

Polaris Software

A leveraged play to the recovery in financial services IT spending

- **Initiate coverage with OW and Jun-10 P/E-based price target of Rs225; 50% upside:** Polaris is one of the most leveraged plays in the Indian IT sector to the recovery of the global banking, financial services and insurance industries (BFSI), with 90% of its revenue from this segment. With Citibank already an anchor client and investor, we believe the global recovery is leading to good business traction at Polaris. We expect this traction to drive a 26% EPS CAGR over FY10-12, leading to a gradual stock re-rating, driving our positive view.
- **The global financial sector recovery** is driving increased spending on technology after a big freeze at the end of 2008/beginning of 2009. Several large Indian IT companies have seen more deal closures from BFSI companies worldwide, and we believe that the mid-cap sector is beginning to see positive momentum now. We expect Polaris to benefit from this, given its significant expertise in the BFSI sector.
- **Customer traction on the ground:** Citibank is Polaris' largest customer, contributing 40% of revenue and having a 40.6% stake in the company. As expected, Polaris saw a decline in Citibank business over the past two quarters. However, business from Citibank has bottomed out, according to management, and is now growing. Furthermore, Polaris has seen several new project wins, both from existing and new customers (such as HSBC and RBS), and these are likely to slowly ramp up over the next 6-12 months.
- **Valuation, price target and risks:** We estimate a gradual revenue acceleration leading to double-digit top-line growth in FY11/FY12 when the full impact of ramp-ups shows in numbers. Operating leverage combined with the elimination of hedging losses should drive a good 26% EPS CAGR in FY10-12E, after 13% growth in FY10E. Our PT of Rs225 is based on 11x forward P/E, at a 10-20% discount to other mid-caps in the sector due to its high sector focus. Risks to our view and PT include high client concentration, and a deterioration in the global financial services sector outlook.

Reuters: POLS.BO; Bloomberg: POL IN

Rs B, year-end March	FY09	FY10E	FY11E	FY12E		FY09	FY10E	FY11E	FY12E	52-week range Rs	Rs25-159
Sales	13.8	13.3	14.9	17.0	Y/E BPS (Rs)	78.3	88.5	106.0	126.1	Shares outstg	99MM
Operating profit	1.9	2.0	2.3	2.8	ROE (%)	17.3	17.8	21.0	19.9	Date of price	Oct 14, 2009
EBITDA	2.3	2.3	2.7	3.2	ROIC (%)	26.5	28.8	32.8	33.9	Avg daily volume	2.2MM
PBT	1.4	1.7	2.5	3.0	Qtr EPS (Rs)	1Q	2Q	3Q	4Q	Avg daily value (US\$)	5.1MM
Net profit	1.2	1.5	2.0	2.3	EPS (FY09)	2.7	3.5	3.8	2.8	Index (Sensex)	17231
EPS	12.8	14.8	20.4	23.0	EPS (FY10E)	3.2	3.6	3.8	4.1	Free float	53%
P/E	11.6	10.0	7.3	6.4	EPS (FY11E)	4.6	4.9	5.3	5.6	Div yield (FY08) (%)	1
P/B	1.9	1.7	1.4	1.2	Local	1M	3M	12M		Exchange rate	Rs46.1/US\$1
EV/EBITDA	6.0	5.9	5.1	4.4	Abs. perf.(%)	2.0	62.6	195.8		Market cap (US\$)	US\$318MM
Cash	3.4	4.1	5.6	7.2	Rel. perf.(%)	-4.0	30.7	97.1		PT (Jun-10)	Rs225

Source: Company data, Bloomberg, J.P. Morgan estimates.

Initiation

Overweight

POLS.BO, POL IN

Price: Rs146.05

Price Target: Rs225.00

India

eBusiness/IT Services

Nishit Jasani^{AC}

(91-22) 6639-3008

nishit.x.jasani@jpmorgan.com

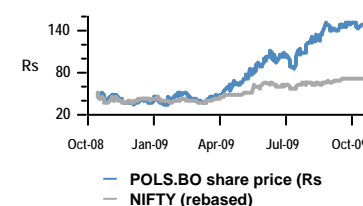
Manoj Singla, CFA

(91-22) 6639-3017

manoj.singla@jpmorgan.com

J.P. Morgan India Private Limited

Price Performance



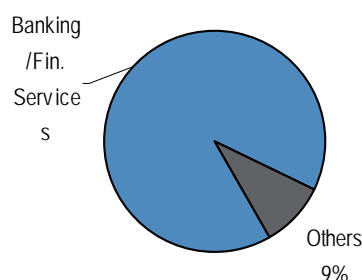
See page 12 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company description

Polaris Software Lab Limited provides software services and solutions to a variety of multinational clients. The company provides its services to companies in the banking and financial industry, which specialize in retail banking, credit cards, insurance, risk management, investment banking and a variety of telecom related activities.

Revenue



Source: Company data.

EPS: J.P. Morgan vs. consensus

	J. P. Morgan	Consensus
FY10E	14.8	13.4
FY11E	20.4	17.9
FY12E	23.0	NA

Source: Bloomberg, J. P. Morgan estimates.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Sales volume growth assumption (FY11E: 12.5%)		
Impact of each 2%	3.6%	4.1%
Gross margin assumption (FY11E: 34.7%)		
Impact of each 1%	5.5%	6.2%
Capacity utilization assumption (FY11E: 73.8%)		
Impact of each 5%	21.9%	24.6%
Debt/equity assumption (FY11E: 0%)		
Impact of each 10%	0%	1.1%

Source: J. P. Morgan estimates.

Price target and valuation analysis

Our Jun-10 price target of Rs225 is based on 11x one-year forward Jun-10E EPS. This is at a 20% discount to mid-tier players such as Patni and Mindtree. Our Jun-10 DCF fair value estimate is Rs195 per share. Our long-term assumptions are a 10-year revenue CAGR of 8%, EBIT margin of 12%, ROIC of 25% and WACC of 14%.

Risk-free rate:	6.0%
Market risk premium:	8.5%
Beta:	0.90
Debt/equity:	0.0%
Cost of debt:	10.1%
Terminal "g":	2.0%

Key downside risks to our price target include high client concentration, and a deterioration in the global financial services sector outlook.

Investment thesis

Positive share price drivers

Leveraged play to the BFSI recovery with good expertise; global BFSI recovery to help

The global recovery of the BFSI sector over the past 1-2 quarters has led to stability in IT spending budgets for this sector. Indian IT firms are starting to see an increased proportion of spend being used for offshore IT services, leading to increased revenues from BFSI segment.

Polaris is a highly leveraged play to the recovery in BFSI, with over 90% of Polaris' revenues coming from this segment. 80% of Polaris' revenues come from services provided around its financial product offerings. Overall, the BFSI segment generates revenue of over US\$60MM per quarter, which is in line with the revenues from the BFSI segment for other diversified mid-caps such as Patni (~\$65MM) and Mphasis (~\$95MM).

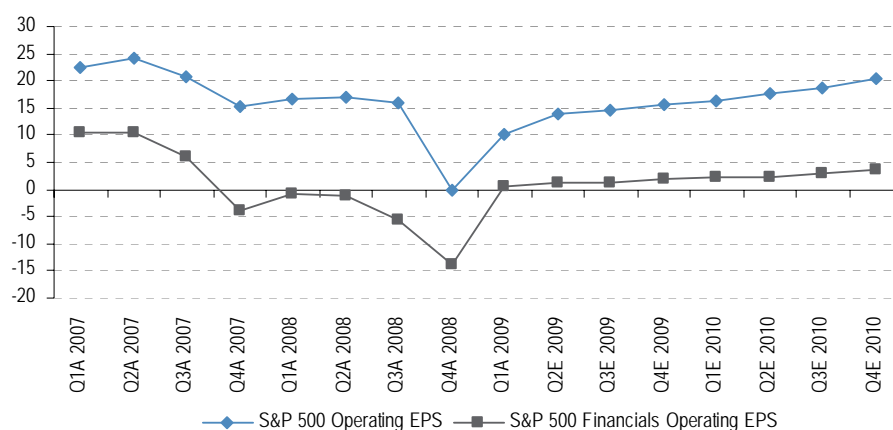
Table 1: Earnings forecasts for developed countries—Financial sector led the fall and is likely to lead the recovery

Developed World	Market Composition		EPS Growth Consensus		
	Market Cap	Earnings	2008	2009	2010
Total Market	100%	100%	-31%	-8%	26%
Energy	11%	11%	20%	-50%	37%
Materials	7%	4%	-13%	-56%	62%
Industrials	11%	9%	-16%	-32%	22%
Consumer Discretionary	9%	5%	-51%	-19%	75%
Consumer Staples	10%	11%	3%	2%	9%
Health Care	10%	14%	6%	7%	8%
Financials	21%	24%	-81%	146%	29%
Information Technology	12%	9%	-18%	-4%	34%
Telecommunication Services	4%	6%	5%	-11%	6%
Utilities	5%	6%	-2%	-1%	6%

USA	Market Composition		EPS Growth Consensus		
	Market Cap	Earnings	2008	2009	2010
Total Market	100%	100%	-24%	-6%	22%
Energy	12%	11%	24%	-56%	40%
Materials	3%	2%	-11%	-57%	73%
Industrials	10%	9%	-1%	-32%	10%
Consumer Discretionary	9%	7%	-15%	-9%	36%
Consumer Staples	11%	12%	1%	3%	8%
Health Care	13%	17%	10%	1%	9%
Financials	15%	19%	-101%	NM	36%
Information Technology	19%	15%	11%	-13%	21%
Telecommunication Services	3%	3%	-2%	-19%	7%
Utilities	4%	5%	-1%	-5%	7%

Source: J.P. Morgan.

Figure 1: S&P500 operating EPS—Financial sector recovery expected



Source: S&P website.

Table 2: BFSI revenues for mid-cap Indian IT firms

Revenue in US\$MM	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Mphasis*	64.4	70.7	81.7	86.0	85.8	91.2
% of total revenue	39%	40%	43%	43%	39%	40%
Patni	63.7	65.9	69.0	70.6	64.1	70.4
% of total revenue	36%	36%	38%	40%	41%	44%
MindTree	10.2	11.7	12.4	11.9	11.5	11.1
% of total revenue	19%	22%	21%	21%	17%	18%
Polaris	64.0	67.9	71.8	71.6	61.1	61.6
% of total revenue	89%	90%	91%	95%	91%	92%

Source: Company reports. * Dec08 refers to Jan09 and so on.

Services plus products—Catching up

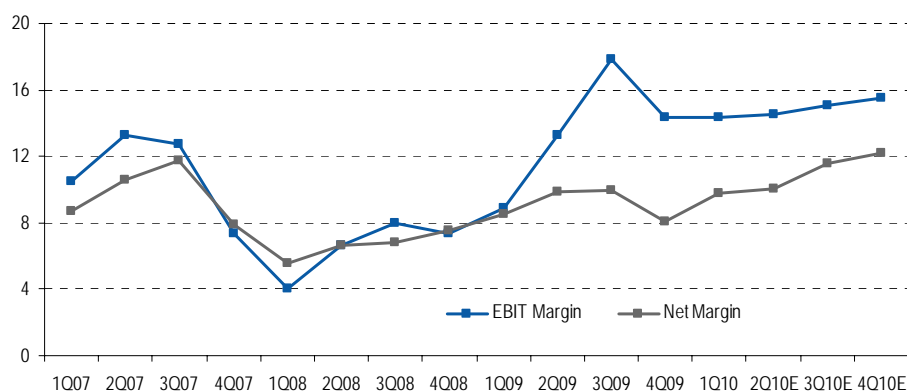
Polaris acquired banking product IP through its Orbitech deal in 2002 and the re-aligned the product to suit it for a broader set of banking clients. This suite of products (called Intellect suite) has been built using Service Oriented Architecture (SOA) technology has gained momentum over the past few quarters. Citigroup does remain the largest customer for Polaris (contributing over 40% of revenues). However, despite the sharp cut in discretionary spending over the last year and vendor consolidation especially in BFSI segment, the company has seen reasonable deal wins with little pricing pressure.

Polaris has been able to develop integrated model of financial technology including services, products and consulting capabilities, which has helped it differentiate itself from mid-cap peers.

Expect gradual revenue acceleration backed by operating leverage

We expect Polaris to see decent revenue acceleration as the BFSI sector leads the revenue recovery for the IT space. Moreover, we believe that with its pricing power on the product business, the company will be able to expand margins by 150-200bp over the next 1-2 years. As a result, we expect an FY10-12 revenue CAGR of 13%, with a higher EBIT CAGR of 18%. With forex losses likely to end by Mar 2010, EPS CAGR should be even higher at 26%.

Figure 2: EBIT and net margin trend



Source: Company reports, J.P. Morgan estimates.

Strong balance sheet position

Polaris had a net cash position of Rs4015MM as of Jun-09 – implying cash value of Rs40/share (27% of market cap). This cash position offers strong support for the

valuation and could help Polaris fill its product gaps through acquisitions if required. Polaris' cash reserves have been increasing steadily over the past two years.

Risks to thesis

High client concentration

Polaris derives over 40% revenues from Citigroup and over 45% revenues from other top 5 clients. As a result, any meaningful decline in business from any of these clients, especially Citibank, would have a material impact on Polaris' revenues.

Another sharp cut in global financial spending

Although we do not expect any cuts in IT spend among global financial companies, any such cut would be a significant negative for Polaris given its high dependence on this sector.

Sharp Rupee appreciation beyond its current hedge positions would impact Polaris' revenues and operating margins negatively.

Valuation and share price analysis

We use DCF-based cash flow and comparative P/E-based metrics to sector peers to value Polaris. Our comparative P/E-based valuation yields a Jun-10 price target of Rs225, 11x one-year forward Jun-10E EPS. This is at a 15-20% discount to other mid-caps in the Indian IT space, given its single vertical focus. This is at a 15% premium to our DCF-based, Jun-10 fair value estimate of Rs195 as we expect the stock to run up on the back of the recovery in the BFSI space.

Table 3: Peer valuations

Year-end March	Price (Rs) 14-Oct-09	Shares MM	Mkt cap US\$MM	EPS in LC			P/E			EPS CAGR FY09-11E
				FY09	FY10E	FY11E	FY09	FY10E	FY11E	
TCS	595	1,957	25,246	26.4	31.5	36.3	22.5	18.9	16.4	17.3
Infosys	2,260	573	28,089	102.0	106.0	126.3	22.1	21.3	17.9	11.2
Wipro Limited	580	1,466	18,437	26.8	28.9	32.7	21.7	20.0	17.7	10.6
Satyam	109	1,176	2,778	10.6	4.3	11.7	10.3	25.2	9.3	4.8
HCL Tech	305	671	4,438	18.0	18.1	28.2	17.0	16.8	10.8	25.3
Tech MH	934	122	2,469	77.9	44.3	100.7	12.0	21.1	9.3	13.7
Patni	423	128	1,177	34.1	32.9	36.9	12.4	12.8	11.5	4.0
Mphasis-BFL	632	209	2,870	14.1	42.0	41.3	44.7	15.0	15.3	70.9
Mindtree	572	39	488	7.9	44.6	51.0	72.8	12.8	11.2	154.8
Polaris Software	149	99	318	12.8	14.8	20.4	11.6	10.0	7.3	26.4

Source: Company reports, Bloomberg, J.P. Morgan estimates. Note: Priced as of October 14, 2009.

DCF valuation: Jun-10 fair value estimate of Rs195

Our Jun-10 DCF fair value estimate is Rs195 per share. Our long-term assumptions are a 10-year FY09-FY19E revenue CAGR of 8%, EBIT margins of 12%, ROIC of 25% and WACC at 14%. We expect the stock to trade ahead of our DCF fair value estimate given the expected recovery cycle for all Indian IT companies in 2H FY10; hence our price target is at a 15% premium to our DCF valuation.

Revenue

We have explicit quarterly revenue forecasts until FY12. We expect 7% revenue CAGR over FY09-12. We have assumed a growth of 8% for 10 years and the terminal growth rate assumption is 2%.

Operating and NOPAT margins

Polaris's operating margins should grow over the next couple of years from around 14% to 16%. In the long term, we expect Polaris's margins to remain at ~12%. Our long-term NOPAT margin assumption is 8%.

Asset turns

We expect asset turns to increase from FY09 levels in the near-term explicit forecast period until FY12. Our longer-term fixed asset turn assumption is on the conservative side at an FY09 value of 6x. Overall we expect long-term invested capital turns of 3x.

Cost of capital

We assume a cost of capital of 13.6%, based on cost of equity of 13.6% and cost of debt of 10%. The cost of equity is based on a risk-free rate of 6%, market risk premium of 8.5% and beta of 0.9.

ROIC

Putting all the above together, we get a long-term ROIC of 25%.

Polaris: Company profile

Polaris provides IT services mainly to BFSI which specialize in retail banking, credit cards, insurance, risk management, investment banking. Products (Intellect suite) contribute about 17% of revenues, BPO (Optimus) about 4% and services division about 79% of the revenues. Citibank holds a ~41% stake in the company and is its largest client, contributing ~40% of revenues. Polaris derives ~40% of its revenues from the Americas, ~30% from Europe, 21% from APAC, and 9% from India.

Management

Table 4: Management team

Name	Designation	Profile
Arun Jain	Chairman/Founder/MD/CEO	Prior to founding Polaris Software in 1993, Mr. Jain was employed by Nucleus Software Workshop, a company which he founded. In 1985 Mr. Jain was in the United States studying with Wang Computers. Arun is on the Board of Madras Stock Exchange Ltd, a member of Advisory Council of Software Technology Parks of India (STPI) for their functioning of the incubation facility and technological innovation in the area of information technology and a key member in the State Level IT Task Force in Tamil Nadu, India.
R Srikanth	Executive Vice President & Chief Financial Officer	With over 24 years of experience in the field of Finance & Business Management, Srikanth heads the Finance, Treasury, Accounting, Investor Relations, Legal, Compliance, Corporate Governance & Secretarial functions for Polaris & its subsidiaries in India and worldwide and is a key member of the Business Corporate Heads. Prior to joining Polaris, Srikanth was with Wipro BPO Solutions, as the Associate Chief Operating Officer.
V Balakrishnan	Senior VP & CIO	V.Balakrishnan, an MTEch from IIT Kanpur (1972), is responsible for Business Processes integration and transformation in Polaris using industry standard solutions like the Peoplesoft ERP suite (Finance, HR, Payroll, CRM, Projects). Earlier as the Head of Knowledge Management in Polaris, USA, he was instrumental in developing the 'OSA' architecture to significantly enhance speed of implementing role based information access from Peoplesoft systems. Balakrishnan has managed large projects in several industries such as the first Distributed Digital control system in India (Kudremukh), first large VSAT project (National Stock Exchange/ Comnet), message switch for the Army (ECIL) etc, prior to joining Polaris in 1997.
Govind Singhal	COO for Global Delivery & Operations	Govind was in the very first batch of Managers who joined Arun during his Nucleus days, and was instrumental in cementing the first relationship that the Company had with Citibank India and one of the key architects who helped shape Polaris growth journey. Govind was also responsible for setting up Optimus in 2003. Govind currently is Chief Operating Officer of Polaris. During his career of more than 23 years in the IT industry, he has played critical roles in organizations such as Bank of America, Satyam and EDS.
Kartik Kaushik	President - Global Sales & Account Management CEO - Polaris Americas	Kartik Kaushik heads global sales and is CEO Americas. As President Global Sales and Account Management, he brings his expertise to the gamut of Solution Selling, Branding & Identity management, New Idea generation and Business model creation. In his role as CEO Americas, his strong strategic vision and strongly global outlook has helped chart a defining growth path for Polaris Americas, helping Polaris Americas to continue expanding despite the turbulence in the financial markets.
Shashi Mohan	Chief Technology Officer	Shashi has over 25 years of leadership and executive experience in software development and consulting in North America, Europe, South Asia, and India with having worked with organizations like Infogain - USA as Senior Architect, Glovia - USA (A Subsidiary of Fujitsu), Syntel - USA, TCIL - BellSouth, Delhi, C-Dot Delhi & Usha Computers - Delhi. Prior to joining Polaris, Shashi was a Principal with High Availability Systems Architecture Group with Oracle - USA, and was accountable for High Availability features across Oracle product stack. With BEA Systems, USA, Mr. Mohan led design and delivery of high-performance, mission-critical applications using multi-tier architecture for Key BEA customers – notably E-Trade, Visa and HP, using BEA and other 3rd party products and technologies.

Source: Company website, BusinessWeek.

Financials

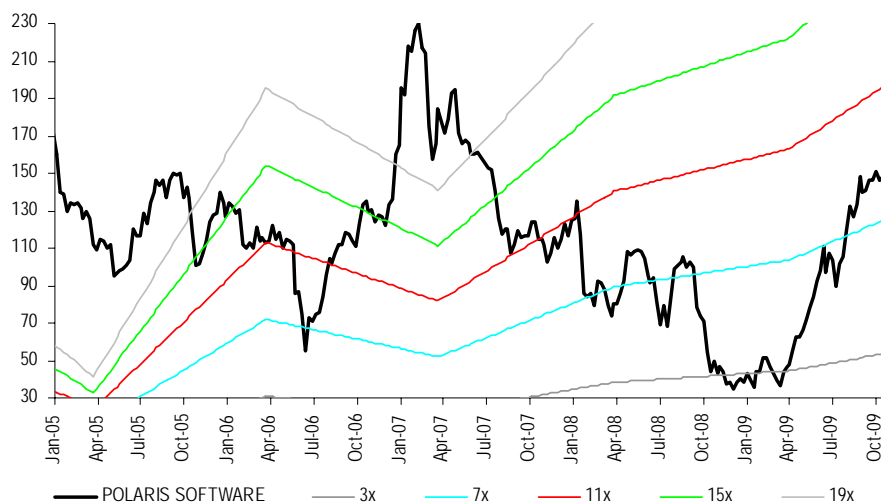
Table 5: Polaris—P&L account

Rs in millions, year-end March

	FY09				FY10E				2006	2007	2008	2009	2010E	2011E	2012E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE							
Revenue	3,170	3,511	3,726	3,373	3,255	3,301	3,339	3,435	8,251	10,324	10,993	13,779	13,330	14,857	17,046
Gross profit	917	1,112	1,314	1,195	1,092	1,121	1,149	1,201	2,138	3,260	3,086	4,538	4,564	5,157	5,911
EBIT	282	467	666	484	468	480	504	533	358	1,132	722	1,899	1,986	2,320	2,772
EBITDA	388	575	754	569	552	568	595	626	852	1,613	1,182	2,287	2,341	2,705	3,152
Pre tax profit	293	398	425	329	376	423	451	487	434	1,202	895	1,445	1,738	2,455	2,952
Net profit	270	345	372	272	318	356	379	409	213	1,011	732	1,259	1,462	2,013	2,273
EPS (Rs)	2.7	3.5	3.8	2.8	3.2	3.6	3.8	4.1	2.2	10.3	7.4	12.8	14.8	20.4	23.0
Margins (%)	441.3														
Gross margin	28.9	31.7	35.3	35.4	33.6	34.0	34.4	35.0	25.9	31.6	28.1	32.9	34.2	34.7	34.7
Operating margin	8.9	13.3	17.9	14.3	14.4	14.5	15.1	15.5	4.3	11.0	6.6	13.8	14.9	15.6	16.3
EBITDA margin	12.2	16.4	20.2	16.9	17.0	17.2	17.8	18.2	10.3	15.6	10.8	16.6	17.6	18.2	18.5
Net margin	8.5	9.8	10.0	8.1	9.8	10.8	11.4	11.9	2.6	9.8	6.7	9.1	11.0	13.5	13.3
Sequential growth (%)															
Revenue	10.8	10.8	6.1	-9.5	-3.5	1.4	1.1	2.9	4.8	25.1	6.5	25.3	-3.3	11.5	14.7
Gross profit	15.5	21.3	18.2	-9.1	-8.6	2.7	2.5	4.5	-2.3	52.5	-5.3	47.0	0.6	13.0	14.6
EBIT	34.3	65.7	42.6	-27.4	-3.3	2.6	5.0	5.8	-53.6	216.5	-36.2	163.1	4.6	16.8	19.5
EBITDA	20.2	48.1	31.1	-24.5	-3.0	2.9	4.7	5.2	-27.6	89.3	-26.7	93.5	2.4	15.5	16.5
Net profit	25.9	27.8	7.7	-26.7	16.9	11.7	6.5	8.0	-64.0	374.3	-27.6	72.0	16.1	37.7	12.9
EPS	25.9	27.8	7.7	-26.7	16.9	11.7	6.5	8.0	-64.2	370.8	-27.8	71.9	16.1	37.7	12.9

Source: Company reports, J.P. Morgan estimates.

Figure 3: Polaris—Forward one-year P/E



Source: Company reports, J.P. Morgan estimates.

Figure 4: Polaris—Trailing one-year P/E



Source: Company reports, J.P. Morgan estimates.

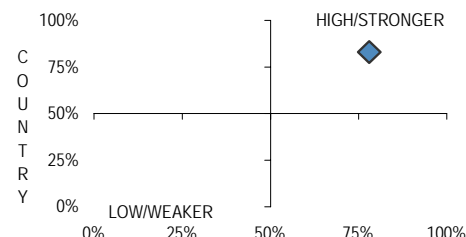
All Data As Of 13-Oct-09

Q-Snapshot: Polaris Software Lab Ltd.

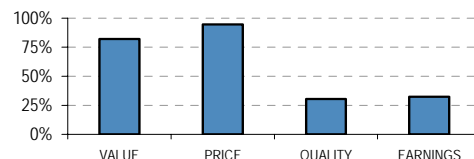
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	76%	83%	0.6x
P/E Vs Sector (12mth fwd EPS)	84%	81%	0.5x
EPS Growth (forecast)	64%	68%	26.3%
Value Score	82%	87%	
Price Momentum			
12 Month Price Momentum	94%	90%	177.3%
1 Month Price Reversion	55%	36%	2.7%
Momentum Score	95%	90%	
Quality			
Return On Equity (forecast)	49%	50%	16.8%
Earnings Risk (Variation in Consensus)	22%	13%	0.17
Quality Score	30%	20%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	42%	52%	31.1
1 Mth Change in Avg Recom.	33%	42%	0.00
Net Revisions FY2 EPS	24%	51%	0%
Earnings & Sentiment Score	32%	43%	
COMPOSITE Q-SCORE* (0% To 100%)	83%	78%	

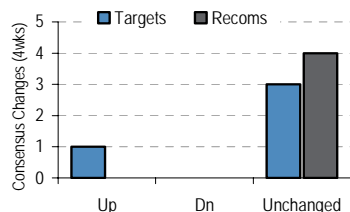
J.P. Morgan Composite Q-Score



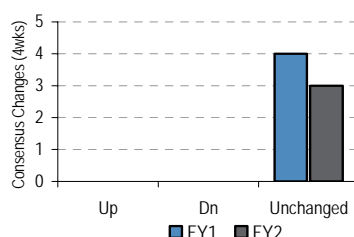
INDUSTRY
Quant Return Drivers Summary (vs Country)



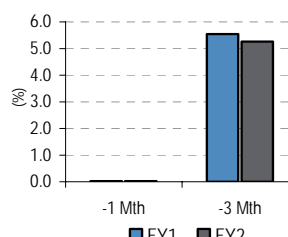
Targets & Recommendations**



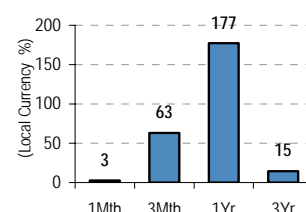
EPS Revisions**



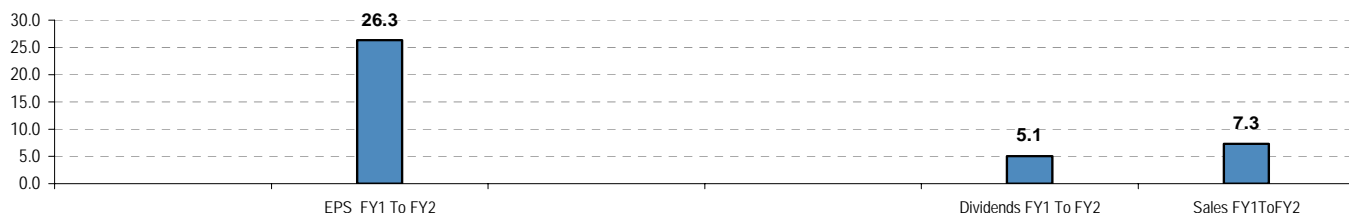
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
500075-IN	Nagarjuna Fertilizers & Chemicals Ltd.	Chemicals: Agricultural	314	1.90	25.0	50%
500193-IN	Hotel Leela Venture Ltd.	Hotels/Resorts/Cruiselines	312	0.36	18.2	21%
532218-IN	South Indian Bank Ltd.	Regional Banks	312	0.25	6.3	
532809-IN	Firstsource Solutions Ltd.	Miscellaneous Commercial Services	311	4.24	20.6	30%
505400-IN	Texmaco Ltd.	Industrial Machinery	309	0.35	17.0	
532254-IN	Polaris Software Lab Ltd.	Information Technology Services	307	1.07	11.1	83%
532175-IN	Infotech Enterprises Ltd.	Packaged Software	301	0.04	10.4	88%
500097-IN	Dalmia Cement (Bharat) Ltd.	Construction Materials	301	0.24	5.0	
532313-IN	Mahindra Lifespace Developers Ltd.	Homebuilding	298	0.28	15.9	24%
532343-IN	TVS Motor Co. Ltd.	Motor Vehicles	288	0.58	19.1	73%
500031-IN	Bajaj Electricals Ltd.	Electronics/Appliances	272	0.11	11.7	

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>. Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.

* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Polaris Software: Summary of financials

Rs in millions, year-end March

Income statement						Ratio analysis					
	FY08	FY09	FY10E	FY11E	FY12E	% , year-end March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	10,993	13,779	13,330	14,857	17,046	Gross Margin	28.1	32.9	34.2	34.7	34.7
Cost of Goods Sold	7,907	9,242	8,766	9,700	11,135	EBITDA margin	10.8	16.6	17.6	18.2	18.5
Gross Profit	3,086	4,538	4,564	5,157	5,911	Operating Margin	6.6	13.8	14.9	15.6	16.3
SG&A Expenses	1,251	1,368	1,423	1,534	1,676	Net Margin	6.7	9.1	11.0	13.5	13.3
						SG&A/Sales	11.4	9.9	10.7	10.3	9.8
Operating Profit (EBIT)	722	1,899	1,986	2,320	2,772						
EBITDA	1182	2287	2341	2705	3152	Sales growth	6.5	25.3	-3.3	11.5	14.7
Other Income	181.1	-446.4	-240.7	142.3	187.4	Operating Profit Growth	-36.2	163.1	4.6	16.8	19.5
Interest Expense	-8	-7	-7	-7	-7	Net profit growth	-27.6	72.0	16.1	37.7	12.9
						EPS (Reported) growth	-27.8	71.9	16.1	37.7	12.9
Earnings before tax	895	1,445	1,738	2,455	2,952						
Tax	-161	-209	-276	-442	-679	Interest coverage (x)	91.8	254.2	288.1	336.6	402.2
Net Income (Reported)	732	1259	1462	2013	2273	Net debt to total capital	n.m.	n.m.	n.m.	n.m.	n.m.
						Net debt to equity	n.m.	n.m.	n.m.	n.m.	n.m.
INR											
EPS (Reported)	7.4	12.8	14.8	20.4	23.0	Asset Turnover	129.3	133.7	118.7	111.7	108.7
BPS	66.6	78.3	88.5	106.0	126.1	ROE	11.7	17.3	17.8	21.0	19.9
DPS	1.50	3.00	3.75	2.50	2.50	ROIC	10.7	26.5	28.8	32.8	33.9
Shares Outstanding (bn)	99	99	99	99	99	ROCE	10.3	21.8	20.2	20.7	19.3
Balance sheet						Cash flow statement					
	FY08	FY09	FY10E	FY11E	FY12E		FY08	FY09	FY10E	FY11E	FY12E
Cash and cash equivalents	1,551	3,401	4,129	5,570	7,214	Net Income	732	1,259	1,462	2,013	2,273
Accounts receivable	2,105	2,031	2,071	2,352	2,689	Depr. & Amortisation	460	388	356	386	380
Inventories	79	97	100	114	130	Change in working capital	-252	835	-85	-267	-320
Others	2,445	2,325	2,290	2,602	2,974	Other	2	-23	0	0	0
Current assets	6,179	7,854	8,590	10,638	13,008	Cash flow from operations	942	2,459	1,733	2,132	2,334
LT investments	187	96	295	295	295	Capex	-363	-611	-349	-400	-400
Net fixed assets	2,133	2,356	2,349	2,364	2,384	Disposal/ (purchase)	225	91	-199	0	0
Others	0	0	0	0	0	Cash flow from investing	-138	-520	-548	-400	-400
Total assets	8,500	10,306	11,234	13,296	15,686	Free cash flow	579	1,848	1,384	1,732	1,934
						Equity raised/ (repaid)	-25	189	-87	-43	-43
Liabilities						Debt raised/ (repaid)	-5	-5	-1	0	0
						Other	-7	23	0	0	0
Current liabilities	1,916	2,576	2,498	2,838	3,245	Dividends paid	-148	-296	-370	-247	-247
Total current liabilities	1,916	2,576	2,498	2,838	3,245	Cash flow from financing	-184	-89	-458	-290	-290
Long term debt	8	4	3	3	3						
Other liabilities	0	0	0	0	0	Net change in cash	620	1,850	728	1,442	1,644
Total liabilities	1,925	2,579	2,501	2,841	3,248	Beginning cash	930	1,551	3,401	4,129	5,570
Shareholders' equity	6,575	7,727	8,732	10,455	12,438	Ending cash	1,550	3,401	4,129	5,570	7,214

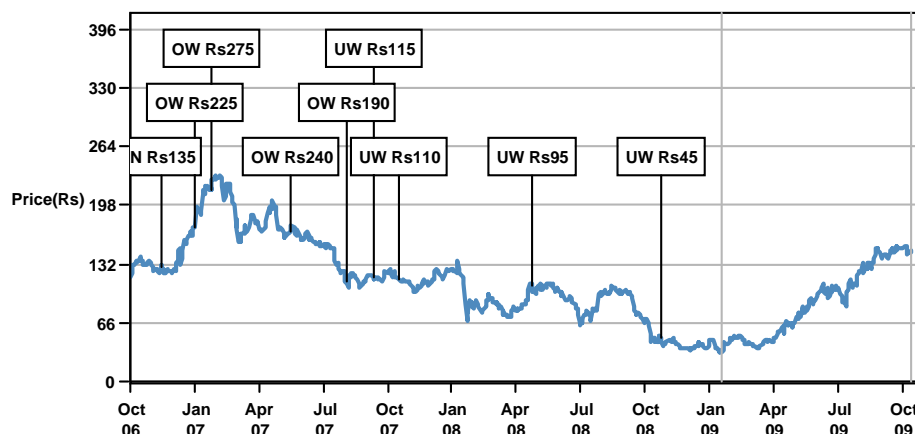
Source: Company reports, J.P. Morgan estimates.

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Polaris Software (POLS.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
13-Nov-06	N	129.65	135.00
02-Jan-07	OW	172.85	225.00
23-Jan-07	OW	215.60	275.00
17-May-07	OW	168.10	240.00
03-Aug-07	OW	112.25	190.00
12-Sep-07	UW	116.35	115.00
17-Oct-07	UW	115.35	110.00
24-Apr-08	UW	107.90	95.00
24-Oct-08	UW	48.25	45.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Jan 16, 2009 - Oct 14, 2009. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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