

Polaris Software Lab Limited Q3 FY2010 Earnings
Conference call 20th January, 2010

Operator:

Thank you for standing by and welcome to the Q3 Polaris Investors earnings conference call presented by Polaris Management. At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. I would like to hand the conference over to Mr. Srikanth, CFO Polaris. Over to you, sir.

Mr. Srikanth:

Thank you. Good evening and good morning ladies and gentlemen. I would like to introduce my team members here. I have here Mr. Arun Jain, Chairman and Managing Director of Polaris, Mr. Govind Singhal, Chief Operating Officer of Polaris, and Mr. Karthik Kaushik, President Global Sales of Polaris. Welcome to this earnings call Q3 of FY10 financial year.

I am pleased to announce the financial highlights of the company. Revenue for the current quarter was at Rs. 338.89 crores as against Rs. 338.31 crores in the immediate preceding quarter, showing an increase of 0.17% on a quarter on quarter basis. Revenue for the quarter in dollar terms was \$72.55 million US as against \$69.93 million US in the immediate preceding quarter showing an increase of 3.75% on a quarter on quarter basis.

Intellect revenue, our product revenue contributed Rs. 68.16 crores in the current quarter representing 20.11% of our global revenue as against Rs. 59.5 crores representing 17.6% in the previous quarter.

Our subsidiary PRIL revenue for the current quarter was at Rs. 2.48 crores as against Rs. 2.64 crores in the previous quarter. Our other subsidiary SEEC revenue was at Rs. 5.83 crores as against Rs. 4 crores rupees in the previous quarter. Laser Soft revenue for the current quarter was at Rs. 3.91 crores.

Our gross margin stood at Rs. 120.42 crores during the current quarter as compared to Rs. 117.65 crores in the immediate preceding quarter. Our gross margin as a percentage to the revenue was at 35.53% in the current quarter as against 34.78% in the previous quarter resulting 75 basis points improvement. Our operating profit before interest, depreciation and amortization (EBITDA) stood at Rs. 54.78 crores in the current quarter as compared to Rs. 53.87 crores in the immediate preceding quarter representing 24 basis points improvement as a percentage to the revenue. Our operating profit (EBITDA) as a percentage to the revenue was 16.16% as against 15.92% in the immediate preceding quarter.

Profit after tax for the current quarter stood at Rs. 40.07 crores as against Rs. 35.2 crores in the immediate preceding quarter and as against Rs. 37 crores in the same quarter of the previous year. Profit after tax for the current quarter improved on a quarter on quarter basis by 14%, and on a year on year basis it improved by 8%. PAT in the dollar terms for the current quarter stood at \$8.58 million as against \$7.27 million in the immediate preceding quarter showing an increase

of 18% on a quarter on quarter basis.

Capital expenditure incurred during the current quarter was at Rs. 5.98 crores as against Rs. 4.15 crores in the immediate preceding quarter. Our other income including treasury income for the current quarter stood at Rs. 5 crores as against Rs. 4.05 crores in the immediate preceding quarter.

Our product operating margin for the current quarter was at 23% and our services operating margin stood at 17%.

Our days outstanding further improved from the previous quarter level of 47 days to the 41 days for the current quarter resulting in a reduction of six days DSO improvement during the current quarter towards acceleration of cash collection from the debtors. Our cash and cash equivalents grew by around Rs. 63.39 crores during the current quarter and therefore our closing cash at the end of December was Rs. 509.73 crores resulting in an improvement of Rs. 63 crores during the current quarter. In the beginning of this quarter, our cash was Rs. 447 crores. This closing cash number of Rs. 510 crores is after funding the Laser Soft acquisition of Rs. 34 crores. The company is consistently able to convert EBITDA margin into free cash on a consistent basis over last few quarters.

For a second consecutive year, the Board of Directors this morning declared and recommended and approved an interim dividend of 35% of the paid up capital of the company.

Our current quarter tax provision consists of gross tax provision of Rs. 6.78 crores and deferred tax credit of Rs. 15 lakhs and we do not have any FBT provisions during the current quarter as the FBT is not applicable.

Dollar appreciated by around 3.5% on a quarter on quarter basis this quarter. For the current quarter the dollar transaction rate was Rs. 46.71, for the immediate preceding quarter the dollar rate was Rs. 48.38, and for the same quarter the previous year, the dollar rate was Rs. 48.70. Having said that, our closing dollar rate as of December end was Rs. 46.53 where all our foreign exchange assets are being reinstated at Rs. 46.53. During the current quarter our exchange loss was Rs. 4.2 crores which we have incurred as against Rs. 8.58 crores loss during last quarter. Our production volume growth was 4% during the current quarter as compared to the previous quarter.

During the current quarter the company recorded 30 new customer wins out of which 14 customer wins are all Intellect product wins. The head count at the end of the period December 2009 was at the company group level 9324, the breakup of which is PSL Software Lab is 7400, Optimus is 1090, SEEC is 89, Laser Soft is 611 and PRIL is 134, as against the head count at the beginning of this quarter which was 8805, resulting in an increase of head count in Polaris at about 300 head counts on an average for the entire year. Our attrition for the current quarter stood at 15.4%.

So, here are our operational highlights and financial highlights, and I would like to hand over the

floor to Mr. Arun Jain for his further opening remarks.

Mr. Arun Jain:

Good day to everyone and thank you very much for participating in this investor call.

I would just like to anchor my communication around eight questions which you may have in mind. How is the market changing in financial sector in Western Europe? How is the US market doing? How is the Western Europe market doing? How is outsourcing moving there?

How the pricing is moving in this market place is the question No.2?

Question number three is how Polaris as a financial technology provider is playing it different in the product market space, what differentiation are we creating in the product space?

Question number four, it is still a flat quarter in rupee terms, 338 crores versus 338 crores the last quarter. What is the reason for it when are you seeing a positive traction?

Fifth, Citi diluting its stake in market place to about 15% over the last two quarters. How is it related to the Citi business, is Citi business getting impacted?

Question number six is what will happen with the rupee appreciation when rupee is appreciating from 50 rupees level to 45 rupees level today, and how Polaris is protecting its future growth or future profit against the rupee appreciation.

Seventh question which you may be having in mind is; what is the strategy around merger and acquisition going forward, and what keeps the management awake in the night. And lastly what kind of concerns management is facing today.

These are the eight questions I will anchor my conversation with you.

On how is market doing? I think in the last five years, we have seen highest amount of market traction in the last quarter. Normally, October, November and December is a passive quarter, at least December becomes a very passive quarter around Christmas time while the senior management is away on holiday.

But we saw significantly high activity happening in the market place, during the last quarter. We won five large customers, three from Americas and two from Europe in a set of 30 wins which we did this quarter. So, 30 wins in a quarter is a significant number, is the largest in any single quarter Polaris has achieved in the last two years in my memory. Out of these 30, 14 wins are in product business. So, 16 wins are in the services business which means good market traction.

Still it is slow; now outsourcing is moving from a body shopping business to a project business. So, when we sign a MSA it takes time for the customer to spot a right project for a financial technology company to execute that kind of a project and that is a longer cycle time than body

shopping which they used to do earlier. So, there is a significant shift in the market place which happens from a body shopping to managed-services and managed services identification requires a significant planning before creating into a real business. But on the other side, it has larger glue attached to it and therefore stickiness. That was question number one.

Second question, is the pricing moving up? I wouldn't say pricing once coming down will start moving up again. It takes time to move. We are able to command better value because of our specialist profile which we are placing to the customer, but being a small population among the total population, it may not reflect into average pricing, but definitely there is stability in the pricing. I think customers are not asking for a discount which they were asking last quarter same time. I think there is better understanding of the customer of what is the cost of getting a good delivery and good quality delivery from India.

Turning to third question, as a financial technology player, how is product business ramping up? You must have observed that we have grown 15% in a single quarter on product business revenue. We moved from Rs. 59 crores to Rs. 68 crores in the product business revenue. A 15% quarterly growth on business revenue is significant growth, and now we have 20% of the total revenue coming from the product business. In our internal business cycle, we are in the third cycle of the product business. What do you mean by the third cycle of the product life cycle? Cycle 1 is the product building phase. Cycle 2, is building customer references and cycle 3 is to build markets. So, we are in a market building cycle in the product business right now. In a stable state of a product business there are three revenue streams which leads to the cycle 4 of products; in which one-third revenue comes from AMC, one-third comes from the new sales, and one-third comes from the customization and implementation. While in the cycle 3, AMC revenues are 5% to 6% of the whole basket, my license revenue may be 15% to 20%, and 80% chunk will be coming from the services side or implementation side or customization side. So that way the profit margin variation between service business and product business are not significant. Today, my operating margin in services business is 17%. My product margins are 23%. So, it is not such a wide difference, but going forward in cycle 4, the license revenue will start becoming almost 75% and this revenue will start reflecting in the bottom line.

So next you may ask when we will be in life cycle 4. Typically, each life cycle has duration of 3 years. So, a best performing Product Company gets into a life cycle 4 in 9 years. We started our journey in 2003, so we have completed 7 years. First two journeys are of 3-year period. The third cycle journey we want to cut down to 2-years and enter the cycle 4. That is what our ambition is, but it does not mean that we will be fully operational in cycle 4 right away. We will start entering to life cycle 4 by the end of early 2011-12. We will be coming to life cycle 4 where AMC revenues will not be significant; it may move up to 10% or 12% of the total product revenues, but it will not be 30% in the early stages of the life cycle. It may start happening only four to five years later when those kinds of revenues can be seen. It is not true with all the products, but certain products will be at full life cycle 4 and some products will be in a life cycle 3. So, that will be the product business model.

We have grown 4% in dollar terms and almost 3.5% is rupee appreciation which shows that our revenue growth is flat in this quarter.

Question number five; how is Citi business growth in relation to its stake. I articulated earlier that Citi stake is a part of Citi Venture Capital, an independent arm of Citibank which does not have any relation with Citibank as a customer. Citibank customer is based on our ability to deliver and execute the project better than our competitors and that we are continuing to do so. Over the last four quarters or over last six quarters, we are growing on a sustained basis over 4 to 7% quarter on quarter despite the slowdown, the rates cut, and everything else. We are able to grow this account on a sustained way because of our better execution than our competitors in that account. While CVC stakes have come down by 15%, I think it has given opportunity for more mutual funds and FIIs to participate in the stock. We are delighted as a management team to have a well distributed portfolio of investors, because that helps us in our customer communication that there is no single investor sitting with a large equity stake and equity stake is well distributed. It helps us out in winning more deals in the market place due to a balanced portfolio of the investor.

Coming to the question number seven; the impact of rupee appreciation; 3 years back when the rupee went down to Rs. 39, we tried to protect our business model. We decided to protect 70% of our net inflows of dollars in beginning of the plan. So, we will not have any fluctuation in that area. So, in the first year we protected our business plan at Rs. 40 in 2008-09. We protected 2009-10 at Rs. 44, we protected \$100 million of the business plan, and at the same time we protected 2011-12 at Rs. 48. So, these three actions were taken when the rupee appreciated to Rs. 39 so that we can commit to our customer at a certain value point and ensure a set of profitability remains due to that number. Now we see an advantage for us; for 2009-10, we have \$25 million per quarter having hedged at Rs. 48, so that will provide us a cover for doing it. Similarly, now we are moving to one more year forward 2011-12, we hedge \$55 million which is something like a 30% of the inflows of 2011-12, estimated revenue of 2011-12, we have hedged it at 48.32 on 2011-12 level also. So, we want to protect what we have promised to you earlier, repeatable, predictable, profitable growth, plus focus on profitable growth becomes most important in our management agenda.

So, I think we will be much more insulated than our competitor in this rupee appreciation for the next year.

Question number seven is acquisition strategy. I think we have war chest of Rs. 500 crores. This quarter Srikanth and his team, my sales team and operational team, all have come together with common thinking where we are able to bring down, more than my own expectation, to 41 days of receivable. I have never given that kind of target to the management team to execute. Normally, when you are distributed in so many markets and when you have a customer portfolio of more than 250 customers around which we have to make the collections, to achieve anything less than 55 days or 50 days itself becomes difficult challenge to achieve from receivable side. But I think I must congratulate the team having generated Rs 500 crores despite two acquisitions which we did in last two years funded by internal accruals. This cash is available in the kitty for us to leverage as we go along in the market place.

Finally, the last question as to what concerns us right now and what keeps our management team

very active. I think there are three concerns I would say. One, Optimus is not performing well. We have a lot of domestic exposure in Optimus. So, with Optimus we are losing money. Concern number two, as the market is picking up and as we got 30 wins in a quarter, our efficiency in India was working at a highest peak at 81% level. So, we do not have a capacity for growth immediately. So, we need to fulfill the requirement. So, my capacity planning office which was designed for downturn, there is cycle time for machinery to get retuned and build up a buffer. Last quarter we recruited about 300 fresh people in the system. We need to look at how do fulfill the huge funnel of 1000 people requirement in the system, with a competing capability which we are promising to the customer.

It is not a question of 1000 people to be supplemented there; it is a question of brand of Polaris and competency of Polaris which needs to be delivered to the customer at that quality, and that is a big challenge because that does not happen overnight. We had a predictable demand of 1000 people, which is remaining constant over the last three months. We observed that this demand pipeline is visible to us and now we can take some decisions and some investments in the current quarter to bring these people in and invest in training and developing these people. Then they can be deployed in the market place for the expectation and the promises we are making to the customer.

Number three is investment in brand building. When we are in produce cycle 3, the license EPS engine starts rolling in. Can I generate \$50 million of license revenue in the next three years? That means an EPS of 15 to 20 rupees. Investment is required for creating a brand in the market space, and in that space in the last six months we have started spending very conscious effort. My personal time is now going to marketing and building a brand for Polaris, and in this space we are investing. Just a small sharing that we are looking at going to Manhattan and put a brand of Polaris. So we are branding ourselves in financial technology space, not as an outsourcing nor as a product company but as a financial technology company. That is the brand we are putting and we have taken an aggressive stand in this quarter to put a campaign for the next six months about creating a brand in New York. That is the starting point of brand to be created in the market place, but we need more dollars in terms of our sales force, more dollars in terms of marketing. I think that is the third concern which I have.

So, among the three concerns and the positive traction in the mind, last year we promised 15 rupees EPS, we managed all these investments to preserve the 15 rupees EPS and that is where our business planning processes have moved around - profitable growth as a mandate for all of us to see that we are able to create a basket for investment by growing the business. So we are looking for a planning cycle for the next year, what kind of revenue number we can have, what kind of profit number we can have next year, and I will come back to you during the April quarter. I would like to stick to the EPS growth for the next quarter when I will be communicating to you. I will be communicating EPS because I am not looking top line as important as bottom line because it constitutes license, services, and other revenues. I would like to plan my business plan around EPS and that is what I will communicate to you when I come back to you in April.

So, these are the eight questions I wanted to answer. Thank you very much. Now the platform

could be opened for questions and answers.

Mr. Srikanth:

Moderator, you can open the floor for questions and answers session.

Operator:

Certainly sir.

At this time, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pounds key. First in line, we have Ms. Shradha Agarwal from Batliwala and Karnani. Please go ahead.

Ms. Shradha Agarwal:

Good afternoon to the management team and thanks for an elaborate discussion, that was really helpful. One question which I would have is I mean you have done well but how do you consider this 4% growth in US dollar terms when seen in light of what your peers have done at the basis at what they are being a \$4 billion company they still manage growth of 6-7% in BFSI, and at your base the growth has been muted at 4%. So, how do you see that, I mean do you think that growth to be satisfying and your comments on these growth numbers?

Mr. Arun Jain:

Obviously, we are not satisfied with the 4% growth when the industry can grow 6% to 7%. So, I acknowledge that we could have grown better, but we are operating at 81% utilization versus 65% utilization of my peers. So, when the demand came in, they are going to fulfill faster. So, it is a balancing act of a management between growth and profit for EPS what we need to protect. So, that is why we were very focused on the EPS protection and that is what we will end up into issue of non-fulfillment of the requirement.

Ms. Shradha Agarwal:

Right. So, probably you are now better placed to catch the future growth, because you are saying you are investing in your work force and you have already had some 30 deal wins in this quarter. So, I mean, though I am not talking about specific numbers to be given, but how do you see FY11 to be panning out, when for larger peers we are talking about growth anywhere in the range of 20% to 25%. So, you specifically focus on BFSI vertical which remains the key vertical which is showing growth. Do you think Polaris to perform better than industry average showing upward to 20% growth, I mean any comments on volume growth in FY11?

Mr. Arun Jain:

I would not like to take a bet on FY 11, I think nobody in the peer have commented. 10% to 25% is only the interpreted number from the market players. I think two digits growth could be there, but there is no specific numbers being published by TCS or Infosys for that matter. But I am saying, I will focus on EPS growth and EPS growth of 20% I think definitely we can be comfortable with.

Ms. Shradha Agarwal:

Sure, thanks.

Operator:

Thank you madam. Next question comes from Mr. Srivatsan from Sparc Capital. Please go ahead.

Mr. Srivatsan:

Hi, just wanted to get your thoughts mainly on two things. If I understand correctly, we missed out on revenue opportunities because of lack of manpower?

Mr. Arun Jain:

Yes, we did.

Mr. Srivatsan:

Okay. If you had to strip out Laser Soft and see what has been the actual head count addition quarter on quarter?

Mr. Govind Singhal:

300 people.

Mr. Srivatsan:

Excluding Laser Soft. This is gross or net adds?

Mr. Arun Jain:

Sorry.

Mr. Srivatsan:

This is gross additions or net additions?

Mr. Arun Jain:

Net addition.

Mr. Srivatsan:

Okay, the utilization was something which has not been reported. What is it at this point in time?

Mr. Arun Jain:

Utilization for the current quarter is at 82%.

Mr. Srivatsan:

Okay, sure. On the other part, Srikanth just wanted to get your thoughts on the margins bit. We have seen offshore improving, we have seen product mix improving, and then last quarter we had one off visa cost, all three not being there still margins just growing 20 basis point quarter on quarter, is there anything else that we need to read into?

Mr. Arun Jain:

Salary increase is there in last quarter, to some extent we started moving the salary up. So, that has already happened.

Mr. Srivatsan:

Okay, this is across the board or is it only for select few?

Mr. Arun Jain:

It is selective.

Mr. Srivatsan:

Okay, because that was my next question, because now almost everybody has gone out and given wage hikes or offered wage hikes by April. So, what is it going to be, is it going to be just select few, the top performers who are going to get or . . .

Mr. Arun Jain:

It has to be market competitive and we have to live with the market place as demand is so high for our professionals because the financial sector is growing; I am a target company for most of

my competition. So, from that perspective, I need to take a decision if it is market competitive, but I will not be able to share that number on this call.

Operator:

Mr. Srivatsan, are you done with your question? Sir, I think his line got disconnected. Shall we take the next question?

Mr. Arun Jain:

Yes, sure.

Operator:

Okay. Next in line we have Mr. Sanjeev Hotha from Networth Capital, please go ahead.

Mr. Sanjeev Hotha:

Yes, hi, thanks for taking my questions. A couple of questions, like you know, in the last four quarters we have negative growth of 2% in the USD revenue, excluding the revenue of Laser Soft this quarter. So, my question is when can we see uptake in revenue and going back to quarterly run rate of close to 80 to 85 million, and could you throw some more color on the demand environment and visibility specifically in the coming quarters?

Mr. Arun Jain:

I think there is a volume growth versus a revenue growth, because when we were \$80 million five quarters back our onsite revenue was close to 59% and 40% was our offshore revenue. So, market has shifted where today my onsite revenues are 49% and offshore is 51%. So, it is a 10% shift in a market place from the volume perspective. The revenue top line is a parameter of onsite offshore ratio and it is a parameter of rupee appreciation, that time rupee went up to 50 rupees and it came down to 45 rupees. These are two elements where you have seen and in your question in dollar terms, in dollar terms also the shift in the business is from onsite to offshore. But I think now the customers are more willing to spend onsite. In 2009, they were very very focused on offshore business. In 2010, you may be able to see some movements. I am not too sure because now that people will say I have tasted the offshore model which can deliver as well as delivering the onsite offshore model, they have build up more trust in offshore. But definitely we are looking revenue growth in 80 to 85 million dollars in the next two quarters any way.

Mr. Sanjeev Hotha:

This quarter we had seen revenue de-growth of almost 7% in the industry revenue. So, what is the volume growth excluding Laser Soft?

Mr. Arun Jain:

What is 7%, can you elaborate?

Mr. Sanjeev Hotha:

Like this quarter we have a revenue of 72.5 USD, excluding Laser Soft revenue of 34 crores.

Mr. Arun Jain:

Laser Soft revenue is not Rs.34 crores. Laser Soft revenue is actually Rs 4 crores, Rs.3.91 crores.

Mr. Sanjeev Hotha:

It is my error. So, just asking about in the coming quarter do we have deals that we can take up to close to 70 to 75 at least and conclude the run rate of this at least for the coming quarters.

Mr. Arun Jain:

Obviously yes, we are already 71, you have misread the Laser Soft Rs 34 crores. It is a cost we paid for the Laser Soft acquisition and this quarter only 49 days of acquisition revenue that came into this.

Mr. Sanjeev Hotha:

No, I am just talking about the IT services business because we have done well in the Intellect revenue, so just having a visibility in the IT services.

Mr. Arun Jain:

Okay. We do not look at it that way and you are playing a different question and two dimensions. We think 80% business which is there, can we take it to 75 million dollar? Obviously, that is our expectation, I think it will be difficult for me to look at the exact time and date but as of now we are building capacity.

Mr. Sanjeev Hotha:

Okay sir. And what is the hiring strategy, we are hiring for FY11, any color on it?

Mr. Arun Jain:

What is it?

Mr. Sanjeev Hotha:

Hiring strategy.

Mr. Arun Jain:

I think we need to make investment that is what my concern is, that how much we should invest to meet the requirement of FY11. We are just in the process of having the forecast demand and supply chain, we need to look at it. A lot of new technologies have emerged and lot of new demands are coming in which is built across 10 different platforms, so we are still in a model of forecasting and demand supply chain management, but definitely we are looking for adding significant within the limit of EPS management.

Mr. Sanjeev Hotha:

This quarter, we have a net addition of 300 people but our staff cost has always remained flat on sequential basis. Any comment on that.

Mr. Arun Jain:

Yes, because of US dollar incoming. Primarily, because of the 3.5% rupee appreciation also, that is also one of the reasons.

Mr. Sanjeev Hotha:

And sir, I missed out on the Optimus BPO revenue, what is the amount?

Mr. Govind Singhal:

BPO revenue for the current quarter is Rs. 6.4 crores.

Mr. Sanjeev Hotha:

Sir, for the utilization of cash, it is now almost 60% of our balance sheet size. So, are we looking at more aggressive kind of utilization of cash or inorganic opportunity. Also, are we looking at the big ticket size acquisition or are we concentrating on the ticket deal of 34, like 40 to 45 crores deals.

Mr. Arun Jain:

What is right for the company?

Mr. Sanjeev Hotha:

May be utilization of cash will be more aggressive in FY11 or coming years.

Mr. Arun Jain:

Acquisition cannot be predicted. We have a history of taking big bold decisions on acquisition, like we acquired Orbitech. It is not that we are shy of taking bold decisions on acquisition, but if it is right fit for the company we will take anything between 5 million to 50 million or 100 million or 200 million dollar acquisition. So, do not worry about it, we are on active search for the right company, propose us a company if you find one.

Mr. Sanjeev Hotha:

Last question sir, next quarter we are going for salary hike, and also utilization is currently at the optimum level of 82%. So what are the margin levers we have to improve margins from current level?

Mr. Govind Singhal:

I think what we are really looking at is, number one, driving the productivity higher. Number two, the very aspect of balancing the pyramid where we will be locating people and essentially from the point of view of driving the productivity higher will be the key lever to manage the cost. That comes in because of the salary revisions and addition of people. The other aspect is we are focusing hard and more on to the product side of the business, which definitely is the higher gross margin. So, I think combination of these two aspects will be able to contain the impact.

Mr. Sanjeev Hotha:

Are we comfortable with maintaining margin at least in the near term at the current levels?

Mr. Arun Jain:

Yes, we are comfortable on the near term. Except the rupee appreciation, if it appreciates too significantly, then in terms of absolute number, we will be maintaining it but in terms of the dollar-rupee issue, there may be some small fluctuations.

Mr. Sanjeev Hotha:

Okay, sir. That is all from my side.

Mr. Arun Jain:

Thank you.

Operator:

Thank you sir. Next in line we have Mr. Ashish from Nirmal Bung Securities. Please go ahead.

Mr. Ashish:

Yes, good afternoon. My questions have already been answered. Thanks a lot.

Mr. Arun Jain:

Thank you.

Operator:

Thank you sir. We have a follow-up question from Mr. Srivatsan from Spark Capital. Please go ahead.

Mr. Srivatsan:

Sorry, got disconnected. Just wanted to kind of run us through, last quarter we had 12 wins in Intellect, this quarter 14 wins. When do we see some of these deals panning out in terms of execution and flowing into revenues and how long do you think these deals will contribute to revenues. At least in the license and the implementation, and the maintenance would continue for many years to come. On these two fronts, could you just provide some sense on that?

Mr. Arun Jain:

Yes, typically again the way I explained product cycle 3, the typical deal wins in the product business has got three stages. One is winning the deal, then getting the contract signed and cycle time between when you win the deal and contract is signed, and then when you start executing it. We have a very conservative policy on booking the revenue. Our revenue is on effort base, utilization of the license into the system. So, unless the contract gets signed, unless we get started, we do not recognize that revenue into books of account. We have policies in the company where from the day of deal win we can account at least 50% license revenue into the books. So, we have taken a very, very conservative stand that once the contract gets signed, after that when the work get started, the first six weeks or eight weeks is only a very small effort in terms of number of people being spent for their job, and that is only 5% to 10% gets accounted in that area. So, from that perspective, there is a delay. But the 12 wins and 14 wins in this quarter, I think it will be at least three quarter delay to really get benefit around those deals. So, something will come in April-June and something will come in July to September quarter which will be there. If you look at our competition say Temenos, if you look at their receivables, they have 165 days of receivable with \$190 million debt which is sitting on their books with such a high traction of licenses. I do not know how they are realizing the revenue and when they are booking the revenue. So, that is a different policy which is there, but we want to remain conservative and predictable to the investor.

Mr. Srivatsan:

Okay. In terms of the deal flows that you are seeing currently wherein RFPs are floating around

mainly on the product business, how is that, and are there any specific products that are doing or any geography where you will see a lot more traction?

Mr. Karthik:

We are seeing a very clear trend in the growth market, the Middle East, Africa, the South-East Asian markets for core banking replacement and we are able to very convincingly be winning those deals and the deal sizes are increasing successively. In the developed market, we are seeing the trend in two areas, one customer-access related changes which is largely in the space of portals, process automation and areas like that where there is very active play, and we are seeing very good success there. We are also seeing very strong success around the transaction banking space which is something that most large universal banks are adopting at a very frequent pace in the developed market.

Mr. Srivatsan:

Okay. On the services, from the commentary from the top two companies at least, increasingly talk is more and more at least the deal wins and the execution has been happening on the integration bid. How it is, but to the best of knowledge, we have not been benefitted of the integration going on. Is there a comeback of any discretionary or maintenance spend some the traditional BFS spenders.

Mr. Karthik:

Sure, you are right at the high level trend in terms of the large scale deals, you are absolutely right. However, as you can recognize with the integration impact there is also impact of two other types, one for either replacement or enhancement of certain functionality which is critical to the new business model, and second opportunity space that opens up through the integration; both of which require very significant domain expertise and both of which require a combination of sunset of traditional current systems for movement to target system. And that is really opening up opportunities for organizations like Polaris. So, our domain capabilities is giving us access in new developmental opportunity which usually you may call discretionary but it is fundamentally necessary for the business for achieving the value of their integration. So, I hope that answers your question that where we are seeing the active interest and that is reflected in the results. We have shared that both in America where we have added very significant names to our portfolio in the outsourcing space and very, very competitively so. I mean now that we have added two more, these are very significant names in the market place, all our peer incumbents have been in play and we have displaced some to actually make that happen. So, it is just a reaffirmation that we are actively in that play.

Mr. Srivatsan:

Okay. Just one more question on the insurance. Now, it is almost a year since we made the SEEC acquisition how is it and what is the business case for which you acquired, has it happened? It was also the reason that it was an IP play. Have you made any big inroads on the

sale of SEEC products into any of the bigger clients; just wanted an update on that.

Mr. Karthik:

Sure. At very high level the last quarter and little more has seen last minute entry in at least five very large institutions in the insurance space using products. These are spread across Americas, Europe, and the Australian markets, and this is an entry at a very, very turnkey level. These are core platforms in the insurance space related to claims and agent photos and spaces like that, and these are significant deals sizes, and we are seeing steady movement in terms of quarterly revenue as well. Srikanth, do you want to add specifically to the revenue.

Mr. Srikanth:

Second quarter revenue for SEEC is about Rs. 6 crores, Rs. 5.83 crores, vis-à-vis Rs. 4 crores in the previous quarter. So, we are seeing increase in SEEC revenues and as we go forward with the heavy funnel size and also with the good traction, we believe that SEEC will be one of the growth drivers not only for product expansion but also for the profit driver.

Mr. Srivatsan:

Okay. Just now one last question, Arun you did say that Optimus is a concern point still. When do you think you will arrive at the solution on this, because it has been, to at least the best of my knowledge, bleeding for the last two and half to three years.

Mr. Arun Jain:

We had set up Optimus on perspective of transaction processing, capability for the Indian market, and Indian market is not ready for it. We went wrong in our decision. We went quite early. This market will come up. I still have confidence that the market will come up where banks will start doing on-demand banking, complete transaction processing capability, but still we are at least three years earlier then the market will pick up. So, that dilemma is still there with us. I do not have any answers right now. We will be dwelling in the board what should we be doing, should we wait for three years and lead the transaction processing space which will be emerging in the next three years. So, that is the dilemma we are still living with. The drain is around 2 crores a quarter which is manageable to protect the EPS. We just need to see whether we need to let go or we need to acquire a company in processing space, both the options are available, which we are discussing, and ensuring us that we do not leave that space. My intention is to keep the space of transaction processing and if you let go that kind of a space then we have to take a cautious decision and that will not be entering into that space in the future times. So, that is the dilemma. So I am just sharing the dilemma with you, I do not have an answer, but as of now, we are building the capability in transaction processing space, on-demand banking space, and various pieces of business together, and we will continue to build those businesses by seeing immediate traction in acquisition sooner than later.

Mr. Srivatsan:

I appreciate that Arun. Thanks a lot.

Operator:

Thank you sir. Next in line we have Mr. Neerav Dalal from Capital Market. Please go ahead.

Mr. Neerav Dalal:

Good evening, sir. I just wanted the revenues for Intellect and PRIL for the quarter.

Mr. Srikanth:

Revenue of PRIL is Rs. 2.48 crores for the quarter and what was your second question?

Mr. Neerav Dalal:

Intellect.

Mr. Srikanth:

Intellect as a whole, Rs. 68.16 crores for the current quarter.

Mr. Neerav Dalal:

Okay. And I just wanted to know, I believe Optimus you said is bleeding by 2 crores a quarter. What about the others? Where is SEEC.

Mr. Srikanth:

SEEC appears to be profitable, Laser Soft is profitable, and PRIL is also profitable.

Mr. Neerav Dalal:

Okay. Sir, I wanted split of the employees in the five spaces.

Mr. Srikanth:

We have totally 9324 head count, out of which PSL is 7400, Optimus is 1090, SEEC is 89, Laser Soft is 611, and PRIL was 134.

Mr. Neerav Dalal:

Okay sir, thanks a lot.

Operator:

Thank you Mr. Neerav. Next question comes from Mr. Shaker Singh from Goldman Sachs. Please go ahead.

Mr. Shaker Singh:

Hello sir. I just wanted to understand that there was a statement which was made that from \$72 million to around \$80 to 85 million we can achieve in two to three quarters and did I hear it correctly.

Mr. Arun Jain:

Yes, that is right.

Mr. Shaker Singh:

Okay. And in terms of accounting just wanted to understand this revenue that you are booking, revenue which shows up as the reported number, that is booked at current rupee-dollar rate or is it at the hedged rate?

Mr. Srikanth:

No, revenue will always be at the current transaction on trade, our hedge accounting is actually on a cash basis.

Mr. Shaker Singh:

Understood. And lastly like there was also a mention that 20% PAT growth for the coming year should be a comfortable number, is that correct?

Mr. Arun Jain:

Yes, EPS growth of 20%, 15 rupees to 18 rupees is comfortable.

Mr. Shaker Singh:

Sir, but if I look at your quarterly numbers for the last three quarters, the sort of Forex losses that you had and with the current prevailing rupee-dollar rate, if you just remove that the Forex losses, your growth should be much higher then, that in itself will bring you almost like 20% growth.

Mr. Arun Jain:

Yes, sure. But we have to consider many other things as well because of the compensation and other areas on product branding, so those investments will be there. So that is what we need to

do the complete planning and then we can come back to you with the next year EPS guidance.

Mr. Shaker Singh:

Sure. Great sir. Thanks a lot.

Operator:

Thank you sir. Next in line we have Mr. Ritesh Rathore from UTI Mutual Fund. Please go ahead.

Mr. Ritesh Rathore:

Sir, in your starting comments, you mentioned that you have seen significant deal signings and deal pipeline which you have not seen in the last five years. I heard it right?

Mr. Arun Jain:

That is right.

Mr. Ritesh Rathore:

Sir, how things have moved in terms of quarter on quarter like 3Q versus 2Q? Has the deal funnel increased by 2X or 3X? Can you give us some color on that thing?

Mr. Arun Jain:

Deal funnel in the last nine months has improved by 40%. Deal funnel was \$170 million and now it is \$300 million dollars. So, it is more than 60%, 170 to 300 is a 60% growth on the funnel.

Mr. Ritesh Rathore:

Okay. And in terms of TCVs, deals signed in 2Q versus 3Q, what would be that percentage like, the deals you signed in second quarter and the 13 wins you signed in third quarter, what would be the percentage growth rate over there?

Mr. Arun Jain:

In terms of number?

Mr. Ritesh Rathore:

No, not in absolute. May be on growth number would be fine?

Mr. Arun Jain:

The number which we track, we have a growth of about 30% in deal signing.

Mr. Ritesh Rathore:

These are TCVs you are talking right, total contract value.

Mr. Arun Jain:

That is right, deal value.

Mr. Ritesh Rathore:

Okay. Sir, how about execution of these deals? Would it be in the next two to three quarters or would it take time and would be far off?

Mr. Arun Jain:

Typically, some of the deals can take between six quarters. So, it is between two to six quarters variation among deals.

Mr. Ritesh Rathore:

Okay. And in terms of your Forex, you said you would do cash flow hedging. So, is there any loss on the balance sheet you have right now?

Mr. Srikanth:

There are no unabsorbed losses in the balance sheet. It is all written off on a cash basis.

Mr. Ritesh Rathore:

So, you are marked to market in your other income line item?

Mr. Srikanth:

Yes, we account it actually as another income line item as foreign exchange loss.

Mr. Ritesh Rathore:

Okay. So, as and when rupee moves in whichever direction, you will take a marked to market gain or loss accordingly.

Mr. Srikanth:

On a cash basis.

Mr. Ritesh Rathore:

On a cash basis. Your aggregate hedge would be how much?

Mr. Srikanth:

For the current quarter it is \$25 million at the rate of Rs. 45.05, and for the next financial year we have \$100 million at the rate of Rs. 48.28. And, 55 million for 2011-12 at the rate of Rs. 48.38.

Mr. Ritesh Rathore:

So, when you do mark to market you do for the whole \$170 million.

Mr. Srikanth:

No, we will not do mark to market actually for the whole number. We will do mark to market on a cash basis for the respective quarter under reference.

Mr. Ritesh Rathore:

Okay. So that \$100 million would occur in each of the quarter in next year.

Mr. Srikanth:

That is right. So, \$25 million on average per quarter.

Mr. Ritesh Rathore:

Okay. Thanks. That is all from my side.

Operator:

Thank you sir.

Mr. Arun Jain:

We will have a last question.

Operator:

Participants who would wish to ask a question, please press *1 on your telephone.

Mr. Arun Jain:

Okay, thank you very much.

Mr. Srikanth:

Thank you. We sincerely appreciate for your time and thank you for the interest in Polaris, and should there be any specific or additional questions, please feel free to write an email to my investor cell and we would be more than happy to respond to you. Thanks once again and see you in the next call. Bye.

Operator:

That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.