

WEEK GONE BY

- ⇒ The market breadth was strong. Index heavyweight Reliance Industries (RIL) rose more than 3%. Another index heavyweight L&T jumped more than 4%. Metal stocks gained as LMECH, a gauge of six metals traded on the London Metal Exchange gained 2.36% on Thursday, 26 January 2012. Sail, Hindustan Zinc, Hindalco Industries, Sterlite Industries, NMDC, Nalco and Bhushan Steel rose by between 1.09% to 5.45% today.
- ⇒ Data showing stepping up of buying of Indian stocks by foreign funds underpinned sentiment.
- ⇒ IT stocks rose after the Federal Reserve indicated that it would keep rates in the US at ultra-low levels until late 2014 to support US economic recovery. US is the biggest outsourcing market for the Indian IT firms.
- ⇒ US stocks dropped on Thursday, following some mixed economic data, with new home sales notably weak. European stock markets opened lower Friday, as investors paused for breath following strong gains, but increasing uncertainty around reaching a Greek debt swap agreement continued to hamper sentiment. Key benchmark indices in France, Germany and UK shed by between 0.22% to 0.5%.
- ⇒ The Reserve Bank of India (RBI) took liquidity easing measures by cutting the cash reserve ratio (CRR) requirement for banks by 50 basis points to 5.5% from 6% at Third Quarter Review of Monetary Policy 2011-12 on Tuesday, 24 January 2012. The central bank said that as a result of the reduction in the CRR by 50 basis points, around Rs 32000 crore of primary liquidity will be injected into the banking system. The central bank said the large structural deficit in the system presents a strong case for injecting permanent primary liquidity into the system.

⇒

WEEK AHEAD

- ⇒ The U.S. Commerce Department will announce fourth-quarter gross domestic product figures later today. Market participants are expecting US economic growth will strengthen to around 3% in the quarter ended December 2011, from about 2% rise in the September quarter.
- ⇒ Investors' focus is currently on Q3 results. The important results to be announced next week are LIC Housing Finance, and Indian-Bank, ICICI Bank, Punjab National Bank, IDBI Bank, Dabur India, TVS Motor, NMDC, Siemens, Mahindra Satyam, ONGC, Marico, RCF, Corporation Bank, Dr. Reddy's Laboratories, Power Finance Corporation, Hindustan Copper, HPCL, Hindustan Unilever, National Aluminium Company and India Cements.
- ⇒ Important data to be announced in the US next week are: Consumer Confidence, Initial Jobless Claims and Factory Orders We advise investors to remain cautious and book profits at regular intervals.

TECHNICAL VIEW



On weekly basis, Nifty future closed higher by 3.27% to 5212.80. Medium term technical indicators are in buy mode. Current intermediate uptrend will strongly resist at the level of 5256. On down side, level of 5150 and 5080 will act as a strong trend protective support for the short term traders. Short-term technical indicators are in overbought zone, indicating Nifty future is due for reaction. Intermediate trend will resume strongly on closing above 5256 for the next higher target of 5400.

Weekly Wealth

INDICES

| | 27-Jan-12 | 20-Jan-12 | Weekly Chg (%) |
|------------|-----------|-----------|----------------|
| NIFTY | 5,204.70 | 5,048.60 | 3.1% |
| NIFTY JR | 9,811.10 | 9,414.35 | 4.2% |
| CNX100 | 5,074.10 | 4,913.65 | 3.3% |
| CNX500 | 4,085.35 | 3,952.70 | 3.4% |
| CNX MIDCAP | 7,089.65 | 6,803.15 | 4.2% |
| BSE SENSEX | 17,233.98 | 16,739.01 | 3.0% |
| BSE100 | 8,982.13 | 8,698.13 | 3.3% |
| BSE200 | 2,099.47 | 2,031.36 | 3.4% |
| BSE500 | 6,554.58 | 6,344.09 | 3.3% |
| MIDCAP | 5,872.36 | 5,680.07 | 3.4% |
| SMLCAP | 6,491.69 | 6,277.27 | 3.4% |

NIFTY TOP GAINERS (WEEKLY)

| | 25-Jan-12 | 20-Jan-12 | Weekly Chg (%) |
|---------------|-----------|-----------|----------------|
| Idea Cellular | 94.05 | 84.30 | 11.6% |
| Suzlon Energy | 27.25 | 24.60 | 10.8% |
| A B B | 799.60 | 736.25 | 8.6% |
| JP Associates | 72.85 | 67.10 | 8.6% |
| I D F C | 129.55 | 120.55 | 7.5% |

NIFTY TOP LOSERS (WEEKLY)

| | 25-Jan-12 | 20-Jan-12 | Weekly Chg (%) |
|------------------|-----------|-----------|----------------|
| Hero Motocorp | 1853.90 | 1946.60 | -4.8% |
| Sun Pharma.Inds. | 517.30 | 528.15 | -2.1% |
| GAIL (India) | 366.15 | 372.35 | -1.7% |
| O N G C | 272.55 | 275.95 | -1.2% |
| Hindalco Inds. | 142.05 | 143.60 | -1.1% |

WORLD INDICES

| | 27-Jan-12 | 20-Jan-12 | Weekly Chg (%) |
|--------------------|-----------|-----------|----------------|
| Nikkei index | 8,841.22 | 8,766.36 | 0.9% |
| Hang Sang Index | 20,501.67 | 20,110.37 | 1.9% |
| Kospi Index | 1,964.83 | 1,949.89 | 0.8% |
| Shanghai SE Comp | 2,319.12 | 2,319.12 | 0.0% |
| Strait Times Index | 2,916.26 | 2,849.38 | 2.3% |
| Dow Jones* | 12,734.63 | 12,578.95 | 1.2% |
| NASDAQ* | 2,805.28 | 2,769.71 | 1.3% |
| FTSE* | 5,784.77 | 5,738.15 | 0.8% |

FOREX

| | 26-Jan-12 | 19-Jan-12 | Weekly Chg (%) |
|--------------------|-----------|-----------|----------------|
| US\$ (Rs.)* | 49.31 | 50.25 | -1.9% |
| GBP (Rs.)* | 77.49 | 77.82 | -0.4% |
| Euro (Rs.)* | 64.81 | 65.13 | -0.5% |
| Yen (Rs.)100 Units | 64.10 | 65.20 | -1.7% |

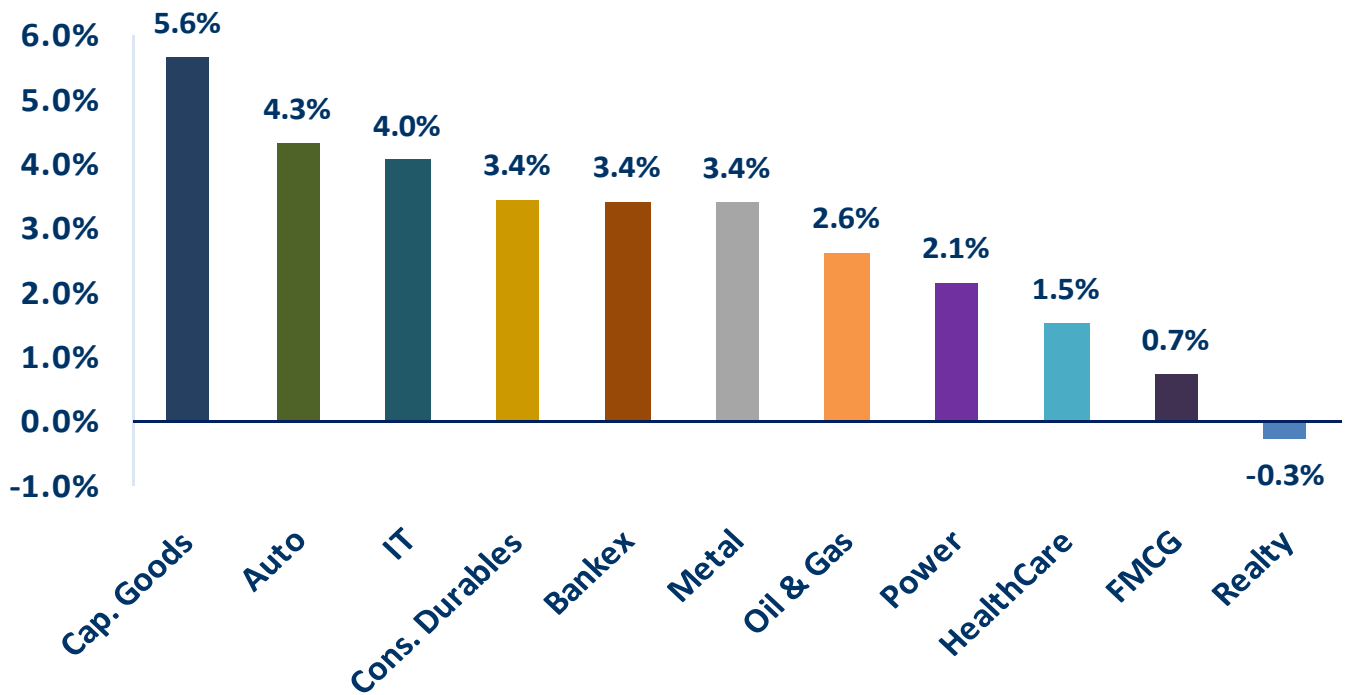
*US & Europe Indices & Currency as per 26th Jan '12 closing

FII - DII ACTIVITY

(In Cr.)

| | Date | Purchases | Sales | Net |
|-----|-----------|-----------|--------|---------|
| FII | 23-Jan-12 | 1,579 | 1,638 | (59) |
| | 24-Jan-12 | 3,011 | 2,210 | 801 |
| | 25-Jan-12 | 3,921 | 2,774 | 1,147 |
| | MTD | 42,777 | 34,999 | 7,778 |
| DII | 23-Jan-12 | 873 | 1,312 | (438) |
| | 24-Jan-12 | 1,392 | 1,655 | (263) |
| | 25-Jan-12 | 1,162 | 1,874 | (712) |
| | MTD | 17,220 | 22,473 | (5,253) |

BSE Sectoral Indices (Weekly)





Weekly Wealth

Prominent Bulk Deals during the week

| Date | Scrip Name | Client Name | Exchange | Deal | Quantity | Price |
|-----------|---------------------------|---------------------------------------|----------|------|------------|--------|
| 23-Jan-12 | Max India | RELIANCE CAPITAL TRUSTEE CO A/C | BSE | BUY | 3,498,404 | 155.00 |
| 23-Jan-12 | Max India | FEDERATED GLOBAL INV MGT CORP A/C | BSE | SELL | 2,507,279 | 155.00 |
| 23-Jan-12 | Indiabulls Real Estate Li | MERRILL LYNCH CAPITAL MARKETS ESPANA | NSE | BUY | 2,853,122 | 63.09 |
| 23-Jan-12 | Orient Green Power Co Ltd | CITIGROUP GLOBAL MARKET MAURITIUS | NSE | SELL | 2,788,752 | 12.00 |
| 23-Jan-12 | GTL Limited | CROSSEAS CAPITAL SERVICES PVT. LTD. | NSE | SELL | 590,190 | 48.29 |
| 24-Jan-12 | Lumax Auto Tech | INDIA MAX INVESTMENT FUND LIMITED | BSE | BUY | 82,441 | 148.00 |
| 24-Jan-12 | Mahan Inds | SHRIRAM CREDIT COMPANY LIMITED | BSE | SELL | 3,870,219 | 0.16 |
| 24-Jan-12 | Max India | RELIANCE CAPITAL TRUSTEE CO A/C | BSE | BUY | 1,749,433 | 155.00 |
| 24-Jan-12 | Max India | FEDERATED GLOBAL INVESTORS | BSE | SELL | 1,749,433 | 155.00 |
| 24-Jan-12 | Max India | FEDERATED KAUFMANN FUND | BSE | SELL | 1,790,066 | 155.00 |
| 24-Jan-12 | EL Forge Limited | CSA HOLDINGS PVT LTD | NSE | BUY | 401,800 | 9.25 |
| 24-Jan-12 | Indowind Energy Limited | PASSAGE TO INDIA MASTER FUND LIMITED | NSE | SELL | 450,000 | 5.27 |
| 24-Jan-12 | Jain DVR Equity Shares | JANUS INVESTMENT FUND-JANUS ORIENT | NSE | SELL | 167,003 | 36.89 |
| 24-Jan-12 | Ruchi Soya Inds Ltd. | MERRILL LYNCH CAPITAL MARKETS ESPANA | NSE | SELL | 2,438,000 | 89.46 |
| 25-Jan-12 | Max India | FEDERATED KAUFMANN FUND | BSE | SELL | 1,704,116 | 155.00 |
| 25-Jan-12 | Areva T&D | GRID EQUIPMENTS LIMITED | BSE | BUY | 90,376,365 | 179.00 |
| 25-Jan-12 | Areva T&D | ALSTOM GRID SAS | BSE | SELL | 90,376,365 | 179.00 |
| 27-Jan-12 | Koutons Retl | IFCI LTD. | BSE | SELL | 325,000 | 15.33 |
| 27-Jan-12 | Prraneta Inds | SHRIRAM CREDIT COMPANY LIMITED | BSE | SELL | 12,601,005 | 0.33 |
| 27-Jan-12 | Fedders Lloyds Corporatio | LLOYD MANUFACTURING PRIVATE LIMITED | NSE | BUY | 870,000 | 55.00 |
| 27-Jan-12 | Pudumjee Industries Ltd | PUDUMJEEPULP & PEPER MILLS LTD | NSE | BUY | 220,004 | 16.05 |
| 27-Jan-12 | Fedders Lloyds Corporatio | SWISS FINANCE CORPORATION (MAURITIUS) | NSE | SELL | 295,796 | 55.00 |
| 27-Jan-12 | Fedders Lloyds Corporatio | SWISS FINANCE CORPORATION (MAURITIUS) | NSE | SELL | 1,165,796 | 55.00 |
| 27-Jan-12 | Koutons Retail India Limi | IFCI LTD. | NSE | SELL | 577,440 | 15.35 |

Weekly Wealth

Learning Curve

5 Questions To Ask When You're In A Trading Rut

A "trading rut" is invariably endured by almost all traders at some point in their trading experience. A trading rut is a point in time where profits are elusive, or losses may even be mounting. These losing or unprofitable streaks can happen to anyone at any time. It may occur because the market has shifted in some way. At other times, it may be because the trader has altered a strategy or is no longer adhering to a trading plan. No matter the reason for the slump, there are five questions a trader can ask to help isolate the problem so changes can be initiated and hopefully a return to profitability will ensue.

The Questions

1. Is the investment product I am trading moving in such a way that it is even possible to produce a profit based on my methods?

Markets continually shift from low to high volatility and back, and ranging to trending and back again. Therefore, what works in one set of conditions may not work in another. A plan may be executed perfectly, but if executed in the wrong market environment it will likely be a losing endeavor. Therefore, traders must consider if their entry points, stop levels, profit targets and money management strategies are viable in the current market conditions. If not, then the trader should avoid trading until conditions are more suitable, or create alternative strategies for the conditions.

2. Am I trading against the trend or with it?

Many traders develop strategies to capitalize on trends. Trends occur on different time frames, and which trends are currently relevant should be noted by the trader. Trading with the trend can be subjective in that a short-term trend is going one way and a longer term trend going the other. Therefore, being aware of multiple trends and deciding which ones to trade is a crucial factor in trading success. If a trend following strategy is being used but is not profitable, traders must consider if the market is even trending. If a trend is occurring, the entry point is possibly too late (close to a correction point) in the move, or stop levels are too close to the price. If the strategy appears as if it should be profitable (but isn't), are the rules of the strategy being adhered to? It may not be the strategy but rather the trader's lack of discipline which is the problem (which is quite often the case).

3. Do I have a set of rules for entries and exits and am I following these rules?

If a trading rut is occurring, it could be because the trader doesn't have a detailed plan for how to enter and exit positions. Are entry and exit rules written out in detail? The details should include how and when trades will be entered and exited. Traders must also question if they have made any small changes in how the plan is traded. An example is entering in real-time as a signal occurs, as opposed to waiting for the close of a price bar, or vice versa. Such a change could shift the dynamics of a strategy.

Also, have the entry and exit rules been tested in some fashion? Or are the rules based on unfounded assumptions? Strategies can be tested through backtesting, paper trading or a demo account if the viability of a strategy is questionable.

4. Am I trading all my signals or only certain ones?

When systems are created, especially if it is backtested, there is an assumption that all the signals produced by the strategy will be traded. If certain traders were filtered out of the results, these same trades should be filtered out in actual trading. Therefore, the trader must ask "Am I following my plan or am I making too many, or too few, trades?" If additional trades are taken, which is not part of the trading plan, the plan should not be blamed. The trader should cease these excess trades until these trades can be incorporated into a profitable system. If all the signals are not traded, this could skew the profitability of a strategy drastically. Traders should check to see if the trades being skipped are profitable ones. If so, trade the signals.

5. Have I created money management rules and am I following them?

One of the most important aspects of trading is money management. Each trade should only expose the trader to a very small amount of risk, ideally less than 1% of the trader's capital. Therefore, if money management rules are in place, are the rules being followed? It is possible that rules may be in place, but in actual trading do losses end up larger than originally planned for? Slippage, or fees, can result in a loss being larger than anticipated, and can wreck a profitable strategy if risk is not properly accounted for. If losses are continually slightly (or greatly) larger than anticipated, reduce position size, switch to a broker with lower fees or stop trading a market where there is so much slippage, risk controls cannot be properly implemented.

The Bottom Line

A losing streak can happen to anyone, and likely will, if trading for a long enough time. A rut can be caused by changes in the market or in how a trader implements their rules. By scrutinizing their system, the trader can hopefully isolate the issues causing the string of losses so it can be fixed. Monitoring markets and determining if the system will even work is one way to do this. A trader should also monitor if they are trading with the trend or against it; if they have entry, exit and money management rules in place; if all signals are being traded and most importantly if all the rules in place are being followed. By examining the market and scrutinizing the trading plan (and how it is implemented), it is likely the cause of the "rut" can be found and the appropriate action taken to remedy the situation.

Company Background

Polaris Financial Technology Limited (PFTL) incorporated in 1993, headquartered in Chennai has a strong global footprint and primarily focuses on Banking and financial services (BFSI) vertical. It offers comprehensive portfolio of products, services and consulting services to BFSI clients globally. The company offers Intellect™ which, is a first pure play Service Oriented Architecture (SOA) based application suite serving retail, corporate, investment banking and Insurance clients. The Intellect™ suite has grown strongly since the last five years of inception, going forward we believe it to continue and contribute significantly to company's top line and profitability.

Investment Rationale

Banking on Intellect platform to derive growth - 'Intellect' suite provides user friendliness

Polaris 'Intellect' based on Service Oriented Architecture (SOA) caters efficiently to Core bank software demand. It provides an efficient web based real-time modular software solution with excellent user interface which enables clients flexibility and customization in respect to their specific requirement and fulfils the criteria of a standardized platform. It also provides a multi-entity solution that can be accessed across countries offering a 360-degree view of a customer and provide a holistic view of data which differentiates it from others. Moreover it does not have the rigidity faced by 'Bank In Box' software products solutions like Flexcube, Finacle, BaNCS. We believe strong features and flexibility offered by Intellect will attract clients in the BFSI space and will drive growth for the company going forward.

Robust deal pipeline & strong clientele augurs well for the company

Polaris has a strong base of clients which includes eight out of top 10 financial firm globally. Citibank is the largest client and contributes ~40% to total revenues. 'Intellect' has strong deal pipe line which currently stands at ~US\$550mn. We believe RBI deal win of US\$55 mn is a big breakthrough which will enable the company to win more deals from PSU and Private Banks in India going forward. We expect Polaris investment in IdenTrust will boost its cloud-computing initiatives, as it would remove major regulatory hurdles which are required for winning Cloud deals globally.

Well placed to benefit from Core Banking Software replacement demand

Core Banking Software (CBS) replacement demand around the globe has gained momentum in 2010 and we expect it to continue over the next few years. While the US will record the largest number of CBS replacements, emerging countries will continue to provide the majority of CBS opportunities as they tend to gain more benefits from core transformations than banks in the west. Thus Polaris is looking to strengthen its foot hold in India and neighbouring countries through deals with large banks. In the last 18 months, it has won ten deals in this region as a lot of state-run financial institutions are upgrading their technology systems to derive demand. Polaris which gets 95% of its Product revenues from APAC and EEMEA is well placed to get benefitted from this trend.

Valuation and Outlook

We believe Polaris will deliver strong revenue growth in products business (27.5% of total revenues) due to strong deal pipeline and decent product portfolio. The services business is expected to grow at 15% CAGR and have margins in lower double digits. However products business which has higher margins in tune of 20-25% and high growth will help the company expand margins going forward. We estimate FY12E and FY13E top line to grow 34.3% and 16.2% Y-o-Y to Rs 21.3 bn and Rs 24.7 bn respectively. The stock currently trades at a P/E of 6.2x and 5.3x FY12E and FY13E earnings which we think is at a discount to its peers considering its high growth rate, strong deal pipeline and high cash and cash equivalents reserve of Rs 4.19 bn (~30% of market cap). We give a "BUY" rating on the company with a price target of Rs 202 (41.9% upside) around ~7.5x times FY13E earnings.

Stock Rating

| BUY | HOLD | SELL |
|-------|------------|-------|
| > 15% | -5% to 15% | < -5% |

Sector Outlook

Bullish

Stock

| | |
|-------------------|---------|
| CMP (Rs) | 142.3 |
| Target Price (Rs) | 202.0 |
| BSE code | 532254 |
| NSE Symbol | POLARIS |
| Bloomberg | POL IN |
| Reuters | POLF.BO |

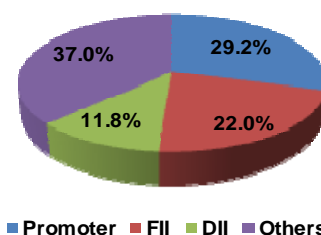
Key Data

| | |
|--------------------|-------------|
| Nifty | 5,204.7 |
| 52WeekH/L(Rs) | 213.9/112.0 |
| O/s Shares (mn) | 99.4 |
| Market Cap (Rs mn) | 14,150 |
| Face Value (Rs) | 5.00 |

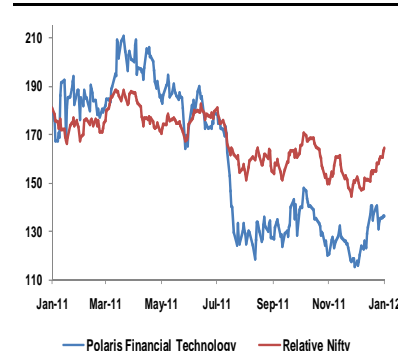
Average volume

| | |
|----------|---------|
| 3 months | 454,190 |
| 6 months | 604,342 |
| 1 year | 794,216 |

Share Holding Pattern (%)



Relative Price Chart



Research Team

research@bpwealth.com

022-61596464

Weekly Wealth

| Key Financials | | | | | Rs mn |
|-----------------------------------|----------------|---------------|---------------|---------------|---------------|
| Particulars | Key Financials | | | | |
| | FY09 | FY10 | FY11 | FY12E | FY13E |
| Net Sales | 13,779 | 13,538 | 15,863 | 21,307 | 24,750 |
| <i>Sales Growth (Y-o-Y)</i> | 25.3% | (1.8%) | 17.2% | 34.3% | 16.2% |
| EBIDTA | 2,335 | 2,220 | 2,139 | 3,273 | 3,799 |
| <i>EBIDTA Growth (Y-o-Y)</i> | 97.6% | (4.9%) | (3.7%) | 53.0% | 16.1% |
| Net Profit | 1,307 | 1,528 | 2,025 | 2,278 | 2,691 |
| <i>Net Profit Growth (Y-o-Y)</i> | 78.5% | 16.9% | 32.5% | 12.5% | 18.2% |
| Diluted EPS | 13.2 | 15.4 | 20.3 | 22.8 | 27.0 |
| <i>Diluted EPS Growth (Y-o-Y)</i> | 77.3% | 16.9% | 31.8% | 12.6% | 18.2% |
| No of Diluted shares (mn) | 98.7 | 99.7 | 99.8 | 99.8 | 99.8 |
| Key Ratios | | | | | |
| EBIDTA (%) | 16.9% | 16.4% | 13.5% | 15.4% | 15.3% |
| NPM (%) | 9.5% | 11.3% | 12.8% | 10.7% | 10.9% |
| RoE% | 17.8% | 18.2% | 20.7% | 18.1% | 17.1% |
| Tax Rate % | 13.8% | 14.3% | 15.1% | 25.2% | 26.0% |
| P/E (x) | | | 7.0 | 6.2 | 5.3 |

Source: Company, BP Equities Research



BP WEALTH

Research Desk

Tel: +91 22 61596464

Institutional Sales Desk

Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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Corporate Office:**4th Floor, Rustom Bldg, 29, Veer Nariman Road, Fort, Mumbai – 400001****Phone- +91 22 6159 6464****Web- www.bpwealth.com**