

Polaris Consulting & Services Limited

(BSE: 532254; NSE: POLARIS)

Q2 FY2017 Earnings Presentation
November 9, 2016

Performance Highlights: Q2 FY2017

Net Revenue

Rs. 5,067 mn
+2.3% q-o-q

EBITDA

Rs. 614 mn
Margin: 12.1%

PAT

Rs. 411 mn
Margin: 8.1%

DSO

86 Days
(89 Days: Q1 FY2017)

Headcount

7,056
Attrition: 17.1%

CCE and Investments

Rs. 4,792 mn
(Rs. 3,528 mn: Q1 FY2017)

Management Perspectives

Commenting on results and developments **Mr. Kris Canekeratne, Chairman** said:

We are pleased with our Q2 performance. Our Q-2 revenue and EBITDA grew sequentially by 2.3% and 4.7% respectively. The growth was driven largely by growth in our principal business segment, Banking and Financial services which grew by 8.1%. I would like to take this opportunity to thank all of the Polaris team members for their hard work and dedication towards executing against our strategic goals.

I would also like to inform the shareholders that Mr. Jitin Goyal, CEO of the Company has resigned to pursue other interests. I would like to thank Jitin for his many contributions, and also for building a strong platform that will allow Polaris to grow and scale in the banking and financial services industry. We wish Jitin the very best.

Commenting on results **Mr. NM Vaidyanathan, Chief Financial Officer** said:

In \$ terms our top-line improved by 2.3% on a sequential basis during the quarter. Our PAT improved by 3.6% compared to Q1 FY2017. This improvement in the profitability was primarily driven by higher revenues and higher utilization levels coupled with cost rationalization initiatives. We will stay focused on driving the business forward, and we expect higher one-time integration related costs to impact us in the second half of the year. Our continued execution on improving collections is evident from considerable growth in cash and cash equivalents & investments during the quarter. Proceeds from the sale of property also contributed to the growth in cash balance.

Performance Overview

(Rs. million, unless stated)

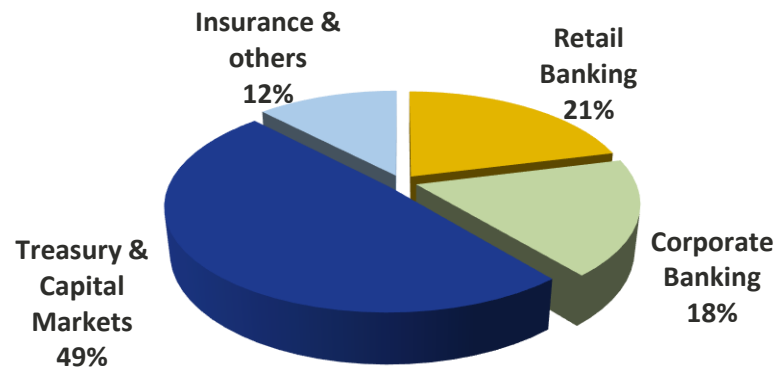
Particulars	Q2		Y-o-Y Growth (%)	Q1	
	FY2017	FY2016		FY2017	Q-o-Q Growth (%)
Net Revenue	5,067	5,425	(6.6)%	4,955	2.3%
EBITDA	614	911	(32.6)%	587	4.7%
Margin (%)	12.1%	16.8%		11.8%	
PAT	411	571	(27.9)%	397	3.6%
Margin (%)	8.1%	10.5%		8.0%	
Basic EPS (Rs.)	4.05	5.70	(28.9)%	3.92	3.5%

Performance Discussion (Q-o-Q)

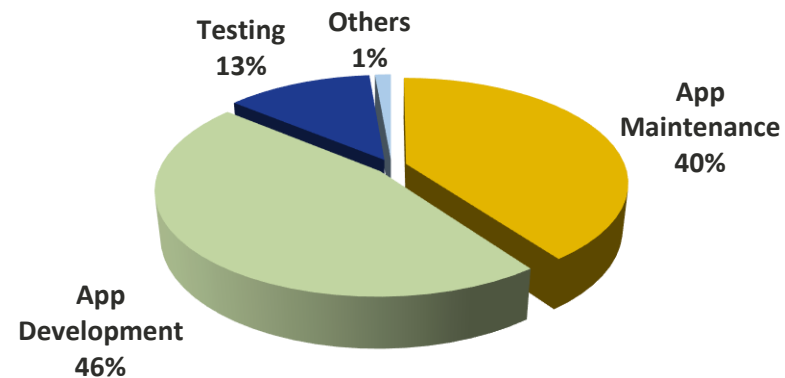
- EBITDA margins improved by 28 basis points primarily driven by improvement in utilization levels coupled with cost rationalization. Adjusted for the impact of IND AS on the revenue for Q1, the EBITDA margin improved by 360 basis points.
- PAT growth was driven by better operating profit, offset to a certain extent by the decline in other income during the quarter
- Higher collection of receivables and proceeds from the sale of Carex property resulted in significant improvement in the Cash and Cash equivalents & Investments which was Rs. 4,792 million as on 30th Sep 2016 (Rs. 3,528 as on 30th Jun 2016)

Q2 FY2017 Revenue Break-up

Revenue by Vertical



Revenue by Service Offering



Revenue by Contract Type

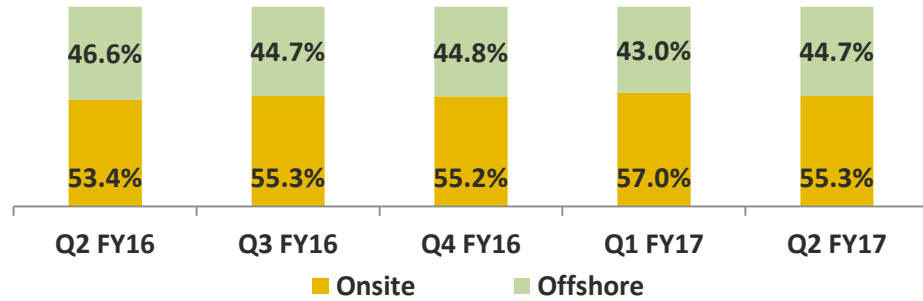


Note:

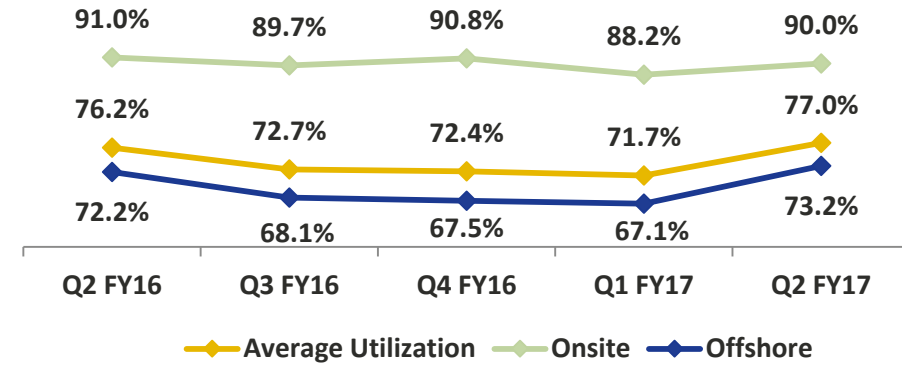
1. Fixed bid includes Fixed price

Operational Metrics

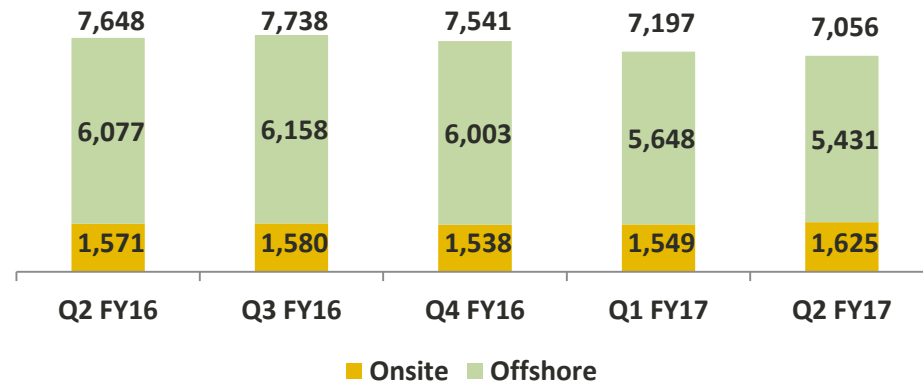
Revenue Mix



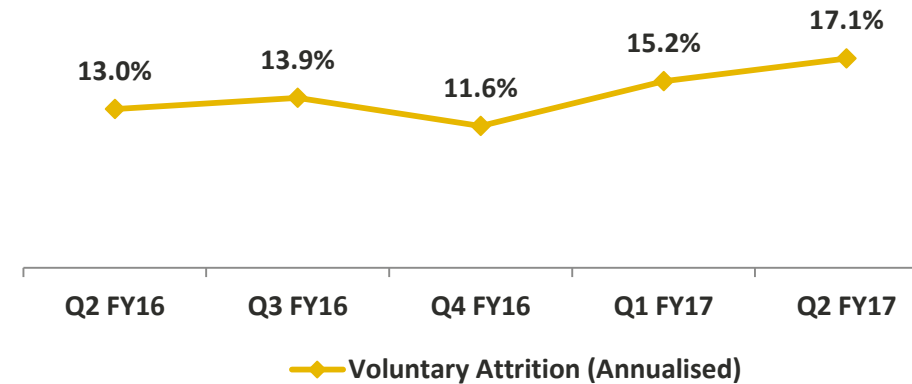
Utilization



Headcount¹



Attrition

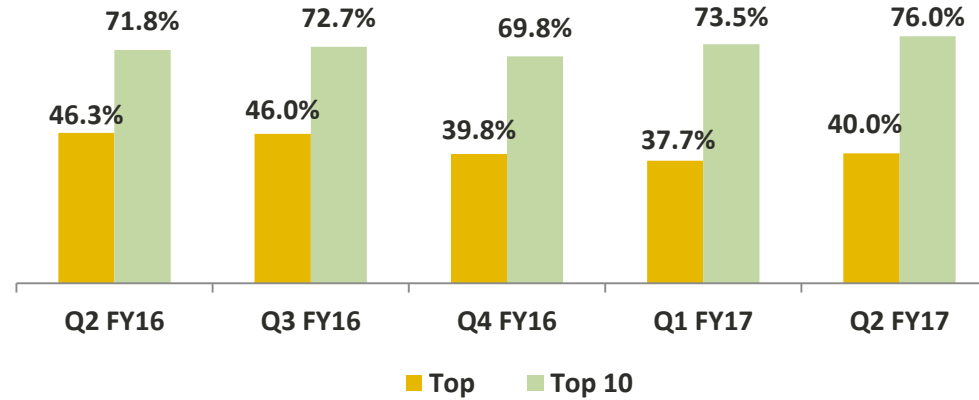


Note:

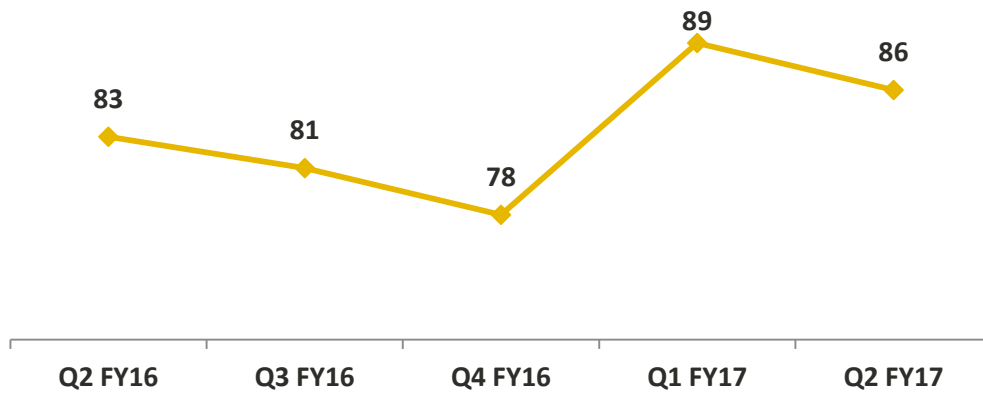
1. Excluding BPO and including vendors

Operational Metrics

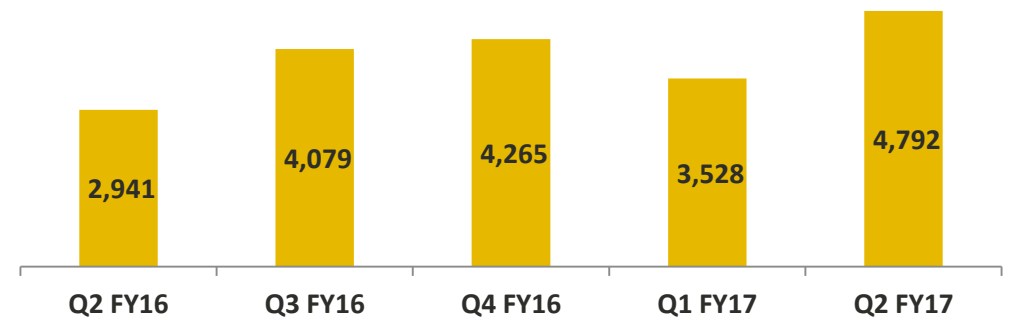
Contribution by top Clients



DSO



Cash & Cash Equivalent and Investments (Rs. mn)



Factsheet

Factsheet

Detailed Profit & Loss Statement

Profit & Loss Statement (Rs. mn)	Q2 FY2017	Q2 FY2016	Y-o-Y Growth (%)	Q1 FY2017	Q-o-Q Growth (%)
Income from operations	5,067	5,425	(6.6)%	4,955	2.3%
Employee Cost	(3,948)	(3,994)	(1.1)%	(3,837)	2.9%
<i>% of Sales</i>	77.9%	73.6%		77.4%	
Other Expenditures	(505)	(520)		(530)	
EBITDA	614	911	(32.6)%	587	4.7%
EBITDA Margin (%)	12.1%	16.8%		11.8%	
Depreciation and Amortization	(58)	(69)		(57)	
<i>% of Sales</i>	1.1%	1.3%		1.2%	
EBIT	557	842	(33.9)%	530	5.1%
EBIT Margin (%)	11.0%	15.5%		10.7%	
Other Income	59	17		75	
PBT	615	860	(28.4)%	604	1.8%
PBT Margin (%)	12.1%	15.8%		12.2%	
Tax Expenses	(202)	(289)		(206)	
Share of (profit)/loss of associate companies	(1)	0		(2)	
Minority Interest	0	0		0	
PAT	411	571	(27.9)%	397	3.6%
PAT Margin (%)	8.1%	10.5%		8.0%	
EPS:					
Basic EPS (Rs.)	4.05	5.70	(28.9)%	3.92	3.5%
Diluted EPS (Rs.)	4.02	5.63	(28.6)%	3.88	3.6%

Factsheet

	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Revenue By Vertical					
Retail Banking	15.4%	15.2%	16.3%	17.9%	21.2%
Corporate Banking	21.8%	20.7%	19.0%	18.3%	17.9%
Treasury & Capital Markets	47.2%	50.9%	51.7%	51.0%	48.8%
Insurance & others	15.6%	13.1%	13.0%	12.8%	12.2%
Revenue by Service Offering:					
App Maintenance	39.1%	39.9%	41.7%	42.6%	40.0%
App Development	45.7%	46.4%	43.8%	43.6%	46.0%
Testing	14.0%	12.6%	13.4%	12.9%	12.7%
Others	1.2%	1.1%	1.0%	0.9%	1.4%
Revenue by Product Type:					
Fixed Bid	38.8%	41.2%	40.9%	38.3%	43.3%
Time & Material	61.2%	58.8%	59.1%	61.7%	56.7%
Effort Mix:					
Offshore effort	74.5%	73.6%	73.1%	73.0%	73.5%
Onsite effort	25.5%	26.4%	26.9%	27.0%	26.5%
Revenue Mix:					
Onsite	53.4%	55.3%	55.2%	57.0%	55.3%
Offshore	46.6%	44.7%	44.8%	43.0%	44.7%
Utilization:					
Average Utilization	76.2%	72.7%	72.4%	71.7%	77.0%
Onsite	91.0%	89.7%	90.8%	88.2%	90.0%
Offshore	72.2%	68.1%	67.5%	67.1%	73.2%

	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Clients:					
Active clients	146	142	141	128	119
Number of New clients	4	3	1	3	3
Number of 10% clients	1	1	1	1	1
Revenue from repeat clients >12 months	89.7%	90.5%	90.8%	90.7%	90.0%
Top client	46.3%	46.0%	39.8%	37.7%	40.0%
Top 10 clients	71.8%	72.7%	69.8%	73.5%	76.0%
Headcount:					
Total Headcount	7,648	7,738	7,541	7,197	7,056
Onsite	1,571	1,580	1,538	1,549	1,625
Offshore	6,077	6,158	6,003	5,648	5,431
Non IT professionals	746	741	731	625	608
IT professionals	6,902	6,997	6,810	6,572	6,448
Net addition	343	90	(197)	(344)	(140)
Voluntary Attrition (Annualized)	13.0%	13.9%	11.6%	15.2%	17.1%
Cash:					
Cash, Cash Equivalents & Investments (Rs. Mn)	2,941	4,079	4,265	3,528	4,792
DSO (days)	83	81	78	89	86

Polaris at Glance



About Polaris Consulting & Services Ltd. (“Polaris”)

- Founded in 1993; Listed on NSE and BSE, Polaris has a market capitalization of around Rs. 1,700 Cr.
- As on September 30, 2016, the Company has 7,056 employees (excluding BPO division)
- Strong balance sheet with zero debt



Specialization

- Polaris is a niche and leading player in the financial technology space
- Major customers include Citibank, Bank of Montreal, JPMC, Lloyds, M&T Bank, RBS, Morgan Stanley and Credit Suisse
- Consistently awarded CMMI Level 5 certification starting from 2001



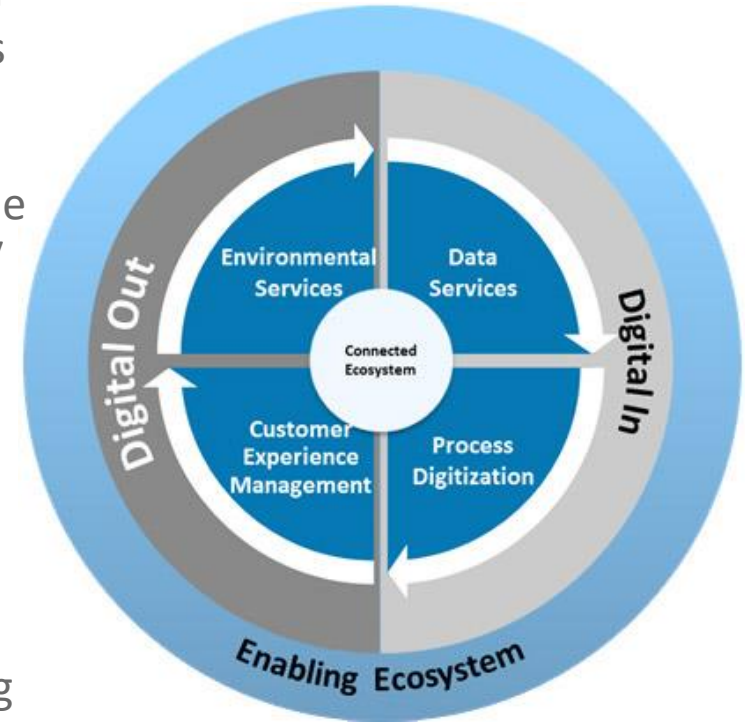
Recent Developments

- Virtusa Consulting Services Private Limited (“Virtusa”) acquired 52.9% of the total outstanding share capital of the Company in March 2016. Further in April 2016, pursuant to an Open Offer, Virtusa acquired 26.0% stake taking their total stake to 78.9% of the outstanding share capital
- During Q4 FY2016, Polaris entered into a Business Transfer Agreement to transfer all its BPO business as a going concern

Business Model

Digital Transformation: Transform to be a Digital 360 Enterprise

- Polaris' Digital Enterprise 360 approach is an **'Assess–Adopt–Grow'** strategy with roadmaps to transform Customer Experience, Operation & Technology Processes and build disruptive Business Models through a continuous innovation culture
- **Digital OUT:** This focuses on customer experience transformation and brand value creation, via all customer touchpoints across organization channel, LOB, brands / product and services. It helps organizations maintain a Unified Digital Channel Experience for all its products and services across brands
- **Digital IN:** This focuses on maintaining a balancing act between Operational Efficiency and Technology adoption essential for achieving Superior Customer Experience
- **Connected Ecosystem:** A key technology area essential in building the connecting link between Business and Operations for seamless collaboration
- **Enabling Ecosystem:** This focuses on enabling Rapid Transformation through continuous Innovation, ready-to-use technology accelerators and strong Agile program governance with Development operations



Safe Harbor Statement

Certain statements in this presentation concerning our future prospects are forward-looking statements. Forward-looking statements by their nature involve a number of risks and uncertainties that could cause actual results to differ materially from market expectations. These risks and uncertainties include, but are not limited to our ability to manage growth, intense competition among Indian and overseas IT companies, various factors which may affect our cost advantage, such as wage increases or an appreciating Rupee, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Polaris has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. Polaris may, from time to time, make additional written and oral forward-looking statements, including our reports to shareholders. These forward-looking statements represent only the Company's current intentions, beliefs or expectations, and any forward-looking statement speaks only as of the date on which it was made. The Company assumes no obligation to revise or update any forward-looking statements.

Thank you

Contact Details:

NM Vaidyanathan, CFO

vaidyanathan.nm@polarisft.com

Polaris Consulting & Services Limited

Foundation, 34, IT Highway,

Chennai, Tamil Nadu - 603 103

Phone: +91 44 2743 5001

Bijay Sharma, Churchgate Partners

polaris@churchgatepartnersindia.com

Phone: +91 22 6169 5988