

RESULT UPDATE

MID CAP

Share Data

Reuters code	POLS.BO
Bloomberg code	POL IN
Market cap. (US\$ mn)	321
6M avg. daily turnover (US\$ mn)	5.0
Issued shares (mn)	99
Target price (Rs)	164

Performance (%)	1M	3M	12M
Absolute	3	31	230
Relative	0	15	96

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	14.7	18.2
+/- (%)	9.5	24.1
PER (x)	10.2	8.2
PBV (x)	1.6	1.4
Dividend/Yield (%)	1.1	1.1
EV/Sales (x)	1.0	0.9
EV/EBITDA (x)	6.1	5.7

Major shareholders (%)

Promoters	29
FII's	7
MF's	4
BFST's	24
Public & Others	36

Financial highlights

(Rs mn)	1QFY10	2QFY10	QoQ (%)	2QFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net sales	3,255	3,383	3.9	3,511	(3.7)	13,779	13,564	(1.6)	15,124	11.5
EBITDA	552	539	(2.5)	575	(6.3)	2,335	2,261	(3.2)	2,416	6.9
EBITDA Margin (%)	17.0	15.9	-	16.4	-	16.9	16.7	-	16.0	-
Other Income	(90)	(49)	(45.1)	63	(178.7)	(316)	(202)	(36.3)	173	(185.8)
Depreciation	84	87	3.5	225	(61.2)	505	345	(31.6)	415	20.2
EBIT	378	402	6.4	413	(2.6)	1,514	1,715	13.3	2,174	26.8
Interest	2	2	0.2	2	4.7	(7)	(7)	(6.1)	(7)	0.1
Pre - tax profit	376	400	6.4	411	(2.6)	1,507	1,708	13.4	2,167	26.9
Tax	58	48	(16.4)	60	(19.5)	192	254	32.7	368	44.9
Share of Profit/(Loss) of Associate Cos.	-	-	-	(7)	-	9	(4)	-	-	-
Adjusted PAT	318	352	10.6	344	2.2	1,324	1,449	9.5	1,799	24.1
NPM (%)	9.8	10.4	-	9.8	-	9.6	10.7	-	11.9	-

Polaris Software

Maintain Outperformer

Price: Rs 150

BSE Index: 17,223

20 October 2009

2QFY10 Result – Guidance maintained

Polaris Software (Polaris) results were slightly above our expectations at the net sales level but in line at the PAT level. In rupee terms, net sales increased by ~4% QoQ to Rs 3,383 mn led by a volume growth of 7.2% and shift in work to offshore (~51% versus ~53%). In dollar terms, net sales grew by 5% QoQ to US\$ 69.93 mn. The company incurred a one-time visa cost of ~Rs 37 mn during the quarter, which coupled with appreciating rupee led to decline of ~100 bps in EBITDA margins to 15.9%. Excluding this one-time expense, the EBITDA margins remained flat at 17%. PAT was boosted by lower forex losses and low tax rate (due to deferred tax and FBT credit) to Rs 352 mn with PAT margins of 10.4%.

Laser Soft acquisition has given Polaris an access to co-operative banks and added 40 more clients to Polaris, where it did not have its footprint and also brought in specialised products (products for MFs and AMCs, cash management and recon management) to Polaris' portfolio. According to the management, the deal is EPS accretive and expects Laser Soft to contribute ~Rs 480-500 mn to the revenue over the next 12 months. Polaris' product suite continues to witness traction and gain worldwide acceptance as evident by the number of deal wins. Out of the 16 deals won in the quarter, 12 deals were Intellect led wins. Polaris continues to gain traction from Citigroup which contributes ~40% of total revenue and delivered ~6% growth in revenue on a QoQ basis. The management continues to maintain its EPS guidance of Rs 15 for FY10. We believe that the global recovery in the financial sector, traction from clients along with Laser Soft acquisition will help Polaris move to the next level of growth. Recent stake sold by Citigroup to the extent of 4% will remain an overhang for the stock. At the current market price, the stock is trading at 10.2x FY10E and 8.2x FY11E earnings. We maintain our Outperformer call on the stock.

Highlights

- Polaris recently acquired a software product company, Laser Soft solutions for a consideration of Rs 520 mn, where Polaris will be paying Rs 350 mn upfront in cash and balance over a period of two years based on performance of Laser Soft. According to the management, the deal is EPS accretive and expects Laser Soft to contribute ~Rs 480-500 mn to the revenue over the next 12 months.
- Revenue from SEEC (subsidiary catering to insurance vertical) stood at ~Rs 40 mn, while from PRIL (retail subsidiary) stood at ~Rs 26 mn.
- The company booked forex losses of Rs 86 mn on its outstanding hedge position versus Rs 133 mn in 1QFY10.
- The company won 16 new deals, of which 12 were intellect led indicating traction and acceptance of Polaris' Intellect product suite.
- Outstanding hedge position for rest of FY10 US\$ 50 mn at US\$/Re rate of 45.34 and for FY11 US\$ 100 mn at US\$/Re rate of 48.20.
- Revenue contribution, top client – 17.7%, top-5 – 42.8%, top-10 – 56%, Citigroup – ~41%.
- Revenue from the top client grew by 15% QoQ while from the top-5 and top-10 clients grew by 4.5% and 5.9%, respectively. Revenue from Citigroup grew by ~6%.
- Utilisation improved by 100 bps to 81%.
- Cash & cash equivalents stood at Rs 4,463 mn, post dividend payout.
- The company has managed to sustain its DSO at 47 days, one of the best in the industry.
- Region-wise revenue contribution: Americas – 43%, EMEA – 28% and Asia Pacific – 29%.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	10,993	13,779	13,564	15,124
<i>Growth (%)</i>	6.5	25.3	(1.6)	11.5
Operating expenses	(9,811)	(11,444)	(11,302)	(12,708)
Operating profit	1,182	2,335	2,261	2,416
EBITDA	1,182	2,335	2,261	2,416
<i>Growth (%)</i>	(26.7)	97.6	(3.2)	6.9
Depreciation	(460)	(505)	(345)	(415)
Other income	181	(316)	(202)	173
EBIT	903	1,514	1,715	2,174
Interest paid	(8)	(7)	(7)	(7)
Pre-tax profit	895	1,507	1,708	2,167
(before non-recurring)				
Pre-tax profit	895	1,507	1,708	2,167
(after non-recurring)				
Tax (current + deferred)	(161)	(192)	(254)	(368)
Net profit (before Minority)	734	1,315	1,454	1,799
Interest, Pref. Dividend, etc.)				
Minority interests	(2)	9	(4)	0
Reported PAT	732	1,324	1,449	1,799
Adjusted net profit	732	1,324	1,449	1,799
<i>Growth (%)</i>	(27.6)	80.8	9.5	24.1

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	768	1,054	1,637	2,684
Other current assets	4,550	4,356	4,645	5,179
Investments	970	2,442	2,500	2,500
Net fixed assets	2,133	2,356	2,500	2,785
Other non-current assets	21	97	97	97
Total assets	8,441	10,306	11,379	13,245
Current liabilities	1,848	2,509	2,331	2,595
Total debt	8	4	4	4
Other non-current liabilities	10	66	66	66
Total liabilities	1,866	2,579	2,401	2,665
Share capital	493	493	493	493
Reserves & surplus	6,081	7,233	8,484	10,087
Shareholders' funds	6,575	7,727	8,978	10,580
Total equity & liabilities	8,441	10,306	11,379	13,245
Capital employed	6,593	7,797	9,048	10,651

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	895	1,507	1,708	2,167
Depreciation	460	505	345	415
Change in working capital	(244)	855	(467)	(271)
Total tax paid	(175)	(211)	(254)	(368)
Cash flow from oper. (a)	937	2,655	1,332	1,943
Capital expenditure	(300)	(777)	(489)	(700)
Change in investments	(558)	(1,473)	(58)	0
Others	(63)	49	0	0
Cash flow from inv. (b)	(921)	(2,201)	(546)	(700)
Free cash flow (a+b)	17	454	786	1,243
Equity raised/(repaid)	8	0	0	0
Debt raised/(repaid)	(5)	(5)	0	0
Dividend (incl. tax)	(173)	(317)	(196)	(196)
Others	(9)	154	(6)	0
Cash flow from fin. (c)	(179)	(168)	(202)	(196)
Net change in cash (a+b+c)	(162)	286	583	1,047

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	7.4	13.4	14.7	18.2
Growth	(27.7)	80.8	9.5	24.1
Book NAV/share (Rs)	66.7	78.3	91.0	107.3
Dividend/share (Rs)	1.5	2.8	1.7	1.7
Dividend payout ratio	23.7	24.0	13.5	10.9
Tax	18.0	12.7	14.9	17.0
EBITDA margin	10.8	16.9	16.7	16.0
EBIT margin	8.2	11.0	12.6	14.4
RoCE	14.3	21.0	20.4	22.1
Net debt/Equity	(11.5)	(13.6)	(18.2)	(25.3)

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	20.2	11.2	10.2	8.2
PCE	12.4	8.1	8.3	6.7
Price/Book	2.3	1.9	1.6	1.4
Yield (%)	1.0	1.8	1.1	1.1
EV/Net sales	1.3	1.0	1.0	0.9
EV/EBITDA	11.6	5.9	6.1	5.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.7	9.6	10.7	11.9
Asset turnover	1.4	1.5	1.3	1.2
Leverage factor	1.3	1.3	1.3	1.3
Return on equity (%)	11.6	18.5	17.4	18.4

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