

Polaris Consulting & Services Limited

(BSE: 532254; NSE: POLARIS)

Q2 FY2018 Earnings Presentation
November 7, 2017

Performance Highlights

Q2 FY2018 Net Revenue

Rs. 6,715 mn
+31.8% y-o-y

Q2 FY2018 EBITDA

Rs. 1,088 mn
Margin: 16.2%

Q2 FY2018 PAT

Rs. 723 mn
Margin: 10.8%

DSO

74 Days
(87 Days: Q1 FY2018)

Headcount

7,646
Attrition: 14.9%

CCE and Investments

Rs. 6,528 mn
(Rs. 5,329 mn: Q1 FY2018)

Management Perspectives

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

Our strategic investments in infrastructure, digital transformation and domain-based solutions have started yielding results, which is evident from our performance during the quarter. We will continue to focus on building differentiated, market leading digital transformation capabilities and delivering service excellence in order to strengthen our position with our global banking clients.

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

We continued our growth momentum and were able to record revenue and PAT growth during the quarter. The increase in profitability was driven by a combination of revenue growth, one-time benefits from investments in prior quarters and operational improvements. Our DSO improved by 13 days to 74 days compared to the last quarter driven by initiatives undertaken to streamline internal processes. While we continue to work on growth initiatives, our performance in the second half of fiscal year is anticipated to be impacted by furloughs and cost increases.

Performance Overview

(Rs. million, unless stated)

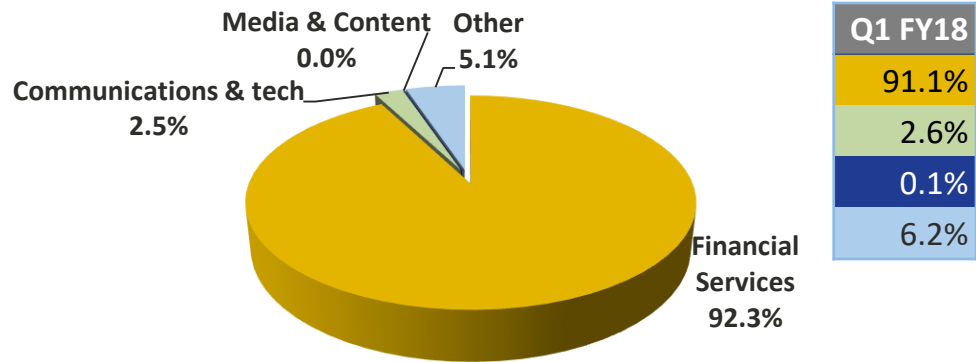
Particulars (Rs. Million)	Q2		Y-o-Y Growth (%)	Q1		Six Months		Y-o-Y Growth (%)
	FY2018	FY2017		FY2018	Q-o-Q Growth (%)	FY2018	FY2017	
Net Revenue	6,715	5,095	31.8%	5,549	21.0%	12,265	10,075	21.7%
EBITDA	1,088	619	75.8%	482	125.6%	1,570	1,209	29.9%
Margin (%)	16.2%	12.1%		8.7%		12.8%	12.0%	
PAT	723	413	75.1%	302	139.3%	1,025	811	26.3%
Margin (%)	10.8%	8.1%		5.4%		8.4%	8.1%	
Basic EPS (Rs.)	7.07	4.07	73.8%	2.96	139.0%	10.03	7.99	25.5%

Performance Discussion

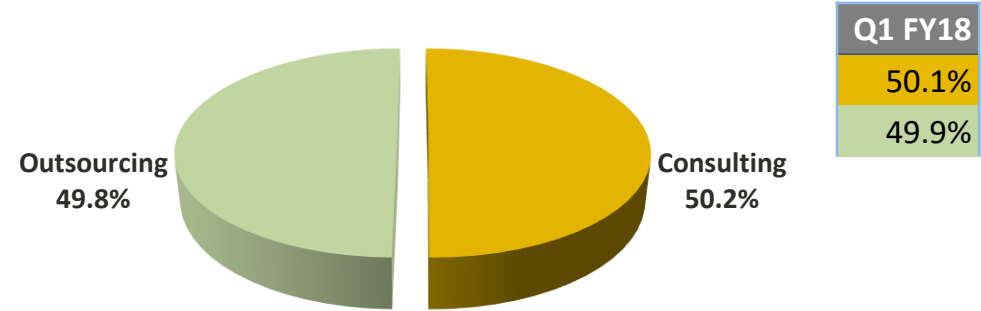
- On a constant currency basis, revenue increased by 38.0% y-o-y and 21.4% q-o-q
- Robust revenue growth driven by additional businesses across key clients
- The improvement in profitability was driven by combination of factors such as strong revenue growth, improvement in utilization levels, benefits from investments in prior quarters and cost rationalization initiatives

Q2 FY2018 Revenue Break-up

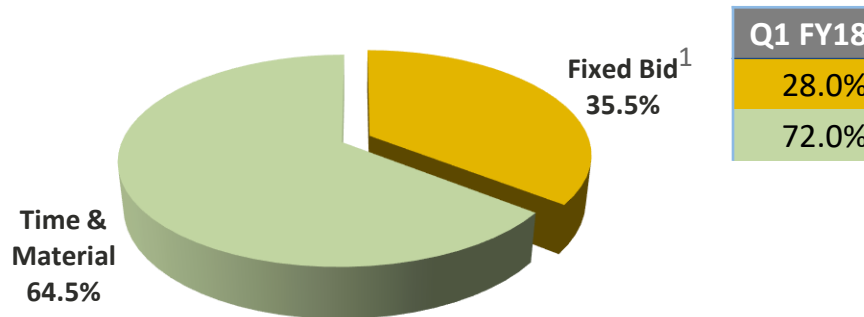
Revenue by Vertical



Revenue by Service Offering



Revenue by Vertical

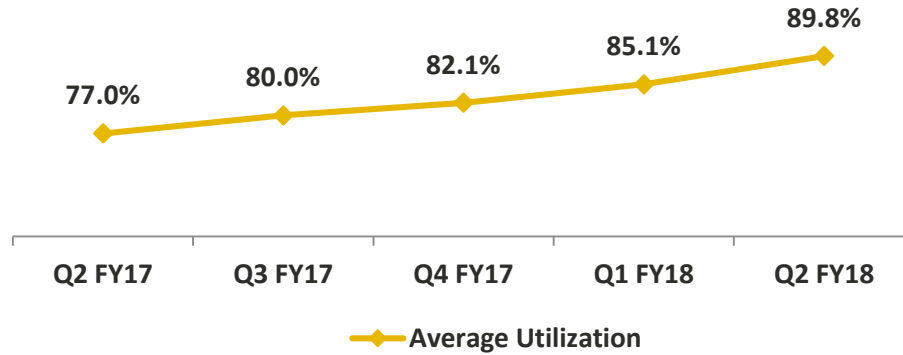


Note:

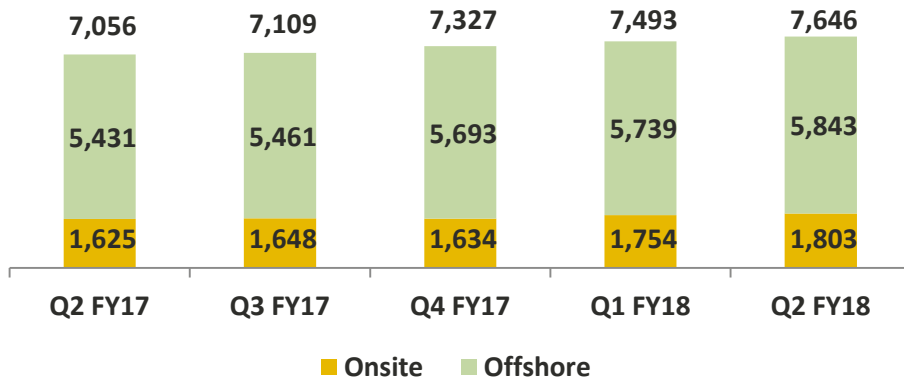
1. Fixed bid includes Fixed price

Operational Metrics

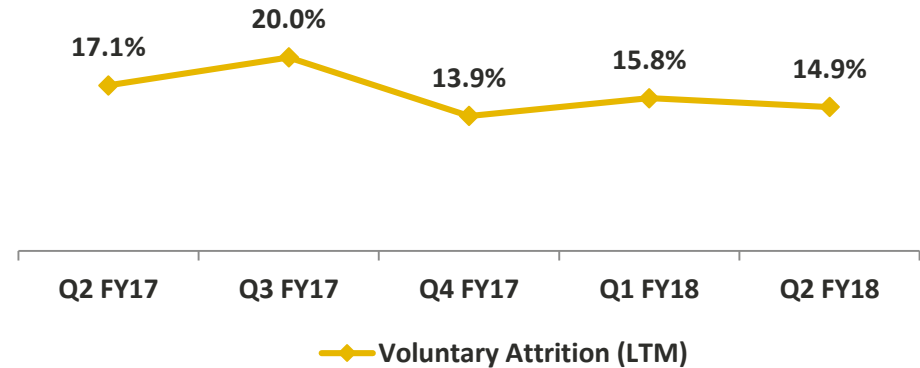
Utilization



Headcount¹



Attrition

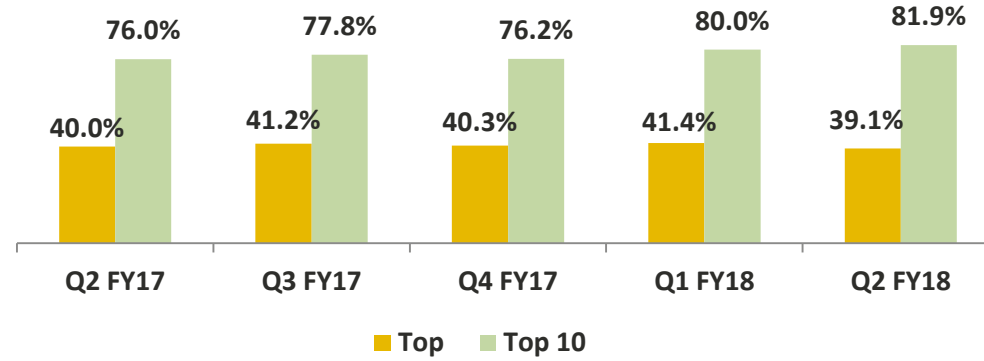


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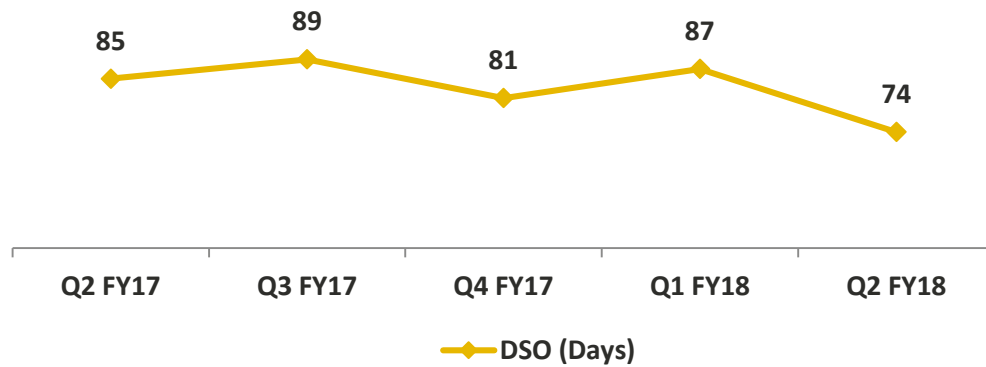
1. Excluding BPO and including vendors

Operational Metrics

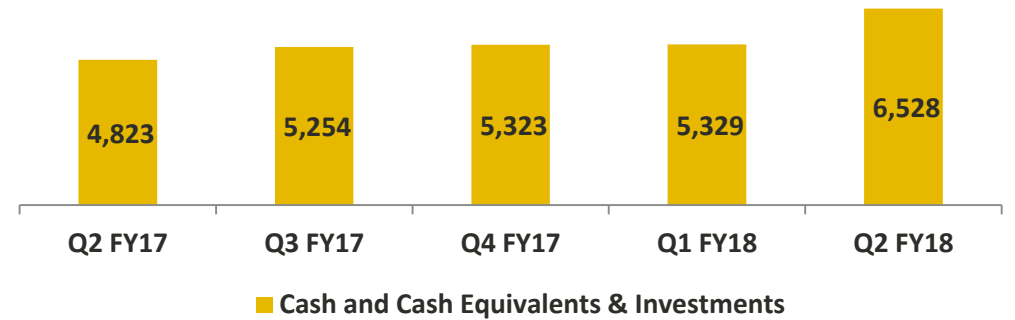
Contribution by top Clients



DSO



Cash & Cash Equivalent and Investments (Rs. mn)



Factsheet

Factsheet

Detailed Profit & Loss Statement

Profit & Loss Statement (Rs. mn)	Q2		Y-o-Y	Q1 FY18	Q-o-Q	Six Months		Y-o-Y
	FY18	FY17	Growth (%)		Growth (%)	FY18	FY17	Growth (%)
Income from operations	6,715	5,095	31.8%	5,549	21.0%	12,265	10,075	21.7%
Employee Cost	(4,183)	(3,378)	23.8%	(3,825)	9.4%	(8,008)	(6,789)	17.9%
<i>% of Sales</i>	62.3%	66.3%		68.9%		65.3%	67.4%	
Subcontracting expenses	(815)	(590)		(706)		(1,521)	(1,035)	
Other Expenditures	(629)	(508)		(537)		(1,166)	(1,042)	
EBITDA	1,088	619	75.8%	482	125.6%	1,570	1,209	29.9%
EBITDA Margin (%)	16.2%	12.1%		8.7%		12.8%	12.0%	
Depreciation and Amortisation	(59)	(59)		(55)		(115)	(118)	
<i>% of Sales</i>	0.9%	1.2%		1.0%		0.9%	1.2%	
EBIT	1,029	560	83.8%	427	141.0%	1,456	1,090	33.5%
EBIT Margin (%)	15.3%	11.0%		7.7%		11.9%	10.8%	
Other Income	36	81		33		69	120	
Foreign exchange loss/ (gain)	(3)	24		23		20	(12)	
PBT	1,068	617	73.1%	436	144.7%	1,505	1,223	23.0%
PBT Margin (%)	15.9%	12.1%		7.9%		12.3%	12.1%	
Tax Expenses	(343)	(203)		(134)		(477)	(409)	
Share of (profit)/loss of associates	(3)	(1)		(0)		(3)	(3)	
PAT	723	413	75.1%	302	139.3%	1,025	811	26.3%
PAT Margin (%)	10.8%	8.1%		5.4%		8.4%	8.1%	
EPS:								
Basic EPS (Rs.)	7.07	4.07	73.8%	2.96	139.0%	10.03	7.99	25.5%
Diluted EPS (Rs.)	7.02	4.04	73.9%	2.94	138.9%	9.96	7.93	25.6%

Factsheet

	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18
Revenue By Vertical					
Financial Services	88%	90%	91%	91%	92%
Communications & Technology	5%	4%	3%	3%	2%
Media & Content	1%	1%	0%	0%	0%
Others	7%	6%	6%	6%	5%
Revenue by Service Offering:					
Consulting	39%	46%	47%	50%	50%
Outsourcing	61%	54%	53%	50%	50%
Revenue by Product Type:					
Fixed Bid	43%	37%	41%	28%	36%
Time & Material	57%	63%	59%	72%	64%
Effort Mix:					
Offshore effort	74%	76%	75%	73%	74%
Onsite effort	26%	24%	25%	27%	26%
Utilization:					
Average Utilization	77%	80%	82%	85%	90%

	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18
Clients:					
Active clients	119	106	97	97	94
Number of New clients	3	-	-	2	1
Number of 10% clients	1	2	2	2	2
Revenue from repeat clients >12 months	90%	90%	99%	99%	99%
Top client	40%	41%	40%	41%	39%
Top 10 clients	76%	78%	76%	80%	82%
Headcount:					
IT professionals	6,448	6,577	6,852	7,023	7,176
Non IT professionals	608	532	475	470	470
Total Headcount	7,056	7,109	7,327	7,493	7,646
Net addition	(140)	53	218	166	153
Voluntary Attrition (LTM)	17%	20%	14%	16%	15%
Cash:					
Cash, Cash Equivalents & Investments (Rs. Mn)	4,823	5,254	5,323	5,329	6,528
DSO (days)	85	89	81	87	74

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. 2,400 Cr.
- As on September 30, 2017, the Company had 7,646 employees
- 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



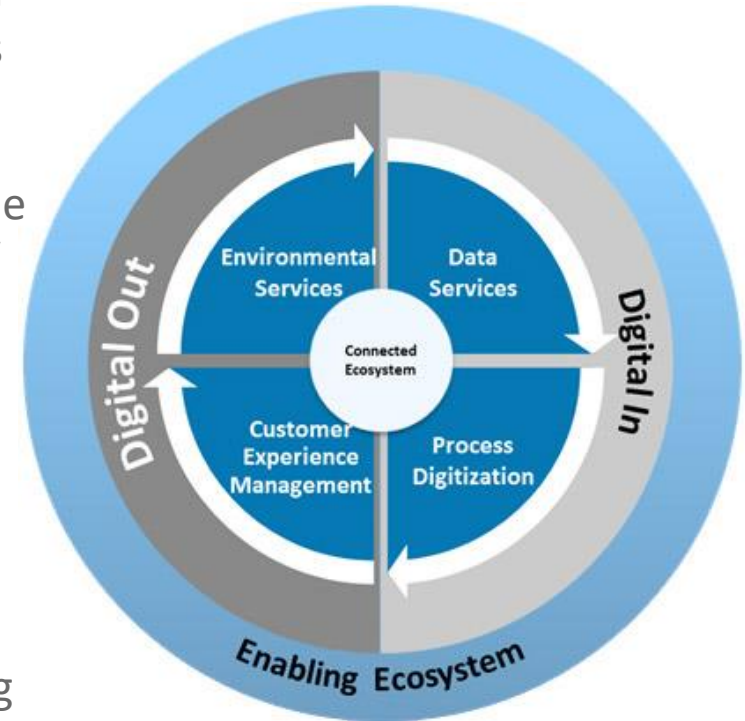
Recent Developments

- 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 Q3 FY2017, Virtusa reduced its stake to 74.9% through offer for sale

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

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