



“SQS India BFSI Limited Q3 FY16 Earnings
Conference Call”

January 29, 2016



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MODERATOR: **MR. DIWAKAR PINGLE – CHRISTENSEN**



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Moderator

Ladies and Gentlemen, Good day and welcome to SQS India BFSI Limited Q3 FY16 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference call over to Mr. Diwakar Pingle from Christensen. Thank you and over to you, sir.

Diwakar Pingle:

Thank you, Darryl. Welcome participants, Good morning, Good evening based on which geography you are in right now. And thank you for joining us on the Q3 FY16 Earnings Call for SQS India BFSI. Please note that the results and the presentations have been mailed to you. You can also view this on our website at www.sqs-bfsi.com.

To take us through the results and to answer your questions, we have with us today Dr. Martin Müller - Managing Director and CEO, SQS India BFSI; Mr. René Gawron - Director of SQS India BFSI and CFO of SQS Group and Mr. N.Vaidyanathan - CFO, SQS India BFSI.

We will be starting the call with a brief overview of the quarter including the financials given by Dr. Martin Müller after which we will throw open the floor to Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with uncertainty and risks that we face. These uncertainties and risks are included, but not limited to what we have mentioned in our prospects filed with SEBI, and subsequent Annual Report which you can find on our website.

With that said, I now turn over the call over to Dr. Martin Müller - Managing Director and CEO, SQS India BFSI. Over to you, Martin.

Martin Müller:

Thank you very much for the introduction Diwakar and good afternoon to all listeners. As introduced by Diwakar, I would first give you an overview of what has happened in the past three months. I have three main topics to talk about, first one would be, as already announced, the performance highlights. I will give you a summary, not all data in details, but only the highlights. In second part, I would like to inform you about our new delivery center. And third, I would like to inform you and give you some background words on the board level changes.

First of all I come to my first point on the performance part. If you compare, year-on-year basis you will see that we had a very strong quarter from October to December. The revenue compared to Q2 was more or less at the same level. But in comparison to year-on-year, you see that we



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grew around 25% and if you take a look at the nine months' period you will see that we grew in the first three quarters around 19% in the top-line of the revenue. If you analyze the EBITDA in absolute and especially on relative terms, you will see that our EBITDA has varied in the last three quarters of the fiscal year between 19% and 22%, it is roughly trending at the 20% mark and it is very stable. And this is a good indication for future growth that we are growing in a profitable way.

Let's turn to the highlights regarding the regions and practices of all the domains we are focusing on. We added new clients in the banking area that lead us to a higher growth of ratio of European business and consequently the banking pie is now a little more than 52% of our revenue in this quarter. Banking continues to be our strongest domain and is followed by cards and payments where there are not much changes. From a client perspective, we are still at the same level of around 80 active clients, 83 exactly. We see that in the last 12 months we added clients and this grew from 20 to 25 and is now 33. The focus is also on mining the active clients for growth and profitability apart from adding fresh logos.

Let's move to the employee metrics. We are happy to announce that we crossed 1,000 employees in December, all of whom are practice employees which means operational people and not including the non-billable staff. We are also happy that our attrition rate which we discussed in the last call at about 20.9% has come down to 19.2%.

The next topic is the new delivery center. You have heard my comments on revenue growth and also on the stabilized EBITDA, and this is an indication that we are on the growth path and therefore we have taken additional space on lease in Chennai. This facility has a maximum capacity of around 250 seats and it will be ready for operation from May 2016 onwards. The delivery center will be compliant with pre-described quality standards we have and in addition it is also in the same building where we have already our main 400 seater delivery center at Old Mahabalipuram Road in Chennai in the Prince Info City-II.

The third point also pertains to myself personally. If you have read in the announcements that we have some organizational changes in India BFSI. Post the acquisition of the majority shares of the company by the SQS Group I was appointed as a Managing Director and CEO in 2014, I joined the Board of Directors of the company as a nominee of SQS Group and I took over from there the responsibility for the company's operations. In the last two years, we have worked as a team and have seen the Company make progress by growing in a profitable manner along with the entire group. It would be important to mention that currently we get about 10% of our business coming via the group where we deliver our consultants to projects of the SQS Group. And my focus was also to facilitate transitioning and integration activities to ensure synergies with the Group and the responsibility included of course also succession planning for the senior management team. And having successfully accomplishing these tasks I would be moving back to Germany by end of March and would step down as a Director from that moment onwards.



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I am very happy to announce that I have found a very good successor in Mrs. Aarti Arvind. She has been nominated as Managing Director and CEO with effect from the 1st April, 2016. And in addition, I would also like to announce the nomination of Mr. Vaidyanathan N. as Executive Director also with effect from 1st of April 2016. Both are long-term employees of SQS India BFSI or Thinksoft in the former times and they have been with the company since then in several positions. Mr. Vaidyanathan joined as a CFO and was responsible to develop the company from a compliance and finance related perspective including the task of taking the Company public which was done under his leadership. And also, Mrs. Aarti Arvind has had a stint of 15 years with the company and she is a part of my senior management team right now and is heading the operation and has therefore a very-very broad experience also in most of the facets of our business.

These were just those three points from my side and I would now like to hand over back to Diwakar and I am looking forward to your questions.

Diwakar Pingle:

Thank you Dr. Martin. Darryl, now we can throw open the floor to Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We will take our first question. It is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain:

To begin with, I have a couple of queries. Firstly, if you could give what is the constant currency growth for the quarter and what could have been the probable impact of Chennai floods or holiday impact in the quarter?

Martin Müller:

Yes, of course Chennai was heavily affected by the floods but fortunately we were on a very safe place in that way. We were affected by two major things, first thing was electricity which breakdown at that time during the floods, we had to operate on diesel mode with the generator, but there is also limitation because diesel was only limited in availability. Second part was, the employees had the problem to come to office because they were not able to travel from home to company. What impact does it have or had at all? It was around 2.5 working days we were not able to deliver but we covered this short fall on working hours in the second half of December because we were able to work for two days on Saturday. There were two Saturdays which we declared as working days and therefore we were more or less able to recover the loss of working time.

N.Vaidyanathan:

On constant currency growth Rahul, in terms of US dollar year-on-year compared to quarter ending December 2014 vis-à-vis 2015, there is a 17.4% growth. Compared to the previous quarter ended September 2015 to December 2015 it is almost the same, at \$10.2 million for both the quarters.



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- Rahul Jain:** Sir this is the dollar reported, but given our high Europe revenue would this be very different from a constant currency perspective or it is highly dollar built only?
- N.Vaidyanathan:** We have different currencies, we have GBP, Dollar and Euro. As you would see in the last quarter there have been different movements in the three currencies, they have not moved in the same way, but we are pegging it to dollar right now for this purpose.
- Rahul Jain:** And in the opening remarks you have said 10% of the revenue from parent, that percentage has remained same in this quarter or has it moved up or down?
- Martin Müller:** It went up a little bit month-by-month, but it is still in that range of that 10%. I think this is a good development especially if you look when we started in January 2014 it was 0 and now it comes up to a yearly run rate of around \$4 million. This is a good development and we are just in the middle of that wave.
- Rahul Jain:** You mean to say the exit run rate probably, maybe the December number could have been better but the full quarter number is similar. And also there has been very strong addition from employee addition perspective during the quarter, good 100-odd people addition, what is the lateral fresher mix in this and what is the typical time gap before we can see these people turning into billable?
- Martin Müller:** You are absolutely right, and this is also what I announced that across the 1000 employees we added a lot of freshers because we wanted to start with new engagements.
- N. Vaidyanathan:** In terms of lateral additions during the quarter about one-third of the additions have come from lateral, the rest are freshers.
- Rahul Jain:** And earlier quarter you have said that some 50-odd people are learning German language and all, is there any more progress on that kind of program, when we see these people start getting billed and all?
- Martin Müller:** You are mixing it up a little bit, first we were talking about the people we added and now you are referring to what was already announced in previous calls that we trained around 50 people in German language. We are getting ourselves prepared for offshoring work which might be in German language, but we will have to wait and see as to how this develops. We do not have any client currently that is asking for 50 people speaking German and we view this as only the first touch with the German language.
- Moderator:** Thank you very much. Our next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.



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Dhruv Bhatia:

I had a couple of questions, the first was, Dr. Martin if you could explain, what is the competitive environment like for SQS's fleet of services? What kind of company especially specialist companies do you run into when you meet your customers? And the second question was, what percent of your Indian company revenues are derived rather from SQS Germany or from relationships introduced by SQS Germany which require constant interaction between the three as a client, SQS Germany and SQS India. Thank you.

Martin Müller:

Starting with your first point, as you know we are positioned as independent testing company, we are focused on testing only. If you regard all software development cycle, we are focused on testing and in India BFSI in addition we are focused on BFSI, we are very specialized and our competitors at the client side, is more on the system integrator side. We are different in the sense that we are offering niche services, but if you ask who our main competitors are, we are competing primarily with the system integrators. We also come across other independent testers but these companies if you look in the market are very-very small. As we are really growing and we have a footprint in the testing market. We are mostly competing with the system integrators like Infosys, Wipro, IBM, Accenture and so on.

Dhruv Bhatia:

Maybe one additional point, what is the basis of you winning so much more other than the fact that you are a specialist testing company, what is the area of differentiation which you think makes the difference in you winning contract? And as you mentioned just now some dominance, could you just give us a sense of how you are able to dominate this market also? Thank you.

Martin Müller:

We are different to the system integrators as we are doing only testing, we can ensure that 4Is principle in the work which is required. If a system integrator is doing the requirement engineering, is doing programming and is also doing production in going live work and testing, then you have no 4Is principle. Our main USP is that we offer independent testing service and that's what separates us from the others.

You had also second question, what was it about, was it about Germany, can you repeat?

Dhruv Bhatia:

My second question was, what percent of SQS India's revenues come from SQS Germany? And if there is any additional part where the revenues are not directly from the parent, from a client which involves working with SQS Germany as well?

Martin Müller:

I spoke about it. 10% of all Group revenue and from Germany, if you ask specially, there is 0 right now, but we have from the Austrian market where we do some in the area of banking.

Dhruv Bhatia:

And that is some work which SQS India is doing together with SQS Germany, is it?

Martin Müller:

No, with Austria. It is also German speaking but it is Austria.



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Dhruv Bhatia: There is nothing from SQS Germany. The question was really are there any relationships with SQS managers globally and the Indian company just gets the Indian piece or all the businesses are directly marketed and won by SQS India?

Martin Müller: See, this 10% is across the globe, not only India but both onsite as well as offshore. Wherever we have customers, we do the service for them, whereas we also do service for SQS AG for their customers that is amounting to 10%. It is not only offshore, it is both onsite as well as offshore.

Moderator: Thank you. Our next question is from the line of Vimal Gohil from Union KBC. Please go ahead.

Vimal Gohil: Sir my question is again revolving around the joint projects, just wanted to know the management's view on where, we are currently at 10%. Where does the management see this number going up to in the next two to three years? That is point number one. Secondly, what is the pricing scenario likely in testing services because as we said we are operating in a highly competitive environment, so we being the leader are we able to command that much more premium vis-à-vis our competitors? And sir, testing being a very actionable service, so is it that we are trying to bring more and more projects in Europe and US to India especially? So these are the three questions I have, thank you.

Martin Müller: Yes, as I said there is 10% increase from 0% two years back. As I said there is a way forward to enhance that business, but I cannot give you here right now an exact percentage, but we are working on that. And it would be based on what is the scenario, how we would like to deliver, also like we touched that point which came before, on the competition, what we do different. We move our business more and more in the direction of managed testing service contracts, which means we are moving away from the traditional time and material business. As we are a specialist and have the long-term experience, we are able to close managed service contracts which are output based and which are not based only on people's head. This development is still going on and this also allows us a little bit more flexibility regarding the starting of the projects, development of the project, doing more offshore. We have much more flexibility in those deals than on a time and material deal which is mostly focused on a certain person at a certain place.

Vimal Gohil: And what about the pricing sir, because we are the leaders globally. Are we able to command that much more premium for our services vis-à-vis our competitors?

N.Vaidyanathan: To answer you differently, the blended billing rates over the last year and current year has not seen any change. We have been able to get the proper rates as our services demand. But it is not same from customer to customer, it depends on the project and the type of services that we render.



Moderator: Thank you. Our next question is from the line of HR Gala from Pranav Advisors. Please go ahead.

HR Gala: Sir from the technological perspective and the delivery perspective, can you just tell us what are the emerging trends in the software testing space?

Martin Müller: In software testing area the main trend which we also talked about in previous calls is automation. Automation is the main driver. If we are working on a managed testing service contract, then we also have the flexibility or more flexibility to turn from a pure manual testing to automated testing. This is a real-real big difference and we are also forcing that. We would not wait for customers ask, we talk to them about automation. We are just introducing it to them. We give them examples how other clients are driving that and so on. The other main trend is how software is developed and deployed, we have much more demand regarding the agile development of software. And there is also the testing part, really different from small circles you have to run, than in the waterfall method which is the traditional one. These are two main drivers but of course we have also in the area of BFSI a lot of technology driver factors which are good for our business. For instance, in cards and payments, which adopts technology really quickly we follow or have to be ahead of the curve in those trends in the market. But we are also in the financial area drivers which come from more regulated perspective. There are a lot of new rules in place, not only in India which is very driven by those laws which might change but also applies to the whole financial service sector and these are multiple influencers which are good for our business.

HR Gala: Sir to what extent the cloud is relevant for our space, software testing?

Martin Müller: Yes, of course, good that you mentioned that. We are not ignoring the trend. We are also looking for cloud based testing.

HR Gala: So going ahead does automation and other things scope to increase the non-linearity to the revenue?

Martin Müller: Can you repeat it please?

HR Gala: Yes, my question was, as we develop more ITRs around the automated processes, does it give us scope to increase the non-linearity in revenue without having to add the matching number of people?

Martin Müller: Yes, we have to follow trends. The trend is, the market prices or what a customer is able and willing to pay for services is under pressure. We try to be on top of that we would also be able to increase margin based on this trend where a lot of pressure is in the market.



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HR Gala: Technology, now this was the next question. Sir the parent company has acquired Trissential and Galmont and they feel that this will open up new markets in US. How that would become relevant for us because our share in the revenue from US market is not that high as in Europe?

Martin Müller: Good that you touched that point. As we already stated, US and Europe are our main focus areas. We are strong in Europe and we are setting up and improving the business in US and therefore it also helps India BFSI that the Group acquired those two companies you mentioned. You mentioned Trissential. Trissential is predominantly focused on project management in the IT areas but the advantage for us is that they are serving very-very big and interesting logos, if you go on their website you will find some clients there and these are very-very good entry points for us also. Galmont is focused on onsite testing. But having both companies' presence in the US gives us a very good footprint with a significant run rate of revenue and this is important especially in the American market. You can show where you are present, whom you are working for etc... It is much easier for us to have a market entry now with those two companies added. But I also would like, René perhaps you can find some additional words on that.

René Gawron: Yes, one thing I would just like to add, with the acquisitions we did in the US, we now have a revenue run rate in the range of \$70 million to \$75 million annually. Two years ago this was only \$10 million. So we now do have a really good presence. We have about 60 to 70 active clients in the United States and as Martin rightfully said there is a number of those where we are making proposals, making pitches for insurance, banking, financial services clients. So I expect that now with a stronger footprint we will see more business also for BFSI coming from the US market.

Moderator: Thank you. Our next question is from the line of Kunal Thanvi from Centrum. Please go ahead.

Kunal Thanvi: Sir if I look at the SQS Group as a whole it has two subsidiaries in India that is SQS India BFSI Limited which is your listed entity and SQS India Infosystems Private Limited, so are they into the same business? And if yes, how does company manage to not overlap the businesses between both the companies?

Martin Müller: Both the companies in India have different history. Let's focus first on Pune entity which we have there. It is almost more or less right now at the same size, around 900 employees but they are focused on a different market. Different market of testing means they are focused on other branches than BFSI. They are doing everything which is not BFSI which includes manufacturing, retail, telecommunication and they are focused on these markets. But as I said this company has a different history. Right now it is more operating as a delivery center, compared to that India BFSI. Formerly Thinksoft was a company running on its own, having its own sales, having its own pre-sales, really internationally globally working with onsite and offshore. This is the main difference. I would like to refer to René Gawron. He can sketch here some more strategic views from the SQS Group.



- René Gawron:** I think the key thing is what Martin said. We do have a clear distinction on which delivery center and which competence center from India focuses on what industry as a vertical and if it is BFSI it is actually India BFSI. If it automotive manufacturing, retail, logistics, telecommunications, it goes to Pune. And in fact we have changed Pune in the meantime to replicate some of the positive things, the Chennai operations has always been doing BSFI and industry lead of automotive manufacturing to Pune. Also the global retail, logistics and retail support will be from Pune. We have moved it now already away from the stream of procurement that have got in the past.
- Kunal Thanvi:** So there is no overlapping in the revenues or any business that these two entities are into, right?
- René Gawron:** No.
- Kunal Thanvi:** And if I want to see a big picture from two years from now, what is the kind of growth that the company expects in India BFSI Limited?
- Martin Müller:** We are giving no future numbers, sorry for that. We are talking about trends, I showed you where are we coming from. We also say that we are going on a growth path but we cannot give exact numbers as to how we see the business or how we plan business and those topics.
- Moderator:** Thank you. We will take our next question; it is from the line of Rohan Shah from Kroma LLP. Please go ahead.
- Rohan Shah:** So I have two questions, the first one is, you signed some MSAs in the preceding two quarters with some big logo names, have these become billable and if not then when do you expect them to become billable? The second question is, it is a broad question on the US BFSI market, if you could just give us what is the size of that market and who are the participants and how are we placed as Indian BFSI company to tap that market? Thank you.
- Martin Müller:** Yes, we have recently won MSAs which allows us to step into business quite early in that area and especially in the US. When you are asking about size, perhaps it gives an answer why are we so much focused on US. If you look at the whole testing market, 50% of the testing market is BFSI of the whole world's testing market and more or less also 50% of the whole testing market is US. If you combine both percentages, you can have different views as to what is the absolute number. But nevertheless it is a huge-huge market for BFSI in the US and therefore this is our focus region and there we see the biggest growth rates compared to all other regions we are driving.
- Rohan Shah:** And sir in the preceding two quarters you mentioned about those MSAs, have they become billable in this quarter?



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Martin Müller: Yes, I will not give you client names and numbers on specific clients, but the answer is definitely yes.

Moderator: Thank you. Our next question is from the line of Ishan Agarwal from Irevna Capital. Please go ahead.

Ishan Agarwal: Sir my question relates to our new facility of the SQS Group which was inaugurated in Pune this week which has a capacity of 1100 employees. So are we looking to operate the BFSI vertical from there in the future?

Martin Müller: Yes, this is an option, yes, of course. But as you have seen we are going in two directions, we add people in our own office which we own in Prince Info in Chennai but we are also looking for future expansion in order to make use of synergies in Pune. We are going there also.

Ishan Agarwal: And my second question relates to the addition of capacities. If you could help me with how our seating capacity as of now has broken up, like the press release mentioned that we have a total of 1050 seating capacity after the new capacity comes into play. So the entire 1050 is based out of Chennai as of now?

Martin Müller: I will just give you rough numbers, perhaps Mr. Vaidyanathan can correct me and give me the exact numbers, but I shall tell what I have in mind now. We are in Prince Info at Chennai at the Old MR. We have around 400 seats for operation, 400 testers are working there, this is nearly fully occupied. We have the specialty in our business, we cannot share space and people. It depends on the projects and the project structures and clients. If we have a banking client, you cannot bring another banking client in the same room even if there is additional space available. We have some restrictions and we would need to ensure all those Compliances. Then we have around 350 seats in the Special Economic Zone in Tambaram (MEPZ), it is around 300-350 people and then we are looking now for that additional 250 seater which is in Prince Info. We have in addition, as you know the capital market practice which is in Mumbai and we have there a 80 seaters office.

Ishan Agarwal: And if I could squeeze in the last one, for example we have grown around 25% in terms of employee count from last year from 800 to 1000 in terms of the billable staff, so what is the target for next year?

Martin Müller: We will grow it gradually. In the new 250 seaters, we will populate it step-by-step. So it will be available for occupying in May 2016 and then it gives us some room to grow in that area there.

Moderator: Thank you. We will take our next question; it is from the line of Pranav Mehta from Value Quest. Please go ahead.



Pranav Mehta: We have seen strong employee addition this quarter. If I compare quarter-on-quarter, it is like 11% growth on headcount whereas our revenue numbers are pretty much flat. In terms of employee expense, the same has also increased by just 4%. So is it fair to conclude that most of this employee addition would have happened towards the end of the quarter, so you expect to see the benefit of revenue growth in subsequent quarters?

Martin Müller: You are correct on the timing of the people addition. There is a phase lag in terms of hiring the people and them becoming project ready and this takes time from let's say eight weeks to three months.

Pranav Mehta: And can you just help us with the onsite offshore mix for the current quarter?

Martin Müller: Onsite offshore mix was the same as last quarter - we still have a ratio of 60% onsite and 40% offshore referring to the revenue.

Moderator: Thank you. Our next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: My first question is, if you can share the split of revenue that is coming from T&M versus technology or other mechanism there you are essentially growing the non-linear revenues?

Martin Müller: What was the question around, the share of time and material and fixed bid and managed service, or what is the question?

VP Rajesh: That is right, just trying to understand the portion that is coming from linear revenue side, maybe you have to add more people to deliver that service versus non-linear revenue.

Martin Müller: We do not understand the question, sorry for that. Your voice is not very clear and also from your words I do not know what you mean.

VP Rajesh: Well, let me ask the other question if you can hear me better now. So my second question is, we were talking about the competitive landscape, I heard you say that you compete with other system integrators. So the question is, the clients do not they want to use an independent vendor like yourself for the testing when the majority of the projects are being done by the big system integrators? So just trying to get more understanding of the landscape.

Martin Müller: This is our challenge, our job and our task to convince the client that this is really an advantage against the system integrators. But to be honest, if you have a client in front of you saying I want to have everything delivered on the project from A to Z therefore he goes with the system integrators, this is not our job. But as you can see our business is growing and the company and the industries which we are serving are looking much more at independent testers. We are



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convinced at, this is our value proposition, that we can deliver and ensure this 4 Is principle against the system integrators.

Moderator: Thank you. Our next question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini: The first question is on the top-line front, the top-line has been flattish for the last three quarters so to say, \$9 million and \$10 million each in the September and the December quarters and earlier we had indicated in the previous interactions that there were issues of the erstwhile clients of Thinksoft wherein we were not really happy about the revenues that you were generating from those clients and you consciously took a decision to weed off those and then concentrate on more revenue generating clients. So I just want to understand if that process is done with, have we discontinued the unhappy client set over there and what is the progress? Or when can we expect some kind of traction on this growth in the top-line as such? And this 10% share of SQS Global to the India entity, I think this number is fairly constant for the last two quarters if I remember. That is my first question.

And the second is on the automation part of the testing. As a business how is that impacting us and how do you think the cost dynamics are changing because of this automation coming into place? And how are we trying to address this? Are we looking at more partnerships, trying to buy tools or build them on our own or how is it that you are approaching this automation? Thank you.

Martin Müller: Two different questions you raised, first one is on the growth. If we look year-on-year per quarter, we grew since the acquisition happened. And if you also see, as I stated, we are at the second time above the 10 million, of course we also said 9 million was in the first quarter of the fiscal year, that is true but that is development and we always stated also in earlier calls and in other discussions with analysts and with investors, we are looking for real profitable growth. We have to ensure that the growth is going hand in hand with a profitability. This is what we are looking for and this is the way we want to drive the company in the near future.

Coming to your second point on automation, we have our own automation framework in place and we did a lot of work on that because of course the SQS Group has also in the past developed an automation framework. We put both together in order to deliver our clients globally in the same manner on the same framework. Of course we are open and look what the market is also offering to us, but up till now we do the automation with our own tools.

Manju Bhashini: Just on the growth part, so do you think the issues with the erstwhile Thinksoft clients of not so great mining potential there, is that resolved now or are we continuing to see that hamper our growth rates even now?



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Martin Müller: To be honest, this work is never done. You will always have a look on how you deliver and deploy the people to the work. We always look at those clients which have no potential for us. We are not saying no to those clients but if you are in a situation and you are also seeing that utilization over the last two years improved where we have to make a decision as to where to put the next content which is available, we always look that we serve those clients where we see the best potential to grow on a managed service base to a certain level.

Moderator: Thank you. Our next question is from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya: My first question is, Martin, I wanted to know more on this 250 seat new facility which we had done, so basically this is for some new engagement, can you just put some light in which geography and what is the area in this?

Martin Müller: It is not done, it is not ready, we are working to get it functional from May 2016. And this gives us the option to have a realignment of people as it is in the same building as our 400 seater where we are predominantly working from. While it is for co-existing clients, it is also for new clients. We always try to optimize the work in this way to deliver the best and that the people who are working for one client have the best option or the best possibility to work together. We also create different cabins of different sizes. That means upto 20 seater or 25 seater we have to see how to arrange those rooms in the best way to serve our clients.

Amar Maurya: But then nothing is for the immediate engagement, right, it is just the planning in the line where we can...

Martin Müller: No, it cannot be immediate, we can only start that in May. Right now we do not have to say no to a client because we are fully occupied. But we see that the business is going on. Therefore, we decided that we are now confident that this is the right time to decide because when you take the decision to have a new place you need to time in order to set up everything.

Amar Maurya: Second is on this Galmont, I mean this is a testing company and given the size of SQS BFSI and the Galmont, so now we have the onsite center in terms of Galmont and then we have a tested offshore center in India, so how the US go-to-marketing strategy is working for us and can we see, by when we can see some offshore coming from the Galmont side to SQS BFSI India?

Martin Müller: To make it quite simple, this is not the way it will work. We also said this earlier when we talked about the German market. If you have one client and that is in the category of onsite and they are not open to offshoring or do something out of their premises, then you are lost. What is important for us is to win new clients and together with a whole group of SQS and have them already in the right category. Right category can mean we start with onsite but this should be a client which is open for doing offshore work, this is what we are looking for.



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Amar Maurya:

So sir wanted to understand like how this whole US strategy of expanding primarily on the testing as well as now two companies are already, I mean the size is there in the US to show, so how the US strategy of growth is coming up and is that something like what we had got from SQS BFSI parent, is that something that could be offshored to India in terms of Galmont also?

Martin Müller:

Yes, I can give you only the same answer as I already gave to you. There is nothing which we can say now. Like the client from Galmont, in the past they were predominantly focused on being delivered from US Galmont has also in Kentucky initial test center. But those clients were not coming that time to Galmont because of having offshore in mind. Those clients are much harder to transfer or to be attracted for offshore work in India than new clients. We see more of the opportunity in winning new clients in the new bigger set up with those two companies Galmont and Trissential to have, to show to the US market their presence and that we have as René said, run a business between 70 million or 75 million overall in US. This is supporting and helping us but it is not driving the work away from us. We have to do our sales homework there. But we also have their very good joint sales team out of all entities in the US and this is really helping us in order to win new clients. And as I said, we have this 70 million - 75 million business which is running there and has a really good client base. We are first focusing on those clients and also on those clients which were already in the sales funnel of those two companies. this is quite our focus and work we are doing there with sales and in addition with our pre-sales because we have to convince the client not only saying offshore, we have to convince them by content, we have to bring them the value added and this is what we are now working on.

Moderator:

Thank you. Our next question is from the line of Rohan Advant from Multi Act. Please go ahead.

Rohan Advant:

Sir, the revenues of our parent are around EUR300 million of which BFSI revenues are 50% or EUR150 million of which 50% is German speaking, so non-German speaking would be EUR75 million which would translate into a Rs 550 crores opportunity of which we are Rs 280 crores. So essentially there is an opportunity to double the revenues by getting more business from the parent. Our EBITDA margins are around 20% versus 8% for the parent, so even adjusting for the lower shareholding that the parent has in the Indian subsidiary this should be profit accretive. So I wanted to understand what are the qualitative challenges that the Group faces in terms of transferring more business to India qualitatively?

Martin Müller:

Yes, you have mentioned rough numbers but they are fine. It is around EUR300 million business, a little bit more would be for the last year, but nonetheless it is 50% BFSI. You are absolutely correct but it depends also on the structure of the project you find there. Of course you can segmentize it in German speaking and English speaking but if you find or if you have a client you have to see how you could develop them or open them for offshoring. To be honest, all BFSI business which will be offshored will be done by India BFSI, this is our strategy. So wherever this is possible, when we come to that stage, when we can have this appetizer of starting with some offshore work in such client environment, we will do so. There is potential.



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You are absolutely right and we are also looking at that and I never said that 10% of the revenue is a very-very good number. I just mentioned that we started from the scratch and we have to now reached those \$4 million yearly revenues within the Group or coming from the Group's client and we are also going-on on that

Rohan Advant: Sir, I mean are we more open to outsourcing of new business versus existing business or we are indifferent towards what business we offshore?

Martin Müller: We go both direction, but as I also mentioned before, we have to see if we win a new client and this is quite important not only to add clients and do some onsite time and material testing work, we segmentize the potential clients in that way that we predominantly drive those clients which have a global presence, which really have global business and are open also in other areas for international global services. This is the way how we look at our clients.

Moderator: Thank you. We will take our next question, it is from the line of Zaki Abbas, Individual Investor. Please go ahead.

Zaki Abbas: In this quarter there was 15,000 ESOPs granted, the accounting policy of this has been followed, what percentage of the employee benefit expenses are due to this ESOP?

N.Vaidyanathan: See, the company follows an ESOP policy by which the grant is being made and there is a vesting period of 40% and 30% and 30% over a period of three years. And the grant price is the price differential between the market price and the grant price for the purpose of perquisite and the employee pays the perquisite tax. So as it is for the company concerned there is no charge to P&L account.

Zaki Abbas: And one more question is, when would we expect the American business to pick up, to extent from what it is now, a couple of quarters from now?

Martin Müller: You would not see an explosion. You will see there a gradual development and we are just working on that. Yes, there is a potential and we will work on that and you will see that also in the next quarters, I would not announce and say it will be in the next quarter. It needs time to develop but we cannot repeat it again and again or we can repeat it again and again, US is our focus market.

Moderator: Thank you. Due to paucity of time we will take our last question, it is from the line of Ketan Chaphalkar from Zephyr. Please go ahead.

Ketan Chaphalkar: I just want to understand what is the kind of repeat business we get from our existing clients?

Martin Müller: Repeat business is around 85%.



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Moderator: Thank you. I would now like to turn the conference over to Dr. Martin Müller for your closing remarks.

Martin Müller: Thank you very much for your interest to listen more than one hour, it is now 70 minutes we are on call but I really appreciate it and it always shows me how close you are on our business and how you see and acknowledge what we have done in the past and also those future related questions show me that you really want to see the development and want to know more. I really thank you for the broad questions and wish a nice evening and also a nice weekend and all the best from my side and that it is always a pleasure for me to have that call and answer your question. Thank you very much and now back to Diwakar.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of SQS India BFSI Limited that concludes this conference call. Thank you for joining us and you may now disconnect the lines.