

Polaris Financial Technology Ltd

Recommendation	HOLD
CMP (23/01/2012)	Rs.135.4
Target Price	Rs.154
Sector	IT Software products

Stock Details	
BSE Code	532254
NSE Code	POLARIS
Bloomberg Code	POL IN
Market Cap (Rs cr)	1379
Free Float (%)	71
52- wk HI/Lo (Rs)	213.9/112.80
Avg. volume BSE (Quarterly)	50,360
Face Value (Rs)	5.0
Dividend (FY 11)	90%
Shares o/s (Cr)	9.94

Relative Performance	1Mth	3Mth	1Yr
Polaris	9.4%	0.0%	-25.4%
Sensex	7.4%	-0.6%	-12.3%



Shareholding Pattern		31- Dec- 11
Promoters Holding		29.17%
Institutional (Incl. FII)		33.83%
Corporate Bodies		4.33%
Public & others		32.67%

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Year	Net Sales (Rs cr)	Growth (%)	EBITDA	Margin (%)	PAT (Rs cr)	Margin (%)	EPS	PE	EV/S	EV/EBITDA
FY 10A	1354	-1.8%	222	16.4%	153	11.3%	15.39	8.80	0.89	5.40
FY 11A	1586	17.2%	214	13.5%	202	12.8%	20.38	6.64	0.75	5.53
FY 12E	2120	33.7%	312	14.7%	220	10.4%	22.12	6.12	0.50	3.39
FY 13E	2421	14.2%	367	15.2%	255	10.5%	25.67	5.27	0.43	2.82

One offs aided good Quarter Performance

Revenues grew 12.3% QoQ mainly on the back of depreciated rupee. EBIDTA margins expanded by 624 bps QoQ majorly due to license revenue booking from a large product deal which also aided the profits despite a forex loss of Rs.20 crores.

Revenues in \$ terms aided by exchange benefit

Revenues in \$ terms grew 1% QoQ, 26% YoY at \$ 112.48 mn. There was an INR translation impact of 1% on the revenues and SI revenues were lower (\$1.8mn in Q3FY12 against \$4.2mn in Q2FY12) which showed dismal revenues. Excluding these, revenues in constant currency would have grown by 4.7%.

In Rupee terms, revenues grew by 12.3% QoQ, 43.2% YoY on the back on exchange gains. Services revenues grew 12% QoQ, while Product revenues grew by 13% QoQ.

Pressure on EBIDTA margins

EBIDTA margins expanded 624 bps in INR terms to reach 18.4% due to huge license revenues booked during the quarter from one of the large product deal in the APAC region. The gross margins in the products business are in the range of 45% (again due to large license revenues) and those in services business are in the range of 29%. These are likely to soften down going forward. In \$ terms, the EBIDTA margins have dipped 180 bps and stood at 18.4%.

Profits grow due to higher margins

Net Profits rose by 13% QoQ at Rs.61.07 crs maintaining the margins at 10.6%. The company incurred forex losses of Rs.20 crores against gain of Rs.13 crores in Q2FY12.

Revision in Guidance

The management sees strong deal pipeline with delay in decision making. It expects to reach the lower end of the earlier given target of \$440-\$450mn on revenues for FY12E indicating a soft Q4FY12. However, the company expects to maintain 25% growth in revenues going forward on the back of good traction in the product revenues.

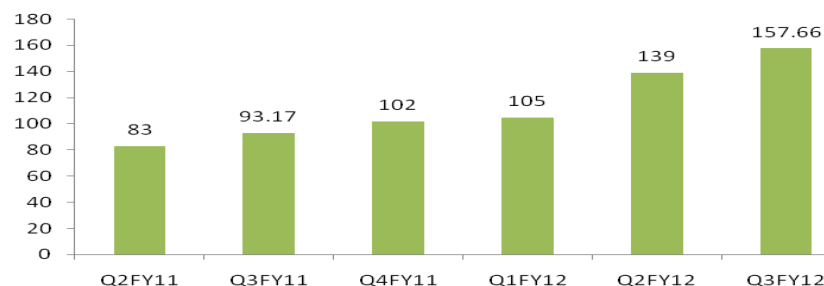
Valuation & Recommendations

We are revising our numbers upwards for FY12E and FY13E factoring in the exchange gains. We have revised Revenues and PAT by 2.7% and 1.2% respectively for FY12E and by 3.2% and 3.6% respectively for FY13E. At CMP, the stock is trading 6.1 x and 5.3x FY12E and FY13E expected earnings. We remain cautious about the changing times in the Global markets and have a HOLD on the stock with a price target of Rs.154.

Polaris Financial Technology Ltd

Q3FY12 Result Analysis (in Rs Crs.)	Q3FY12	Q2FY12	Q-o-Q	Q3FY11	Y-o-Y
Total operating income	572.53	509.74	12.3%	399.90	43.2%
Software development exp	376.60	360.45	4.5%	272.16	38.4%
Gross profit	195.93	149.28	31.2%	127.73	53.4%
General & Administration exp	34.41	32.97	4.4%	32.07	7.3%
Selling & Marketing exp	55.99	54.16	3.4%	43.27	29.4%
EBITDA	105.52	62.15	69.77%	52.39	101.41%
<i>Margin</i>	<i>18.4%</i>	<i>12.2%</i>	<i>624 bps</i>	<i>13.1%</i>	<i>533 bps</i>
Depreciation & Amortization	13.06	11.18	16.7%	8.74	49.4%
Finance charges	0.81	0.57	43.2%	0.28	195.0%
Exchange gain/(loss)	(20.21)	13.38	N/A	11.50	N/A
Other income	7.81	8.89	(12.1%)	5.34	46.4%
Share of associate companies	0.08	0.11	(24.3%)	0.00	N/A
Income before taxes	79.34	72.78	9.0%	60.21	31.8%
<i>Margin</i>	<i>13.9%</i>	<i>14.3%</i>	<i>(42 bps)</i>	<i>15.1%</i>	<i>(120 bps)</i>
Income taxes	18.27	18.85	(3.1%)	10.08	81.2%
Net income	61.07	53.94	13.23%	50.13	21.82%
<i>Margin</i>	<i>10.7%</i>	<i>10.6%</i>	<i>9 bps</i>	<i>12.5%</i>	<i>(187 bps)</i>
Diluted EPS	6.15	5.43	13.23%	5.01	22.66%

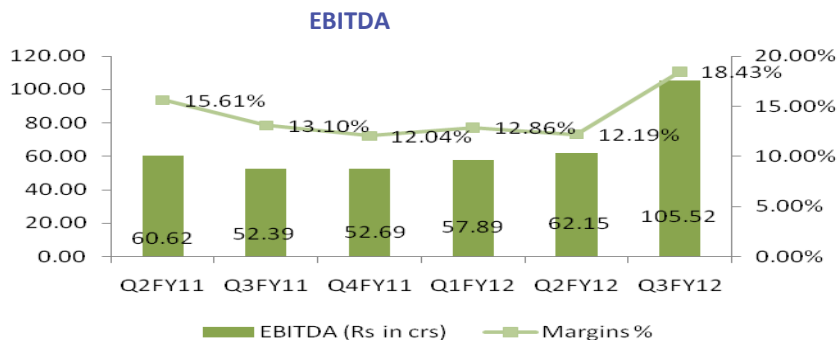
Intellect revenues (Rs in crs.)



During Q3FY12, Intellect registered 13 wins and a leading global bank from APAC region has signed a USD 20 million deal with Polaris. This is the second such deal after the prestigious RBI deal. In addition during the quarter, Intellect has won deals from Regional Development Bank in Sri Lanka and India's NABARD.

Company touched 45% margins at gross levels during the quarter in Intellect due to high license revenue from the large deal which may not be sustainable going forward. We expect Intellect revenues to drive growth for the company and reach Rs.137 crores in FY13E.

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The company’s EBIDTA margins had been under pressure for the past couple of quarters. This quarter there is a significant jump due to huge license revenues from a \$ 20mn deal in APAC region and secondly due to exchange benefits.

Recent updates

- Polaris plans to merge all its subsidiaries with the parent company in the next three months.
- In July 2011, Polaris had signed and MoU to form a JV- Sonali Polaris Financial Technology Ltd (SPFTL) where Polaris would hold 51% stake with the largest Nationalized Commercial Bank in Bangladesh. During the quarter, Polaris signed a JV Agreement with Sonali Bank Ltd. regarding the same.
- The company signed an agreement to acquire the balance 49% equity shares of Indigo TX Software Private Limited from its shareholders to merge the company with Polaris. Polaris had acquired 51% equity shares of Indigo TX in March 2010.
- IdenTrust continued its growth in the ECA business during the quarter and bagged a significant Identity Solutions deal with Rite Aid, one of the leading drugstore chains in the US.

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Revision in estimates					
	FY12E		FY13E		
	Revenues		PAT		
Current	2120	2421	Current	220	255
Earlier	2064	2345	Earlier	217	246
Variation %	2.73%	3.22%	Variation %	1.23%	3.64%

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Financials

Profitability (Rs. In Cr)	FY10A	FY11	FY12E	FY13E
Income from prod & serv	1354	1586	2120	2421
% change	-1.8%	17.2%	33.7%	14.2%
EBITDA	222	214	312	367
% change in EBITDA	-4.9%	-3.7%	46.0%	17.4%
Depn & Amort	35	34	48	58
Operating income	187	180	264	309
Forex Gain/(Loss)	-26	25	-1	0
Interest	1	1	2	2
Other Income	19	34	34	38
PBT	179	238	295	345
Tax	26	36	75	90
Minority interest	0	0	0	0
PAT	153	202	220	255
Shares o/s (No. in Cr.)	9.9	9.9	9.9	9.9
EPS	15.38	20.37	22.10	25.65
Cash EPS	18.90	23.75	26.91	31.48

Quarterly (Rs. In Cr)	Mar.11	Jun.11	Sept.11	Dec.11
Revenue	438	450	510	573
EBITDA	53	58	62	106
Dep	9	10	11	13
Op Income	44	48	51	92
Interest	0	0	1	1
Other Inc.	18	8	9	8
Forex Gain/(Loss)	5	6	13	-20
PBT	67	61	73	79
Tax	9	17	19	18
PAT	58	45	54	61
EPS (Rs.)	5.76	4.49	5.43	6.15

Performance Ratio	FY10A	FY11	FY12E	FY13E
PAT growth (%)	16.9%	32.4%	8.5%	16.1%
Gross margin (%)	35.7%	32.4%	31.8%	31.6%
EBITDA margin (%)	16.4%	13.5%	14.7%	15.2%
PAT margin (%)	11.3%	12.8%	10.4%	10.5%
ROE (%)	17.5%	19.6%	16.0%	16.7%

Valuation Ratio	FY10A	FY11	FY12E	FY13E
Price Earnings (x)	8.80	6.64	6.12	5.27
Price / Book Value (x)	1.54	1.30	0.98	0.88
EV / Sales	0.90	0.76	0.57	0.48
EV / EBITDA	5.52	5.65	3.87	3.14

Financial Health (Rs. In Cr)	FY10A	FY11	FY12E	FY13E
Share Capital	49.5	49.6	49.6	49.6
Reserves & Surplus	823.0	983.4	1324.2	1477.8
Net Worth	872.5	1033.0	1373.8	1527.4
Secured Loans	2.5	5.7	8.0	10.0
Unsecured Loans	0.0	0.0	125.0	90.0
Deferred Tax Liabilities	3.0	2.2	2.2	2.2
Total Liabilities	878.0	1043.5	1509.0	1629.6
Net Fixed Assets	214.7	228.7	342.9	357.2
Goodwill	50.6	64.4	200.0	200.0
Investments	389.7	384.3	390.0	410.0
Deferred Tax Assets	6.4	11.5	11.0	12.0
Sundry Debtors	174.6	227.2	365.2	416.9
Cash & Bank	123.7	142.3	270.0	295.3
Other current assets, Loans	208.4	300.2	405.0	458.0
C A L&A	506.7	669.6	1040.2	1170.2
CL & P	302.6	380.5	530.0	580.3
Total Assets	878.0	1043.5	1509.0	1629.6

Cash Flow (Rs. In Cr)	FY10A	FY11	FY12E	FY13E
Operating				
Net Income	179	238	295	345
Change in WC	83	-97	-66	-79
(-)Tax	-29	-53	75	90
CF from Operation	254	100	323	380
Investment				
Capex	-35	-94	-186	-236
Other Investment	-163.6	20.0	-4.2	-69.2
CF from Investment	-198	-74	-190	-305
Financing				
Dividend Paid	-35	-20	-20	-20
Others	2.4	2.0	0.0	0.0
Proceeds/Repay on Loan	1.4	3.3	0.0	0.0
CF from Financing	-30.8	-14.9	-20.2	-20.2
Net Chg. in Cash	25	11	113	55
Eff of exch diff on trans	-9.3	39.9	11.8	-32.6
cash in Associate Co.	2.5	3.2	3.2	3.2
Cash at beginning	105.3	123.7	142.3	270.0
Cash at end	123.5	177.9	270.0	295.3
Per Share Data	FY10A	FY11	FY12E	FY13E
Reported EPS	15.39	20.38	22.12	25.67
BV per share	87.77	103.92	138.21	153.66
Cash per share	12.45	14.31	27.16	29.71
Dividend per share	3.50	4.50	4.50	5.00

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