

Polaris Consulting & Services Limited

(BSE: 532254; NSE: POLARIS)

Q3 FY2017 Earnings Presentation
February 8, 2017

Performance Highlights: Q3 FY2017

Net Revenue

Rs. 5,154 mn

+1.7% q-o-q

EBITDA

Rs. 580 mn

Margin: 11.3% (-87bps)

PAT

Rs. 476 mn

Margin: 9.2% (+112bps)

DSO

89 Days

(86 Days: Q2 FY2017)

Headcount

7,109

Attrition: 20.0%

CCE and Investments

Rs. 5,236 mn

(Rs. 4,792 mn: Q2 FY2017)

Management Perspectives

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

We are delighted to report a robust performance despite prevailing difficult macroeconomic conditions due to the uncertainties around Brexit and US elections. Our deep domain expertise in the BFSI vertical has enabled us to build on our capabilities and introduce new features and compelling services in line with the ever changing customer requirements. Testament to this is the recently launched OpenBank API Accelerator, which enables our clients to securely and rapidly enhance their digital offerings. We remain committed to innovation and digital transformation to keep up with this growing market segment.

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

We are pleased with the performance of the Company during the quarter. The Company recorded a sequential revenue growth of 1.7% and PAT growth of 15.8%, primarily driven by forex gains. We continue to invest in integrating various functions of virtusaPolaris in our endeavour to realise synergies.

Performance Overview

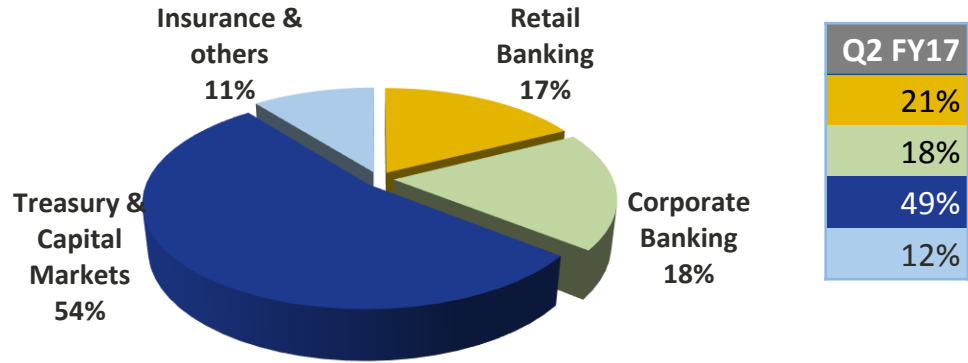
| Particulars | Q3 | | Y-o-Y | Q2 | Q-o-Q | Nine Months | | Y-o-Y |
|-----------------|--------|--------|------------|--------|------------|-------------|--------|------------|
| | FY2017 | FY2016 | Growth (%) | FY2017 | Growth (%) | FY2017 | FY2016 | Growth (%) |
| Net Revenue | 5,154 | 5,169 | (0.3)% | 5,067 | 1.7% | 15,177 | 15,522 | (2.2)% |
| EBITDA | 580 | 631 | (8.0)% | 614 | (5.5)% | 1,782 | 2,116 | (15.8)% |
| Margin (%) | 11.3% | 12.2% | | 12.1% | | 11.7% | 13.6% | |
| PAT | 476 | 268 | 77.7% | 411 | 15.8% | 1,285 | 1,206 | 6.6% |
| Margin (%) | 9.2% | 5.2% | | 8.1% | | 8.5% | 7.8% | |
| Basic EPS (Rs.) | 4.69 | 2.68 | 75.3% | 4.05 | 15.8% | 12.66 | 12.04 | 5.1% |

Performance Discussion (Q-o-Q)

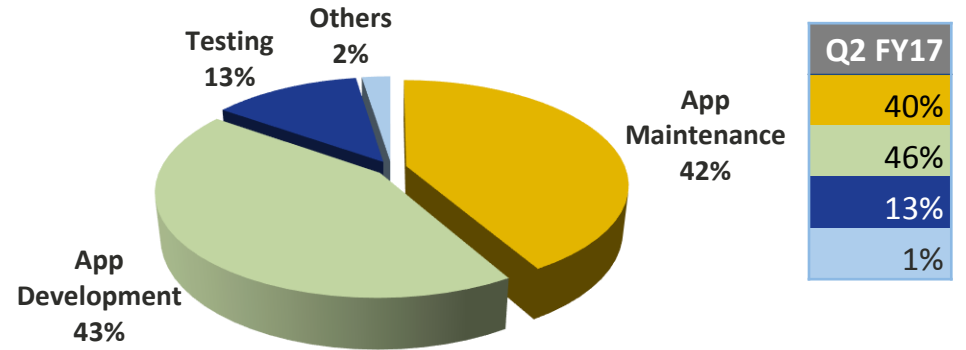
- On constant currency basis revenue for the quarter improved by 1.1%
- EBITDA for the quarter was impacted Rs. 64 mn (1.2% of net revenue) primarily related to integration cost
- Improvement in PAT was driven by increase in other income due to favourable foreign exchange gains
- EPS for the quarter improved to Rs. 4.69 compared to Rs. 4.05 in Q2 FY17 and Rs. 2.68 in Q3 FY16

Q3 FY2017 Revenue Break-up

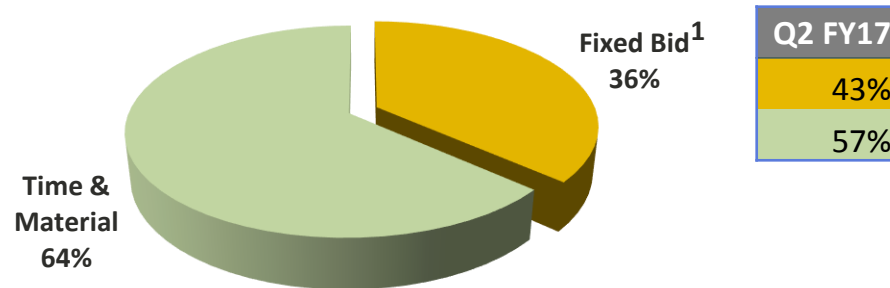
Revenue by Vertical



Revenue by Service Offering



Revenue by Contract Type

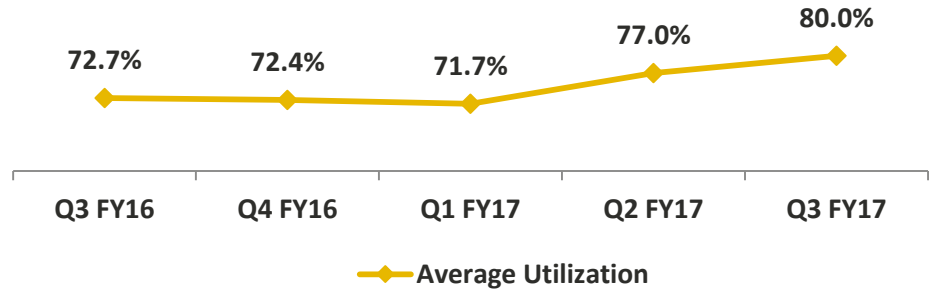


Note:

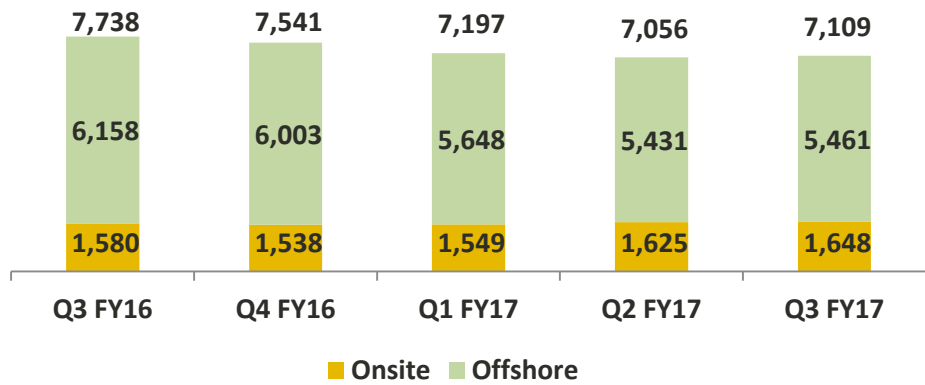
1. Fixed bid includes Fixed price

Operational Metrics

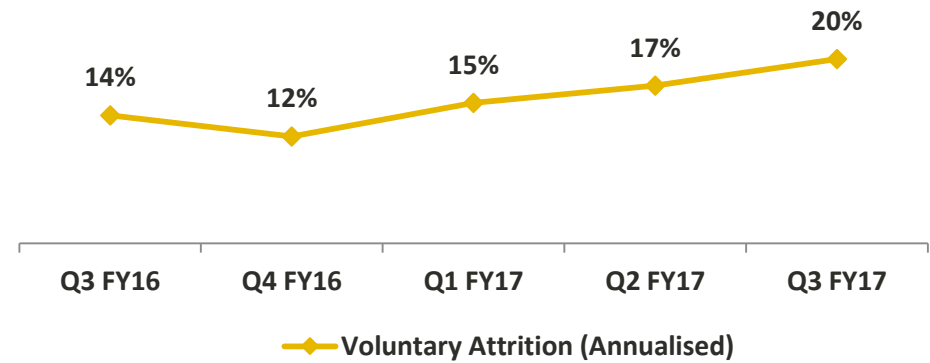
Utilization



Headcount¹



Attrition

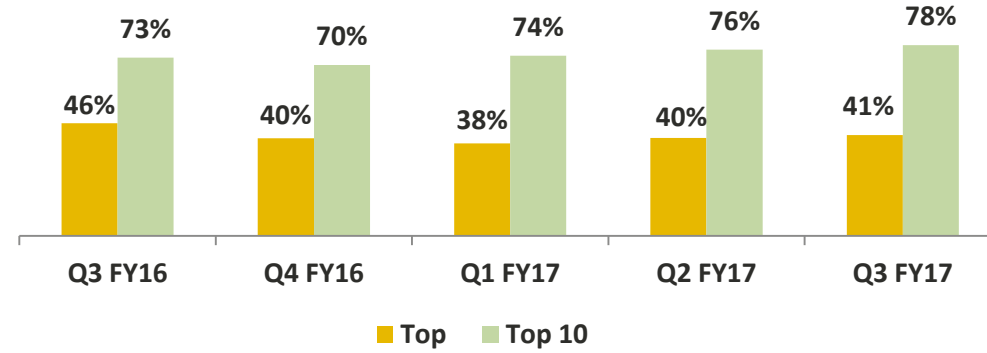


Note:

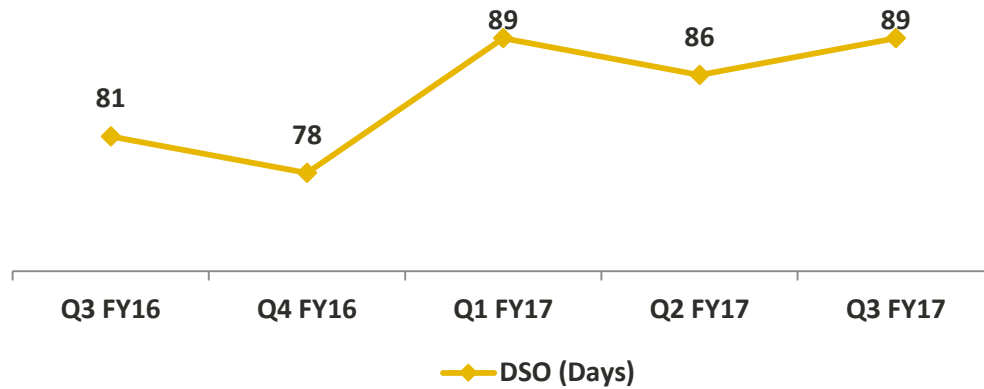
1. Excluding BPO and including vendors

Operational Metrics

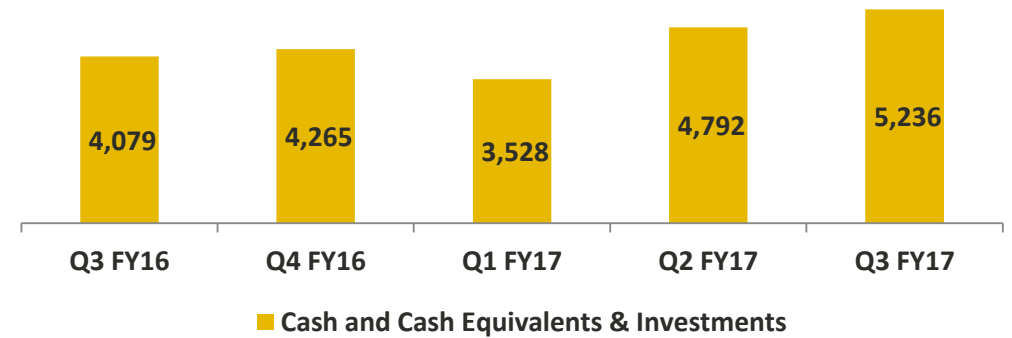
Contribution by top Clients



DSO



Cash & Cash Equivalent and Investments (Rs. mn)



Factsheet

Factsheet

Detailed Profit & Loss Statement

| Profit & Loss Statement (Rs. mn) | Q3 | | Y-o-Y Growth (%) | Q2 FY17 | Q-o-Q Growth (%) | Nine Months | | Y-o-Y Growth (%) |
|---|--------------|--------------|---------------------|--------------|---------------------|--------------|--------------|---------------------|
| | FY17 | FY16 | | | | FY17 | FY16 | |
| Income from operations | 5,154 | 5,169 | (0.3)% | 5,067 | 1.7% | 15,177 | 15,522 | (2.2)% |
| Employee Cost | (4,008) | (4,013) | (0.1)% | (3,948) | 1.5% | (11,793) | (11,810) | (0.1)% |
| <i>% of Sales</i> | 77.7% | 77.6% | | 77.9% | | 77.7% | 76.1% | |
| Other Expenditures | (567) | (525) | | (505) | | (1,602) | (1,597) | |
| EBITDA | 580 | 631 | (8.0)% | 614 | (5.5)% | 1,782 | 2,116 | (15.8)% |
| EBITDA Margin (%) | 11.3% | 12.2% | | 12.1% | | 11.7% | 13.6% | |
| Depreciation and Amortisation | (69) | (65) | | (58) | | (184) | (201) | |
| <i>% of Sales</i> | 1.3% | 1.2% | | 1.1% | | 1.2% | 1.3% | |
| EBIT | 512 | 566 | (9.6)% | 557 | (8.0)% | 1,598 | 1,915 | (16.5)% |
| EBIT Margin (%) | 9.9% | 11.0% | | 11.0% | | 10.5% | 12.3% | |
| Other Income | 171 | 28 | | 59 | | 304 | 97 | |
| Exceptional Item | 0 | (106) | | 0 | | 0 | (106) | |
| PBT | 683 | 488 | 39.9% | 615 | 10.9% | 1,902 | 1,906 | (0.2)% |
| PBT Margin (%) | 13.2% | 9.4% | | 12.1% | | 12.5% | 12.3% | |
| Tax Expenses | (206) | (220) | | (202) | | (614) | (700) | |
| Share of (profit)/loss of associate companies | (0) | 0 | | (1) | | (3) | 0 | |
| Minority Interest | 0 | 0 | | 0 | | 0 | 1 | |
| PAT | 476 | 268 | 77.7% | 411 | 15.8% | 1,285 | 1,205 | 6.6% |
| PAT Margin (%) | 9.2% | 5.2% | | 8.1% | | 8.5% | 7.8% | |
| EPS: | | | | | | | | |
| Basic EPS (Rs.) | 4.69 | 2.68 | 75.3% | 4.05 | 15.8% | 12.66 | 12.04 | 5.1% |
| Diluted EPS (Rs.) | 4.66 | 2.63 | 77.3% | 4.02 | 15.8% | 12.54 | 11.86 | 5.7% |

Factsheet

| | Q3 FY16 | Q4 FY16 | Q1 FY17 | Q2 FY17 | Q3 FY17 |
|-------------------------------------|------------|------------|------------|------------|------------|
| Revenue By Vertical | | | | | |
| Retail Banking | 15% | 16% | 18% | 21% | 17% |
| Corporate Banking | 21% | 19% | 18% | 18% | 18% |
| Treasury & Capital Markets | 51% | 52% | 51% | 49% | 54% |
| Insurance & others | 13% | 13% | 13% | 12% | 11% |
| Revenue by Service Offering: | | | | | |
| App Maintenance | 40% | 42% | 42% | 40% | 42% |
| App Development | 46% | 44% | 44% | 46% | 43% |
| Testing | 13% | 13% | 13% | 13% | 13% |
| Others | 1% | 1% | 1% | 1% | 2% |
| Revenue by Product Type: | | | | | |
| Fixed Bid | 41% | 41% | 38% | 43% | 37% |
| Time & Material | 59% | 59% | 62% | 57% | 63% |
| Effort Mix: | | | | | |
| Offshore effort | 74% | 73% | 73% | 74% | 76% |
| Onsite effort | 26% | 27% | 27% | 26% | 24% |
| Utilization: | | | | | |
| Average Utilization | 73% | 72% | 72% | 77% | 80% |

| | Q3 FY16 | Q4 FY16 | Q1 FY17 | Q2 FY17 | Q3 FY17 |
|---|------------|------------|------------|------------|------------|
| Clients: | | | | | |
| Active clients | 142 | 141 | 128 | 119 | 106 |
| Number of New clients | 3 | 1 | 3 | 3 | - |
| Number of 10% clients | 1 | 1 | 1 | 1 | 2 |
| Revenue from repeat clients >12 months | 90.5% | 90.8% | 90.7% | 90.0% | 90.0% |
| Top client | 46.0% | 39.8% | 37.7% | 40.0% | 41.2% |
| Top 10 clients | 72.7% | 69.8% | 73.5% | 76.0% | 77.8% |
| Headcount: | | | | | |
| IT professionals | 6,997 | 6,810 | 6,572 | 6,448 | 6,577 |
| Non IT professionals | 741 | 731 | 625 | 608 | 532 |
| Total Headcount | 7,738 | 7,541 | 7,197 | 7,056 | 7,109 |
| Net addition | 90 | (197) | (344) | (140) | 53 |
| Voluntary Attrition (Annualized) | 14% | 12% | 15% | 17% | 20% |
| Cash: | | | | | |
| Cash, Cash Equivalents & Investments (Rs. Mn) | 4,079 | 4,265 | 3,528 | 4,792 | 5,236 |
| DSO (days) | 81 | 78 | 89 | 86 | 89 |

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 December 31, 2016, the Company had 7,109 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



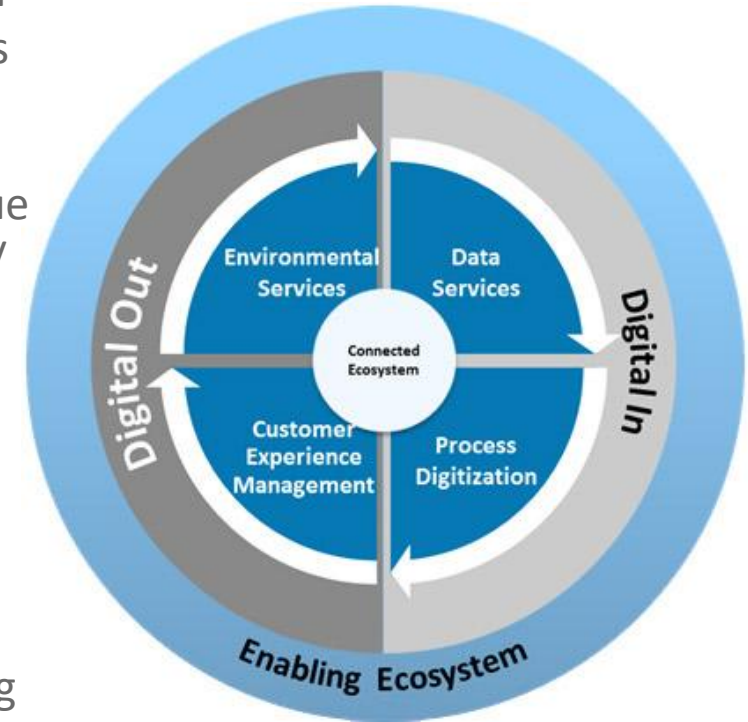
Recent Developments

- 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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