

Polaris Consulting & Services Limited

(BSE: 532254; NSE: POLARIS)

Q3 FY2018 Earnings Presentation
February 7, 2018

Performance Highlights

Q3 FY2018 Net Revenue

Rs. 6,801 mn
+31.0% y-o-y

Q3 FY2018 EBITDA

Rs. 859 mn
Margin: 12.6%

Q3 FY2018 PAT

Rs. 552 mn
Margin: 8.1%

DSO

73 Days
(74 Days: Q2 FY2018)

Headcount

7,785
Attrition: 12.8%

CCE and Investments

Rs. 6,804 mn
(Rs. 6,528 mn: Q2 FY2018)

Management Perspectives

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

The performance of the Company during the quarter was broadly in line with management expectations. As we enter into 2018, demand for IT services seem to be strong and we are very well placed to capitalize on this. We are currently in process of delisting Polaris, so that it can operate as a fully owned subsidiary of Virtusa.

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

Our performance in both financial and operational aspects was satisfactory during the quarter and on expected lines. Our topline grew by 1.3% sequentially and 31.0% y-o-y, but our PAT declined by 23.6% compared to last quarter. This sequential decline in profitability is attributable to one-time benefits accruing in Q2 FY2018 pertaining to investments in the prior periods.

Performance Overview

(Rs. million, unless stated)

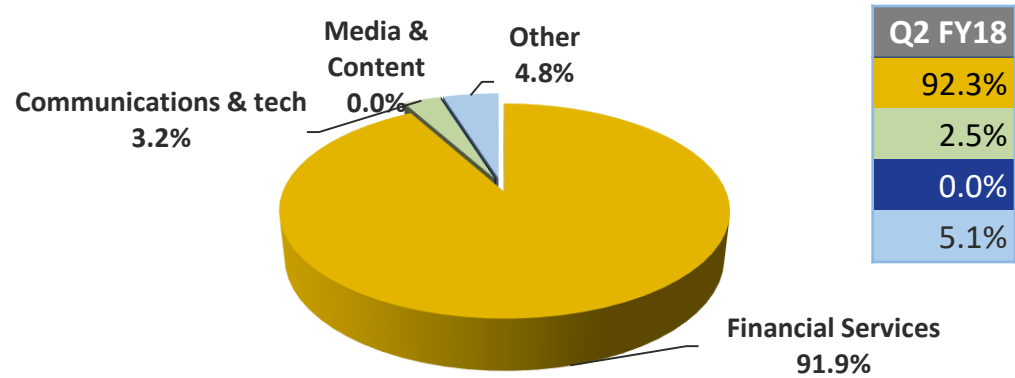
Particulars (Rs. Million)	Q3		Y-o-Y	Q2	Q-o-Q	Nine Months		Y-o-Y
	FY2018	FY2017	Growth (%)	FY2018	Growth (%)	FY2018	FY2017	Growth (%)
Net Revenue	6,801	5,189	31.0%	6,715	1.3%	19,065	15,264	24.9%
EBITDA	859	591	45.2%	1,088	(21.0)%	2,409	1,800	33.9%
Margin (%)	12.6%	11.4%		16.2%		12.6%	11.8%	
PAT	552	482	14.7%	723	(23.6)%	1,577	1,293	22.0%
Margin (%)	8.1%	9.3%		10.8%		8.3%	8.5%	
Basic EPS (Rs.)	5.40	4.74	13.9%	7.07	(23.7)%	15.43	12.74	21.1%

Performance Discussion

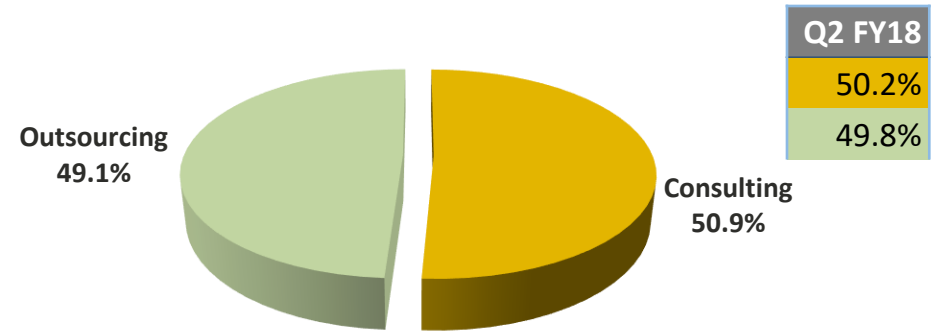
- On a constant currency basis, revenue increased by 37.5% y-o-y and 0.8% q-o-q
- EBITDA margin improved by 123 basis points compared to Q3 FY17 primarily driven by revenue growth and operational efficiencies
- DSO improved to 73 days compared to 74 days in Q2 FY2018

Q3 FY2018 Revenue Break-up

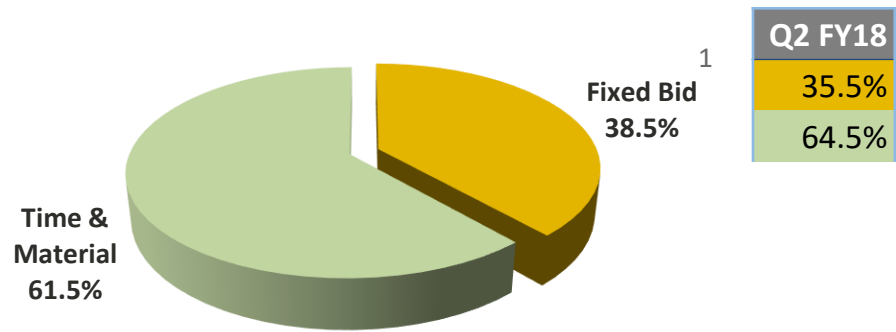
Revenue by Vertical



Revenue by Service Offering



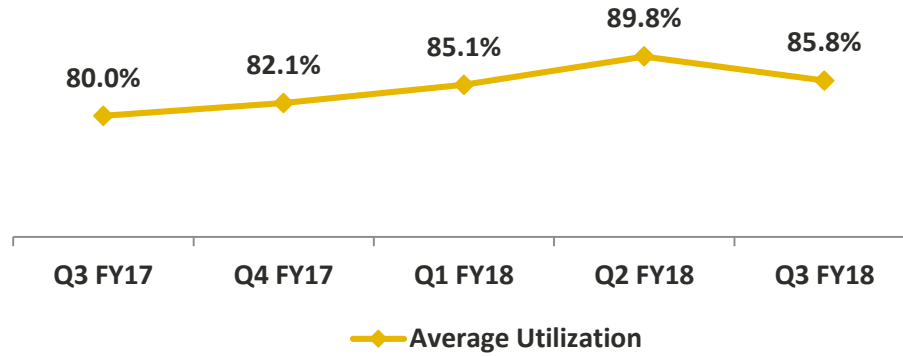
Revenue by Vertical



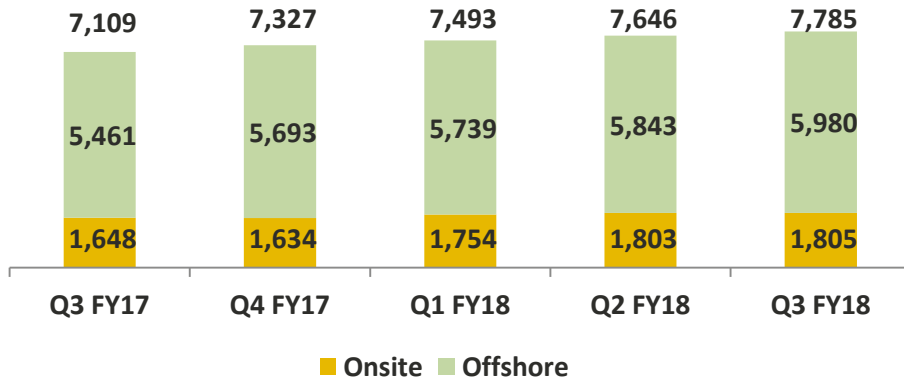
Note:
1. Fixed bid includes Fixed price

Operational Metrics

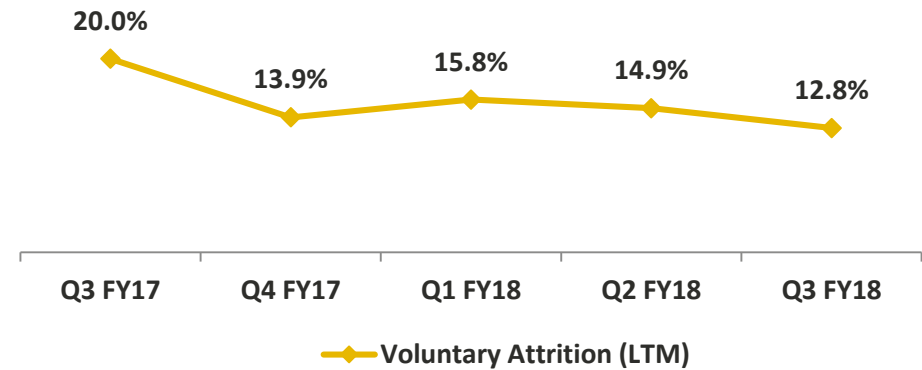
Utilization



Headcount¹



Attrition

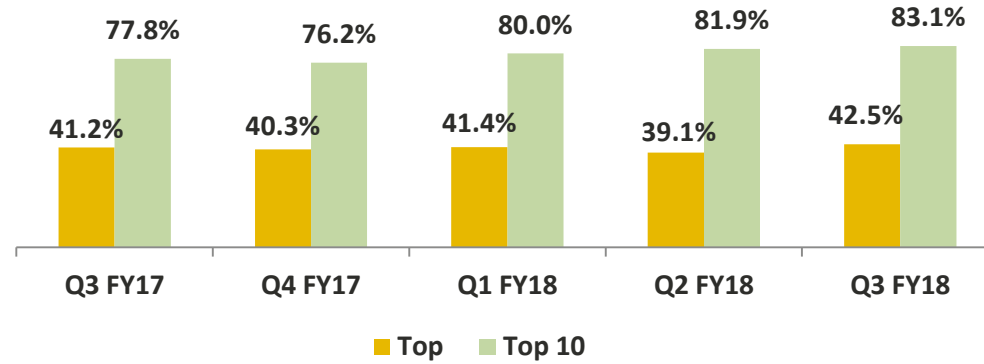


Note:

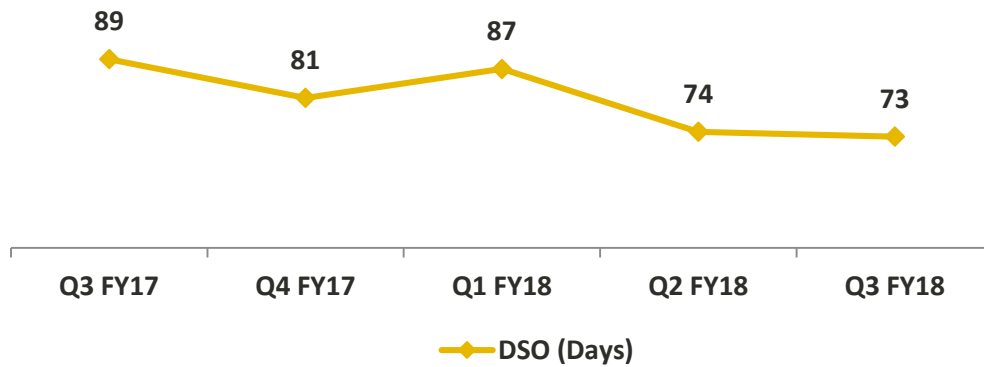
1. Excluding BPO and including vendors

Operational Metrics

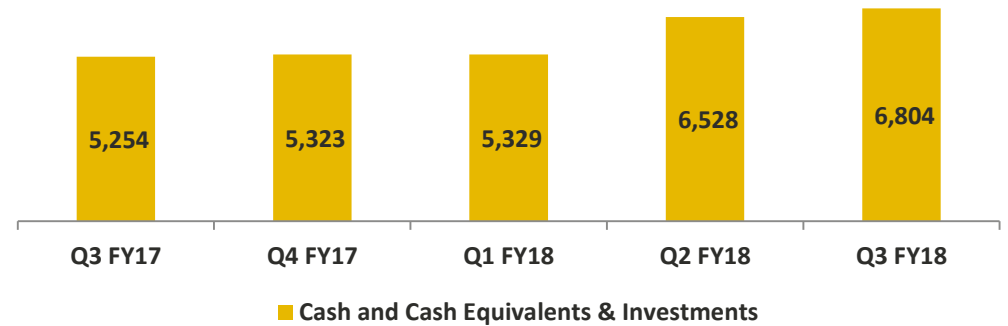
Contribution by top Clients



DSO



Cash & Cash Equivalent and Investments (Rs. mn)



Factsheet

Factsheet

Detailed Profit & Loss Statement

Profit & Loss Statement (Rs. mn)	Q3		Y-o-Y	Q2 FY18	Q-o-Q	Nine Months		Y-o-Y
	FY18	FY17	Growth (%)		Growth (%)	FY18	FY17	Growth (%)
Income from operations	6,801	5,189	31.0%	6,715	1.3%	19,065	15,264	24.9%
Employee Cost	(4,421)	(3,394)	30.3%	(4,183)	5.7%	(12,429)	(10,183)	22.1%
<i>% of Sales</i>	<i>65.0%</i>	<i>65.4%</i>		<i>62.3%</i>		<i>65.2%</i>	<i>66.7%</i>	
Subcontracting expenses	(845)	(646)		(815)		(2,366)	(1,681)	
Other Expenditures	(676)	(558)		(629)		(1,861)	(1,600)	
EBITDA	859	591	45.2%	1,088	(21.0)%	2,409	1,800	33.9%
EBITDA Margin (%)	12.6%	11.4%		16.2%		12.6%	11.8%	
Depreciation and Amortisation	(70)	(70)		(59)		(184)	(188)	
<i>% of Sales</i>	<i>1.0%</i>	<i>1.3%</i>		<i>0.9%</i>		<i>1.0%</i>	<i>1.2%</i>	
EBIT	790	522	51.3%	1,029	(23.3)%	2,225	1,612	38.0%
EBIT Margin (%)	11.6%	10.1%		15.3%		11.7%	10.6%	
Other Income	41	166		39		110	299	
Share of (profit)/loss of associates	(3)	(0)		(3)		(6)	(3)	
PBT	828	687	20.4%	1,066	(22.3)%	2,330	1,907	22.1%
PBT Margin (%)	12.2%	13.2%		15.9%		12.2%	12.5%	
Tax Expenses	(276)	(206)		(343)		(752)	(614)	
PAT	552	482	14.7%	723	(23.6)%	1,577	1,293	22.0%
PAT Margin (%)	8.1%	9.3%		10.8%		8.3%	8.5%	
EPS:								
Basic EPS (Rs.)	5.40	4.74	13.9%	7.07	(23.7)%	15.43	12.74	21.1%
Diluted EPS (Rs.)	5.36	4.71	13.8%	7.02	(23.7)%	15.34	12.62	21.6%

Factsheet

	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18
Revenue By Vertical					
Financial Services	90%	91%	91%	92%	92%
Communications & Technology	4%	3%	3%	2%	3%
Media & Content	1%	0%	0%	0%	0%
Others	6%	6%	6%	5%	5%
Revenue by Service Offering:					
Consulting	46%	47%	50%	50%	51%
Outsourcing	54%	53%	50%	50%	49%
Revenue by Product Type:					
Fixed Bid	37%	41%	28%	36%	38%
Time & Material	63%	59%	72%	64%	62%
Effort Mix:					
Offshore effort	76%	75%	73%	74%	72%
Onsite effort	24%	25%	27%	26%	28%
Utilization:					
Average Utilization	80%	82%	85%	90%	86%

	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18
Clients:					
Active clients	106	97	97	94	90
Number of New clients	-	-	2	1	1
Number of 10% clients	2	2	2	2	2
Revenue from repeat clients >12 months	90%	99%	99%	99%	99%
Top client	41%	40%	41%	39%	42%
Top 10 clients	78%	76%	80%	82%	83%
Headcount:					
IT professionals	6,577	6,852	7,023	7,176	7,785
Non IT professionals	532	475	470	470	500
Total Headcount	7,109	7,327	7,493	7,646	7,285
Net addition	53	218	166	153	139
Voluntary Attrition (LTM)	20%	14%	16%	15%	13%
Cash:					
Cash, Cash Equivalents & Investments (Rs. Mn)	5,254	5,323	5,329	6,528	6,804
DSO (days)	89	81	87	74	73

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. 4,250 Cr.
- As on December 31, 2017, the Company had 7,785 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



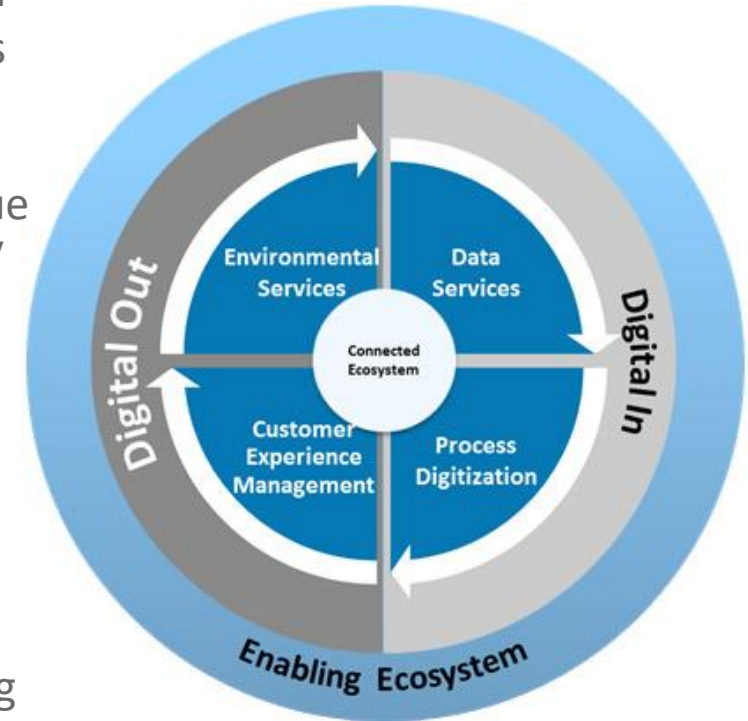
Recent Developments

- 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
- In October 2017, Virtusa proposed for delisting of Polaris, which was approved by shareholders in December 2017

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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