

We are not doing mark to mark of the total hedging and we only do it for the relevant quarter under reference.

Mr. Ritesh Rathod:

So, what is the rate for FY10-11 $100 million hedges that you have, what rate?

Mr. Srikanth:

Rs. 48.20.

Mr. Ritesh Rathod:

Sir, is there any cap for Citi to sell the stocks in the market like in a particular period. Is there any sort of cap or they can do it according to their discretion?

Mr. Arun Jain:

They are intelligent investors and I do not think they will be doing anything which is counterproductive to the investor in terms of share pricing which is there. So, I would comment on that in that way.

Mr. Ritesh Rathod:

But, they cannot sell it to strategic investors that you commented.

Mr. Arun Jain:

That we have commented.

Mr. Ritesh Rathod:

Okay. And sir, how about, if you see year-on-year, the offshoring has moved very significantly in our case. So, what has driven this offshoring? Any sort of change in our offering sides? Anything which has changed in our business mix which has driven this huge shift in offerings, and the 5 percentage points year-on-year?

Mr. Arun Jain:

To me it is a positive signal because as soon as the business moves to offshore the lock in of the customer is better. So, as a company we always prefer that we have a larger offshore piece of the business which is available to us where we can deploy better resources at better price points and then lock in the customer perspective also. So, this ratio seems to be good. Yeah Karthik go ahead.

Mr. Karthik:

Arun, I just want to add little color to it. I think one of the key things that has happened in the last few months with the market environment is there is an acceleration or more comfort towards moving to managed services more than the traditional space. So, because we were there in core application space, we have actually been able to accelerate the managed service acceptance much quicker. Which is also why you have seen a heavier offshore, and like Arun said that leads to better stickiness, also it gives better yield to the customer. So, therefore that adoption has been quicker in this period.

Mr. Ritesh Rathod:

And why our gross margin has declined in spite of strong offshoring and strong volume growth in the current quarter? Is there any pricing impact which is trailing on this quarter also?

Mr. Srikanth:

We had a one-time visa cost actually for the current quarter to the extent of Rs. 3.7 crores.

Mr. Ritesh Rathod:

So, if I add back even still in the margin, gross margins have declined by some marginal basis?

Mr. Srikanth:

No, it is not decline, it is actually flat I would say.

Mr. Ritesh Rathod:

But we have offshore shift, we have higher utilization working out positive in our favor. So what has brought down the margins?

Mr. Srikanth:

The last quarter, average rupee rate was Rs. 48.88, and you know in the current quarter the rupee rate was Rs. 48.38, so that is one of the reasons.

Mr. Ritesh Rathod:

Okay, thanks. That is from my side.

Mr. Srikanth:

Yes, thank you. Moderator, I think time is up and you may want to take last two questions or something.

Operator:

Sir, we have follow on questions. Would you like to take up?

Mr. Srikanth:

Yes, may be last two questions.

Operator:

We have our next question from Mr. Sanjeev Hoda from Reliance Securities. You may go ahead please.

Mr. Sanjeev Hoda:

Yes, thanks for taking my question again. What is the update on the IT services? Would you share some numbers on the volumes and pricing front?

Mr. Arun Jain:

Sorry, what is it. I did not get?

Mr. Sanjeev Hoda:

IT services, what is the numbers in the revenue in the usual term, and volumes and pricing?

Mr. Arun Jain:

Karthik, would you like to respond?

Mr. Karthik:

IT services means what, because it is an integrated product services and managed services.

Mr. Sanjeev Hoda:

No, only services.

Mr. Karthik:

Arun, I think what he is asking is that, Srikanth can you highlight what is the average pricing on the IT services.

Mr. Arun Jain:

What is the offshore-onsite rate?

Mr. Sanjeev Hoda:

I am talking about more precisely the blended like pricing improvement or decrease in volume front and the numbers on the USD revenues on the IT services, only services.

Mr. Karthik:

Right, our average range is about, you know as low as 56, and as high as may be 61 and 62, and our offshore rate is as low as actually I would say you know depending on the customer specific and average would be in the range of may be you know 21 to 22 as the case may be, and you know our blender rate is depending on the blend mix.

Mr. Sanjeev Hoda:

Okay, and what is the numbers and revenue in the USD term in the services business, IT services only?

Mr. Karthik:

Right. Our onsite mix at this point in time actually Sanjeev is about 51%, and offshore is about 49%. Effort mix is actually 25% on onsite.

Mr. Sanjeev Hoda:

No, I am talking about revenues only, USD terms revenues, is around $54 million?

Mr. Srikanth:

Yes, total revenue is about $ 69.93 mn, on that actually 51% is actually onsite.

Mr. Sanjeev Hoda:

Okay, and any update on the real estate we are having in Gurgaon and Chennai.

Mr. Arun Jain:

We do not have time to spend time on that.

Mr. Sanjeev Hoda:

Any update, sir.

Mr. Arun Jain:

No update. We do not have the time at all. It is not coming to our priority list.

Mr. Sanjeev Hoda:

Okay, thanks a lot.

Operator:

Thank you sir.

We have our final question from Mr. Ritesh Khanna from BNK Securities. You may go ahead please.

Mr. Ritesh Khanna:

Sir, on this Laser Soft acquisition, I just wanted to understand whether the Laser Soft has its own product suite. So, whether you will be integrating that with the existing product suite of Polaris and the entire combined package would be sold together or whether you will be simply marketing Laser Soft's product separately? What will the strategy going forward to market the company's products?

Mr. Karthik:

Arun, you want me to take that.

Mr. Arun Jain:

Go ahead, go ahead.

Mr. Karthik:

Sure.

At a very high level, you know if you look at the overall solutions market, there are various segments in which the solutions will happen. At a very tier I level if you look at the sale players, while they would like to do modernization of their platform, you would prefer to do it in a phase-wise you know risk-free manner, for which the SOA-based product strategy is the right direction and that is where we enter, and Arun has repeatedly shared about the success of Intellect based on that entry and I have also shared the level of entry with management to the large global banks. What we see with the credibility that we have built in the market place from the products and a better understanding of the overall market, we see many wide spaces in the market place which includes like Arun highlighted very initial level what you would usually call asset-based sites tier 2, 3, 4, 5, and also the opportunity on emerging market where there is a transformation happening from very traditional systems to the modern systems. In these categories, the pressure is very interesting, because there is a combination of high volume needs along with low-pricing needs. So, we believe that the market today needs multi-product portfolios and that is really the interest in which we have brought in Laser Soft as part of the total portfolio. So, depending on the need of the customer, based on both the pricing and the nature of the transformation they are going to do, or the nature of the placement, we will be utilizing the combination of the portfolio. So, it is not an either or it is a combined portfolio depending on the nature of the business we will be brining in. I hope I was able to clarify to you; it is a multi-product portfolio strategy.

Mr. Ritesh Khanna:

Right. So, another thing just wanted to check was, do you think you would be requiring any further investments on Laser Soft product suite?

Mr. Karthik:

Arun can answer this, but I will just say that the product is very mature, it is very proven, it is like Arun had said it more ways than one, but it is delivered one of the best cost income ratios in the market place at a very very high yield high efficiency platform for a scale of over 20 million account size tickets; so we are talking about really proven scale. So, there is very little that is required other than sales and marketing investment actively from proliferation perspective. Arun, if you want to add to that.

Mr. Arun Jain:

I just want to add that we are getting three more product spaces which are white spaces like Karthik mentioned. We are getting white spaces of mutual fund and asset management companies; so they have products which they are selling to State Bank of India for their entire mutual fund portfolio against some established player in M-Fund space which are there. So, that is one additional product we are getting which we did not have in our portfolio. Then we have a very good cash management product which is working for at least ten customers. And third is the reconciliations engine there. So, three products we are getting additional on pipeline. And second about the investment, we are not envisioning a significant amount of investment, but we are a strategy of investing close to 4% to 5% which anyway goes into our investment into our current basket of product investment, that we will be maintaining it because we need to constantly upgrade our platform which is a part of the Intellect suite also. So we will have the same practices which are there in Intellect investment, will be replicating in the Laser Soft and SEEC investments.

Mr. Ritesh Khanna:

Sure, that is right. Sir, one last final question if I can. Could you throw some light on financial highlight or financials of Laser Soft as in what was the top line in the FY09 and what were the margins for this company?

Mr. Srikanth:

Yes. Last year they have done Rs. 37 crores revenue and with the PAT of Rs. 4.83 crores and current year they are aiming actually s. 41 crores revenue with the PAT range of Rs. 6.5 crores to Rs. 7.5 crores, and basically they have a three-year business plan mission, product is good, and we have an ability to take this product also to the emerging market. They have a very strong India presence which we believe that we will be able to really penetrate.

Mr. Ritesh Khanna:

Thank you so much sir.

Operator:

Thank you sir.

I would like to hand the floor back to Mr. Srikanth for final remarks. Over to you sir.

Mr. Srikanth:

Thank you.

We hope that we have addressed your questions within a short span of 1 hour 15 minutes timeframe, and thanks for everybody else's time and for having spent this kind of a significant time and thanks for showing interest actually in Polaris. Should there be any other questions, then please feel free to address to my investors cell and we are more than happy to answer back to all your questions.

Thanks once again, and looking forward to see you in the next quarter. Thank you.

Operator:

Thank you sir.

That does conclude our conference for today. Thank you for participating on Reliance Conferencing Bridge. You may all disconnect now.