

## Q2 Results

### Television

*Excerpts of CNBC-TV18's exclusive interview with Arun Jain and Arup Gupta:*

**Q: Margins have recovered from their fall last quarter but what's your sense of whether you will be able to hold on margins in this kind of a hostile foreign exchange environment?**

**Arun Jain:** Foreign exchange is really putting pressure on the management because we have to measure the performance on the basic performance basis. Last year to this year, we improved the performance significantly internally. But the 14% fall in the dollar has not shown us in a same good light as the management should have been seen. So, that pressure is definitely there.

But we have two-three elements which can hold us to the margin improvements over the next two-three quarters, which can be over 20% improvement over current quarter profitability. One of them is that we moved our business model to a product business model when the going was good. That's helping us now because we have a sales pipeline of over USD 100 million on the product side.

On the other side, the light house implementation is like an infrastructure project. When you change the core banking platform from the bank, you are changing the infrastructure of the bank.

So it's tantamount to a significant visibility into the market place, which results into getting, better rates in the market place. That's what our hope is, to counter the rupee appreciation to this extent.

**Q: At this point, are you holding your topline growth guidance for this financial year in dollar terms even?**

**Arun Jain:** In dollar terms we are holding the guidance of 25% growth in this financial year. I am sure we will be able to do 25% growth in this financial year.

**Q: What are you chalking in by way of exchange rate to work with, how much you are hedging and where you hope to hold margins with that?**

**Arup Gupta:** As Mr Jain said, we are looking at three-four levers. One is definitely hedging. We are hedging about two quarters of our revenues, so we should be protected.

Second, definitely we are looking at rate increase. We expect to have close to about 200 bps rate increase over the couple of quarters. We have seen successes in two-three accounts. We just need to make sure that that is propagated uniformly.

The third thing is, now as a policy we are trying to bill in the local currency so that the dollar billing is only in the dollar countries. Our revenue from the US is only 34-35%, so it's very uniformly balanced which will possibly work to our advantage now.

Last but not the least, the fact that to our portfolio consists of the solution business, the domain consulting and also the technology, by leveraging the first two, we can go away from the headcount based revenue model.

So these are the four levers that we need to accelerate to get that over 20% QoQ increase in PAT that Mr Jain alluded to.

**Q: Give us a number - by the end of this year, how much can you transition from the software services end to the product end and how much revenues can come from products by then. Also, give us comparable margins in these two businesses to see what net impact it could have by the time you make this transition?**

**Arun Jain:** The product business, as of now, has moved to 21.3% of the total number, which is a significant improvement over the last eight quarters. We moved from 8% business coming from product, to 21.3%. It's over Rs 200 crore worth business coming from the product business.

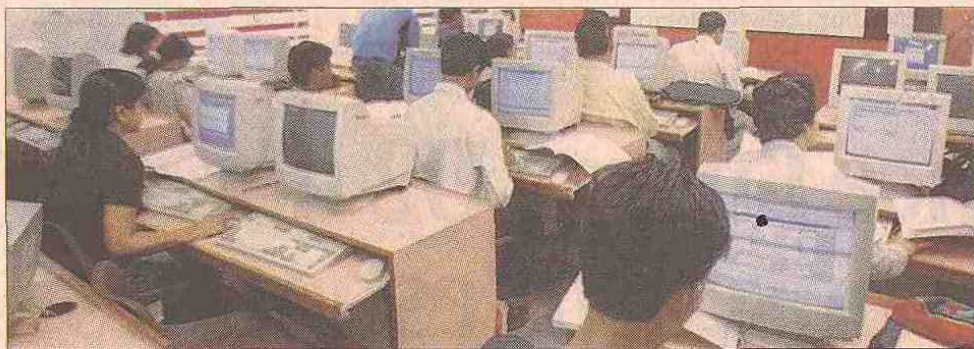
We have a goal that in 18 months we have to make it close to 30% of the business to come to the product business. The margins in the product business is just coming up because the ratio of the implementation versus license is not significant because light house implementation; initially the largest bank of Middle East has gone live with our core banking solution and that pulls up three-four deals and there the margins improve.

So currently EBITDA margins on product business could be over 25%, but corresponding total margin of 12.7% in other businesses.

So the total variation in the currency is causing to predict the margin properly. But I think the margins in product business are at least 10% higher than the services business. As we go long it can go upto 15% higher as business matures on intellect side.

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**DNA**



# Polaris sees 25% revenue growth for full fiscal

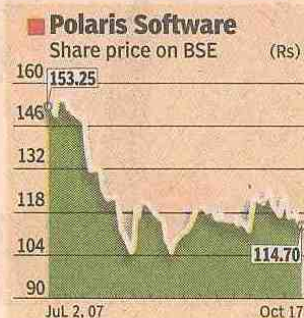
Sees strong traction in products business, improving profitability

**Rabin Ghosh**  
Mumbai

Concerns about a slowdown in IT spend notwithstanding, Polaris Software Labs Ltd is confident of delivering a 25% revenue growth this fiscal and improving profitability every quarter. The company, focused on banking, financial services and insurance, is also seeing strong traction in its products business.

"Intellect (Polaris' banking product suite) pipeline, which includes proposals where we have bid to the ones where are amongst the final shortlisted candidates, is about \$100 million. Of this, 30% is from tier I banks," chairman and chief executive officer Arun Jain told analysts.

The company declared its



July-September results on Wednesday. At Rs 274 crore, revenues rose 7% from the year-ago quarter and 6% from the past quarter. Net profit, at Rs 18 crore, was down 33% year-on-year but was up 26% sequentially. Operating margins, at 12.45% for the quarter, were down a whopping a 480 basis points from the year-ago period.

Polaris had entered the products space in 2005 with the launch of Intellect, which currently accounts for 21% of its topline. For the quarter ending September, Intellect revenues were up 37% year-on-year, proving a margin-

shield for the company.

On other margin levers, Arup Gupta, president and chief operating officer, said, "The levers exist in the form of increased use of our licensed software (Intellect), billing rate hikes across geographies, increase in utilisation rate, and thrust on domain-led consulting."

The company has managed to achieve 3-4% annualised hike in blended billing rates and a 2% increase in utilisation rate during the quarter. Gupta said there is scope to increase utilisation to beyond 80% levels from 76% now.

Gupta said, with a focus on platform and domain speciality, the company was able to break the linear dependency on manpower addition and revenue growth. It added 944 people during the quarter.

Revenue contribution from Citigroup, Polaris' 43% shareholder, has come down to 38.7% during the quarter, against almost 60% two years ago.