"SQS India BFSI Limited Q2 FY17 Earnings Conference Call"

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MODERATOR: **MS. ASHA GUPTA – CHRISTENSEN**

Moderator: Ladies and Gentlemen, Good day and Welcome to SQS India BFSI Limited Q2 FY17 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 '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Asha Gupta from Christensen IR. Thank you and over to you.

Asha Gupta: Thank you, Zaid. Welcome to all of you who joined us this Q2 FY17 Earnings Call for SQS India BFSI Limited. We have emailed the results and the presentation, and the same is also on your website. In case any of you who have not received, you can write to us and we will be happy to send the same to you.

To take us through the results and to answer your questions, we have with us today Ms. Aarti Arvind – Managing Director and CEO, SQS India BFSI and Mr. N. Vaidyanathan –Executive Director and CFO, SQS India BFSI.

We will start the call with a brief overview of the quarter which will be given by Ms. Aarti and this will be followed by a deep dive into the financials which would be given by Mr. N. Vaidyanathan. After which we will throw open the floor to Q&A.

I would like to remind you that everything that is said on this call, and any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with uncertainties and risks that we face. These risks are included and are 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 to Ms. Aarti Arvind – Managing Director and CEO, SQS India BFSI. Thank you and over to you, ma'am.

Aarti Arvind: Thanks, Asha. Hello, everyone. Thank you for joining the call. As Asha mentioned, I will be giving an overview of the business performance for the quarter and then Mr. Vaidyanathan would take you through the financials for Q2.

We have had a relatively flat quarter, but have grown marginally on a year-on-year basis. And I would be sharing with you some of the key highlights in different areas so that you get an understanding of how we have done and what we have done.

In terms of revenue, we closed at close to $10.22 million which in constant currency terms would be $10.5 million. During the end of the first quarter we had the Brexit vote taking place and the impact was more felt during the second quarter because it was for the full quarter. All the months were affected by the depreciation of the Pound. This impacted our revenue to a tune of close to $300,000 for the quarter. On a year-on-year basis, we had a revenue growth, of 3% while on a quarter-on-quarter basis revenue was low by around 6%. In terms of revenue, as I mentioned one impact was Brexit and other was global uncertainty in terms of decision making which had an immediate impact in terms of FOREX fluctuations and changes in revenue projections.

In terms of region mix of revenue, there has also been a slight change compared to the previous quarter. We have had more revenue in India business, with the region growing by around 15% in terms of revenue. Other regions have remained relatively flat while we had slight decrease in Europe. And this was more project specific where we had two of our large clients, where certain projects were towards the end of the project milestone. So these are planned decreased in terms of revenue from those clients. These are our long-term clients with whom we have been working with for multiple years. So, based on their requirements and quarter wise schedules and project schedules things vary, this was the primary reason why we had a slightly lower revenue in the quarter in Europe. . Most other regions have been quite stable in terms of revenue, not very different from the previous quarter. We continue to focus on the US, though if you look at revenue it is at the same percentage. And at a Group level we have had some success in the non-BFSI space through one of the acquisitions we had made last year in the space of management consultancy or program management. And we expect that in the coming years we will have more BFSI clients also whom we can acquire through a similar model by similar capabilities and leveraging the competencies already there.

Now going to the onsite-offshore mix, we had offshore revenue going up by 3% while onsite revenue went down. This is primarily due to project that we had with a Spanish client which has been there a year and a half or so and where based on the project schedules we had a ramp down in the onsite team. We are looking forward to this client off-shoring more in the future which will help us in the long run in terms of having more business and also improving our margins from the profitability point of view. And this specific client is in the cards and payments space.

I had mentioned earlier that the market for independent QA was growing in India and ties in with the fact that we had more revenue from India. We have been able to make inroads into new clients as well as mine more with existing clients and increase our footprint. So this is a market that we continue to focus on because there is also quite a bit of a traction in terms of technology adoption and investment in India right now and we want to make sure that we maximize what we can deliver in this market because it is a market where lot of new technology comes into the play, new versions of different applications are launched first. So it is quite an important market and we will continue to focus on India. This is just a little bit about our region wise focus and what we will be looking at. We also had an initiative in DACH which is Austria, Switzerland

and Germany where we had specific teams from India participating along with the local sales teams and focusing on initiatives which will link to how do we get more revenue from existing clients as well as future potential, and to come out with a plan in terms of how we would do that. So this is going to be a focus market for us to also see next year in terms of growing the DACH region. This is quite important for us in the coming year. This is a bit about the regional focus.

When you talk about practices, we have had strong growth in the insurance practice. We talked about the insurance practice growing well in UK earlier, that trend continues and we have also made some inroads in certain Asia-Pacific clients in insurance, so this is doing well. We had a lower revenue from cards and payments and that is primarily because one of our customers in Spain that I mentioned earlier, where the onsite teams ramp downs were there. And this has resulted in both cards and payments as well as onsite revenue in Europe going down a bit. This is a bit about our practice wise or vertical wise revenue split that we have.

In terms of the revenue from the Group, it was around 15.5%. We had a bit of lower revenue from certain clients which were onsite engagements and we are coming to a closure, so the onsite team ramp down. But we have had good traction in multiple geographies in Austria, South Africa, Egypt, UK and now we are focusing on DACH. Even though lower revenue was attributed more to onsite decrease, we have had good traction in other accounts which are growing in a very steady way and it is a mix of revenue, both onsite as well as offshore. We see good potential in this going forward as well.

On the people side, just to update you, we have had some senior people joining us to strengthen our practice focus as well as to work with the regional teams on the right solutions and be more market focused. So, we have made some investments in people to support us in future growth, to create a good base for us to develop our capabilities and bring in a bit of technology focus which is very critical in the current QA environment. So, this is something which we have done and we feel that this will help us in the long run. The plans were there for the last six months or so and now they have joined us, is a positive development in terms of the people and the capability front and what we are adding at senior levels over here.

On the people side in terms of utilization, utilization was marginally higher at 68% compared to the previous quarter of 67%. It is a slight shift but what we also had is with the change in onsite-offshore ratio as well as region wise split, so this resulted in a certain revenue mix change which we had during the quarter.

In terms of other parameters, we had debtor days which improved to 63 days. And we also maintained a good cash reserve even after the payout of the final dividend last quarter, so this is a positive development in terms of improved collections by means of various follow-ups and actions that were taken, so this is something which is quite positive.

Apart from the highlights of the quarter, this is just to give you a high-level view on what has happened during the quarter. We have had a bit of a flat growth but at the same time we have had some positive development in certain front. We also wanted to share something about the industry. I am sure all of you are seeing what we are also seeing. In terms of the IT industry, it is quite a flat market and with the impact of BREXIT it is quite a challenging market in specifically the BFSI industry because with changing rules and regulations being there across the board, most of the banking and financial services, organizations would think a twice about do I invest now or do I wait a bit for a little bit more certainty in rules and regulations and then look at investment. So, there could be a bit of a slowdown in the near future but in the long run this could hold more potential as the change in the rules and regulations will require new investments in systems and change in systems which in turn would lead to more business both in terms of IT as well as the QA space, specifically that we are in. So, we see long-term there could be certain benefits that come out of it, but in the short-term with the uncertainty and the currency impact, we do see a bit of a slowdown which is quite similar to what others in the industry are also facing.

So, this is just a bit about the industry as well as our quarterly highlights. With that, I will hand over to Mr. Vaidyanathan to take you through the financial numbers.

N. Vaidyanathan: Hi, Good evening to all. Thank you for joining the earnings call Q2 of SQS India BFSI Limited. I will take you through some of the important highlights on the financial numbers and then we will take up the question-and-answer session.

In terms of net revenue, it was Rs. 684 million as compared to Rs. 665 million last year second quarter, it is a 2.7% increase but compared to Q1 of this year which was around Rs. 731 million, that is a de-growth of 6.5%. PBT (Before Forex loss) stood at Rs. 121.6 million which is translating into 17.7% while PAT stood at 8.6% as compared to 12.3% quarter one in the current year.

In terms of the revenue in dollar terms, it has improved from $10.18 million Q2 of last year to $10.22 million. In constant currency terms, it translates to $10.52 million which is a 5% growth over the corresponding period of last year on a same constant currency method.

In terms of the cash and cash equivalents as Aarti was pointing out, we are at Rs. 769 million which was Rs. 904 million at the end of last quarter and even after the payout of dividend we are still in a comfortable position of Rs. 769 million, the dividend payment including taxes amount to Rs. 256 million. Debtor days is at 63 as compared to 70 as of the end of Q1.

In terms of the operating expenses and income, we have the 9th floor which is in the same premises, completed during this quarter and the depreciation consequently has gone up from 10 million last quarter to 13 million during Q2 that is likely to be around the same levels for the rest of the year per quarter. This quarter also saw a dip in the GBP currency rates resulting in a Forex loss of Rs. 30 million during the current quarter as compared to 12 million, both put together 42 million during the first half of the current fiscal year.

Utilization improved to 68.1% compared to 67.2% during the last quarter. The onsite-offshore mix in terms of the revenue has been 64% compared to 67%. In terms of the efforts, it stands 39% onsite and 61% offshore during both the quarters.

These were some of the financial highlights and we wish to take up any further clarification or questions. And I hand over back to Asha.

Moderator: Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of HR Gala from Panav Advisors. Please proceed.

HR Gala: Sir, just wanted to know what are the major components of other expenditure which add up to Rs. 31.3 crores in the first half vis-à-vis Rs. 20.3 crores, there is a substantial increase in that which has resulted in the drop in EBITDA margins.

N. Vaidyanathan: Yes, the major components of increase in the other expenses is project travel which is to do with the travel expenses for the people who have to carry out onsite and it is also a resultant of the geography from which we get the orders, that is a major expenditure. The other one is the exchange loss during the second quarter has been higher as compared to the first quarter.

HR Gala: Exchange loss in any case we show separately, I was just referring to the other expenditure line which in this quarter has increased from Rs. 10.3 crores to Rs. 17 crores and in first half from Rs. 20 crores to Rs. 31 crores. So I just wanted some major items, when you say these travel expense, how much was that higher?

N. Vaidyanathan: If you can mail us across and then we will be able to provide that. At high level it will be pertaining to the travel expenses.

HR Gala: Mainly it is travel expenses?

N. Vaidyanathan: Yes.

HR Gala: My purpose of asking this question was there is no one-off item.

N. Vaidyanathan: Yes, there are no one-off items in this.

HR Gala: But probably the 9th floor release rent for the month would have come or for the quarter?

N. Vaidyanathan: That is there but it is not very significant, it has been during the first quarter also, it may have a very marginal impact on that account. Of course, there would be certain expenses like power and other maintenance expense during the second quarter pertaining to the first floor, but then they may not be very significant.

HR Gala: Okay, thank you. A question for Aarti, I just wanted to know, based on our discussions we had in Mumbai last month that what you have initially given a very nice account of what is likely to happen, especially on the Brexit point I think what do you feel could happen in UK or in the Rest of Europe which can give us some higher business opportunity in the coming years?

Aarti Arvind: See, I think in terms of UK, Brexit and Europe, what we are finding is the Brexit impact is not just limited to UK or Europe, it is global because with the IT spending going down even other markets such as Middle East are impacted. Asia and India are the one which are less impacted but otherwise quite a bit of impact is there. One, of course the currency which you talked about and short-term uncertainty which till last quarter has not been significant in terms of an impact but we do see clients thinking about whether they would go ahead or wait for certain decisions and certain changes. Critical ones of course they go ahead, but ones which I think could get impacted because of the change in regulations, they would be waiting. One example would be, if you have a bank or financial institution which is currently based in UK and if the split is going to happen then they need to have certain regulations, rules which could come in to forth in UK, could be different from what they are currently following as part of EU. So if it does happen then they may need to change their system. So for them to do upgrades or changes now would not make sense, they would rather wait, understand the impact of it and then rollout. So as we see this is something which would result for them in waiting, but once that is over and the clarity is there on what needs to be done and when it is going to be rolled out, each of them would have a plan of when and what they need to do. And as we see it that is when we come into the play in terms of the QA portion because any change, any rollout, any upgrade, any rule regulation change definitely creates an opportunity for IT and for QA as well. So that is the positive side. But as I mentioned earlier, when we met that is in the medium and long-term. The immediate impact is in terms of currency as well as deferring of certain decisions and not a total lack of investment.

HR Gala: And to what extent the US Presidential elections is impacting the IT decisions, especially in the US region?

Aarti Arvind: IT decisions in terms of US I would say there is certain amount of uncertainty and large spends may not be there, but it is not to the extent of what has been there in terms of UK and Brexit because that is a significant impact. But definitely US elections are important from the IT industry point of view because it could have an impact in terms of how the industry functions, what is possible, what maybe certain challenges which could be there. So we need to monitor that and see how that goes. In fact immediate impact of course was more in terms of Brexit because that happened whereas Presidential elections, it is a lot of anticipation or people presuming certain things, so we need to wait and see how that really impacts and what happens over there.

HR Gala: Okay. Last question from my side, apart from BFSI do you think we can get into the other non-BFSI area where our parent company is there, going ahead?

Aarti Arvind: In terms of the parent company, as you rightly mentioned we are already present in the non-BFSI space and if you look at in India how we are structured is we have two entities, one is the entity SQS India BFSI, apart from that we have another entity in Pune. The Pune entity is completely focused on non-BFSI and has built the offshore capability as well as overall domain capability in that space. As we see it, for us to focus on another vertical, is not something we are looking at right now because even if you look at a group level 50% of the business is from BFSI and it is not due to lack of requirement where we need to look at other verticals, and verticalization is something we are driving at a group level because and understanding of the domain and the technology within that domain is critical. So, instead of everybody focusing on everything but not knowing in depth on anything, it makes sense for us to focus which has been our strategy through and we find that that has worked well because only then you become domain experts in that specific area and you deliver more value than others can. So there is no plan right now for us to look at non-BFSI, our focus on BFSI would continue.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please proceed.

Pritesh Chheda: Ma'am, I just wanted to know the H1 business executed from the Group, so the captive business executed at SQS BFSI, what is the number in H1 in million dollars?

N. Vaidyanathan: Approximately $3.4 million.

Pritesh Chheda: And how does it stack up versus last year?

N. Vaidyanathan: It is around $4.5 million last year full year.

Pritesh Chheda: Okay. Versus $4.5 million it is $3.4 million in first half?

N. Vaidyanathan: For six months, yes. And in terms of percentage, last year was 11.6% of our revenue was from the Group whereas this quarter it has gone up to 15.5%, just to give an idea.

Pritesh Chheda: My second question is on the margin side, when I look at this quarter it is a fairly different number vis-à-vis past few quarters. So, if you could give some sense on the margin because your other expenditure number has fairly moved up as highlighted by the previous participant, so some comment on the margin number going forward.

Aarti Arvind: I think if you look at the quarter in terms of gross profit, it is slightly lower and that is primarily because of the business and the regional mix that we have and the onsite-offshore mix has slightly changed, so that is one of the reasons why the gross profit is slightly lower. In terms of overall profitability, I think we do not give a forward looking projection either in terms of revenue or profitability, so we would not be able to get into that. If it is about other expenses, I think Mr. Vaidyanathan had also explained that, we did have certain expenses relating to higher travel based on the region because some regions what happens is, your travel is part of the cost whereas some regions it is extra amount that you charge. So based on the region and how we charge over there for travel, those expenses go up or down but we do not expect any significantly higher percentage of revenue coming from any component which is out of the way or it is not really compared to the revenue that we achieved for the quarter.

N. Vaidyanathan: To add on to what Aarti said, excluding the exchange loss, the impact, other expenses to total revenues for Q2 is around 20.4% as compared to 18.0% last quarter, which is more or less, except for the travel expenses and those are actually client location specific depending on where we exclude the things. Except that the other expenses are being pretty much under control.

Pritesh Chheda: So you said captive business is $3.8 million in H1 FY17 versus $4.5 million last year full year 2016, right?

N. Vaidyanathan: Yes, approximately yes, I have just done an approximate conversion.

Pritesh Chheda: And my last question is, when do you see the execution ramp up start picking up on the non-group business or the non-captive business?

Aarti Arvind: I think when we look at it, we look at it business as a whole because both the Group as well as the direct business that we do in terms of profitability, in terms of revenue it is not very different. So for us the focus is in terms of where do we grow and how do we grow the revenue. Certain cases you have higher potential in group for us, for example, certain quarters you will have certain customers which have requirements at the Group level, we focus on that. Whereas in certain other regions, for example in India it is all direct. So I think it is a mix of focus that we have both in terms of Group, how do we leverage existing Group clients and I talked about the DACH initiative which is primarily to kind of leverage the presence of the Group at the existing customers who are there. In terms of the direct customers that we handle as well as the direct markets that we are going to, there is a lot of focus. India is completely direct so we are looking at a lot of traction over there, Middle East is also completely direct except for a couple of clients that we have in South Africa or in Egypt who could be through the Group, so there is a lot of focus over there also. Asia Pacific is one where we won some insurance clients and some other areas also that we are winning in. So, we do have focus in terms of both but it is a matter of which one we feel could be a long-term potential client, that would be the higher focus and also the clients where the margin potential is higher. So it is a combination of these which would help us to see where to focus. But I think we look at both equally because in terms of profitability both would be the same.

Moderator: Thank you very much. Our next question is from the line of Vimal Gohil from Union Mutual Fund. Please proceed.

Vimal Gohil: My question is to Aarti ma'am. Ma'am, as you alluded that there was a certain change in the business mix this quarter, technically do you see that changing in the immediate term going forward because if your India business component reduces going forward, should not your margins get impacted positively?

And my second question would be, some of your projects that have ramped down, do you see the chance of them getting ramped up sometime in the next couple of quarter i.e. Q3 and Q4? These are my two questions.

Aarti Arvind: I think in terms of India business, we have found that India business is growing quarter-on-quarter and compared to the last quarter India business has actually grown by 15% or so. So we do see a good potential over there. And what we find is in India if you look at customers who could have long-term potential, long-term engagements and margins also work. Our focus is not on short-term projects or clients where we would have one project but more in terms of customers whom we 7engage with over years. We have found is in those cases India business also works**.** This is a region that we have been focusing on from the inception of this organization and we have worked with some of the largest banks and financial institutions in India. We feel it is a good market and there is a lot happening in India in terms of technology transformation, different payment system implementations etc.. We see this is a good market and a good place for you also to get working on projects with the latest versions of applications as well as technology. So from that perspective as well as the potential perspective we feel it is a good market and we would focus on it.

In terms of the other part that you asked on specific customers where the revenue went down in the quarter, mainly relating to Europe, these are clients whom we are working with long-term, these are not clients that we have acquired in the last six months or last nine months or so, these are long-term clients. It is more of certain project schedules are such that these client ramp down is in this quarter. One of our other client has a technology change which is going to be happening over the next couple of months, so they would look at more projects and more investment after that, it is a long-term client where it is more of a temporary phase which we are going through in terms of ramp downs. But at the same time, so the primary change in revenue from last quarter to this quarter is because of the couple of specific clients, project schedules who are long-term clients, so there is no challenge over there. But in terms of the overall industry and overall market in terms of new business, that is where our focus is to see where is the potential, which markets could have higher potential for us that we focus on.

Vimal Gohil: I had a few questions on other expenses, but I think I will take that offline with Mr. Vaidyanathan. Thank you very much.

N. Vaidyanathan: Just drop in a mail that will be fine.

Moderator: Thank you. Our next question is from the line of Akhand Pratap Singh from Axis Securities. Please proceed.

Akhand Pratap Singh: I wanted to know in billing what is the contribution of different currencies in total revenue in terms of GBP, USD and Euro?

N. Vaidyanathan: In terms of US dollar for the quarter is around 31% and GBP is about 24% and Euro is about 28% approximately.

Akhand Pratap Singh: And next question is on the parent side, like we are getting around 15.5% business from the parent, so have we started executing the project on German language also, are we getting that business?

Aarti Arvind : I think we have been doing business with DACH, Switzerland, Austria and Germany for the last year or so where a couple of clients have been working in offshore as well as a bit in onsite. And we even had many people, around 50-60 people or even more offshore who have been trained in German. We did a basic level program and we did an advance one and now we are in a process of running a more detailed program because we are also planning for when we send more people onsite their language competence has to be higher, so we are running more detailed program. And we do have customers where their onsite part could be completely in German but the documentation is in English, so it is possible for us to offshore and manage these completely in English. But it is good for the team to know German so that even with our colleagues who are onsite or with the customer in certain interactions their interaction can be better. So we are focused on that but that has not been a serious challenge or any hindrance in this account. As we get into new accounts the need for the language capability could be there but what we are finding is a lot of customers do work in English, so since most of them are global banks so we do not see a specific challenge there. Though, it does help people to know the language and be trained in it and deliver on it. So we have found that to help a lot.

Akhand Pratap Singh: My questions are related to that the parent's 50% revenue is coming from the BFSI segment and out of that 50% is from the German language. So I wanted to know that 25% business which is in the German language of parent, will we be able to get that business in future?

Aarti Arvind: So, I think if you look at it, the business that the parent has a component which could be onsite business which has primarily delivered the client location for certain clients to win there for quite a few years. And some portion of this definitely would be language specific where it would be in German, so there is no doubt about that. But at the same time there are clients who are looking at a model where you have both, a certain onsite team as well as offshore team and a mix of teams who may not be need to be as fluent in German. And even the potential that the Group has, I think we are picking for a lot of new clients also because it makes sense for us as well as the Group to grow together rather than just looking at the existing business which is there and transitioning it. So you are right, that is the low hanging fruit where the focus has been on existing account and how do we deliver these globally because from the customer point of view also that is beneficial and from our point of view also margin improvement would be more when we include more offshore. So the focus is definitely there in this area. But I think German language would continue with the onsite teams to a certain extent and we also get involved in it, though I do not think that is a limiting factor in terms of moving forward in these accounts.

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

VP Rajesh: Just looking at your employee details, there has been a reduction in the headcount, so the question is what is likely to be the headcount by the end of the financial year?

Aarti Arvind: In terms of headcount, I think we plan in such a way that we have the right headcount for the onsite-offshore ratio that we have, the region mix that we have. Because quite often we have found that the number of people that you need for different kind of business varies and also keep a certain number of people based on the skill set mix that you need and it could be, if you have people with a certain domain experience, for example business analyst, you may need different business analyst for a different practice or a vertical. So we make sure we have the right mix at any point of time. And we do plan on an annual basis in terms of budgeting and planning and how we plan our growth, but at the same time in terms of executing the recruitment process, we do it much closer to the date or requirement and also factoring any attrition that we have had, and we backfill as well as plan for growth based on the need. At the same time what we have found is it is not a linear correlation between the revenue and the people because there are multiple factors which are coming in, one is the level of automation, two is the onsite-offshore mix and also the region mix. So it is not a linear trend that if you have this many people you are going to have this revenue or if you are going to have this many less people you are going to have this much less revenue. We have found that the trend is not quite linear. But yes, in the last quarter we have not had too many additions, there definitely have been some lateral additions based on specific skill sets that we needed whereas large scale additions did not happen. And even if you look at the utilization, it has marginally improved. So we decided to maintain it at that level.

VP Rajesh: So, by the year end it will continue to be at this level or you expect it to go up or go down?

Aarti Arvind: I do not think we have a projection because that is pretty much a forward looking forecast also in terms of people because based on what we need and what we foresee, it is the skill set that is required is where we look at adding people. So I do not think we have a forecast to give in terms of either the people front or the revenue numbers.

VP Rajesh: And then the second question, sorry to delve on this point, but when I look at your other expenditure on page eight of your presentation, for the first half it has gone up from 203 million last year to 271 million this first half. So the question is that is this the new run rate given all the travel, expenses you have had in the first six months? And should we assume that this is going to be in a similar fashion for the coming quarters?

N. Vaidyanathan: See, there is a marked difference between last year first half and this year first half because we have expanded, we have another facility in the same building with 250 plus seats. So the rent, maintenance, power and other expenses would get added for that facility. Majorly the increase is on account of these expenses for the additional capacity.

VP Rajesh: So, it is a combination of our new capacity expenses plus the travel, that is what you are saying?

N. Vaidyanathan: That is right.

VP Rajesh: And this is likely to be in the similar range because obviously those expenses are not going to go away?

N. Vaidyanathan: Yes, for the first half it will be around that region only.

VP Rajesh: You mean the second half?

N. Vaidyanathan: That is right, the first half range would be around the same for the second half also, approximately.

Moderator: Thank you very much. Our next question is from the line of Pranav Mehta from Value Quest. Please proceed.

Pranav Mehta: In your initial comments you highlighted that you had some senior people joining in during this quarter. So just can you provide some more color on it, which geographies or which kind of roles have these people been recruited?

Aarti Arvind: If you look at a Group level and our level, one of the important strategies that we have implemented in the last couple of years is verticialization where we focus on every vertical. One of the key verticals is BFSI, apart from that at a Group level we have automotive, manufacturing, retail, logistics, gaming, gambling. So from our perspective you look at BFSI. One of the key initiatives across the Group over the last two years or so is to look at each vertical and there is focus on the verticals in terms of the vertical being driven from India where we have the global vertical heads who handle this position at a global level, being based out of India and then driving the verticalization across the Group. How it would work is you have a local regional team who are the market units where the delivery as well as the sales team are available, say for example in UK you have the vertical which is driven out of India where a lot of the asset creation, thought leadership as well as understanding each region, what rules, regulations we need to apply and what we need to develop for those also are done out of here. So this is an important initiative which we have done. And further to that we felt the need to strengthen some of our senior teams because as we grow and as we verticalize it is important to have the right people in place and that is what we have done. Another one is to bring in a bit of technology focus also, so that the senior vertical team members are also people who understand latest trends in technology because whether it is Digitization or Agile or DevOps you need to be able to understand the technology along with the domain. Domain is already something we are strong in, so the need for somebody who understands domain and focuses on technology was felt, so we have had some senior people join us who are able to do this. We are based out of India but would be helping in terms of working very closely with the regions to drive the solutioning as well as the business in this region. So that is what we have added. Apart from that, in terms of we are also looking at adding sales capacity in the US as well as in India in the next quarter or so, so that is something which we are working on and expect to close that out pretty soon.

Moderator: Thank you very much. Our next question is from the line of HR Gala from Panav Advisors. Please proceed.

HR Gala: Again, just one financial clarification question for Mr. N. Vaidyanathan. If we separate out the exchange loss / gain element from the other income, other income for first half has increased to 4.7 crores from just 70 lakhs. So any one-off item of other income included in this first half or in the Q2?

N. Vaidyanathan: No, there are no extraneous items of other income. You are talking about first half of this year?

HR Gala: Yes, first half of this year. If I take out the exchange loss of 4.2 crores, what is left in other income is 4.7 crores.

N. Vaidyanathan: I do not get that.

HR Gala: I am adding back.

N. Vaidyanathan: Can you drop me a mail, I will get back to you. My numbers are not adding up to that.

HR Gala: No problem, I will drop you an email sir. Thank you.

N. Vaidyanathan: There has not been any other income.

HR Gala: Because it has increased substantially, if you eliminate the exchange loss / gain part of it, and then you look at the other income, it has substantially gone up. I will drop you a mail. Thank you.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Systematix Shares. Please proceed.

Rahul Jain: The question is, have we gone through the wage hike in the quarter, and if yes then what is the quantum?

N. Vaidyanathan: Yes, we have gone in for the wage hike as per our revision cycle from 1st of July onwards during the current year and it has been completely reflected in the Q2 numbers. In respect of quantum, it is in-line with the industry practices and we do not give that separately.

Rahul Jain: And despite this wage hike effective for the quarter our employee cost has gone down on a QoQ basis, is it because of the absolute people count that has gone significantly down and was even lower than what is on the closing basis?

N. Vaidyanathan: The salary cost or employee expense cost compared to the previous quarter is on account of various factors such as the onsite-offshore mix, onsite mix has come down during the current quarter from 67% in Q1 to 64% and coupled with the regional mix also. The Asia region revenue has gone up and there is a reduction from the US and Europe. So on account of these, a combination of these two the total absolute numbers in terms of salary would come down.

Rahul Jain: Just a little bit more clarity on what Aarti alluded earlier in some of the onsite ramp down or project ramp down, are these moving from onsite to offshore or are these projects have ended or stopped for some time and may get restarted, just one more clarity on that.

Aarti Arvind: Sure. It is a combination, in the case of one of the customers it is more of due to certain changes which are happening at the customer end in terms of technology changes. There is a customer we have been working with for I think close to 6 to 7 years and due to certain technology changes they are going slow for a couple of quarters, till that technology change happens after which the revenue and projects will pick up. It is not that they are completely ramping down but normally quarter-on-quarter you do have an increase in terms of business from this client, but I think a couple of quarters that is one change which is there, maybe second half of next year or in a couple of quarters is when the business would start again over there. That is in the case of one. The case of the other is more of, this is also a client whom we have been working for a couple of years, it is more like they had a very large project which was primarily delivered from onsite. So in terms of people and revenue it is quite high from this client in the last year, year and a half or so. But now with the project schedule which is also planned, the schedule is such that towards last part of last quarter that decreased and right now we do continue to work with the client, that does not change, at the same time we are talking to them about automation in different areas, but we expect that to pick up in 2017. And during the quarter we are also having certain engagements going on with them, so it is not a complete ramp down. And we also started a little bit of offshore with them during the previous project, they were quite hesitant at first but now they are a little bit more comfortable. How much they will offshore, we are yet to see but they are quite open to it at least now and see that it works as a model. So we expect that this customer also starts looking more at offshore going forward where the quantum of revenue may not be the same but overall that is according to us quite positive in terms of margins and sustainability in the long run. So this is broadly what would be the main reason in terms of last quarter and the change.

Rahul Jain: And from a Group revenue perspective, since it is down, is it because of any of these clients or is it simple move from onsite to offshore that has lead to absolute value decline in the Group business?

Aarti Arvind: The two clients that I talked about now are not from the Group, they are direct clients, so this is not quite linked to that. If you look at Group revenue and the reasons why there is a marginal decrease in the Group revenue, it is primarily because we had certain onsite engagements in the US and a couple of other regions through the Group, these had ramped down, these were completely onsite engagements. And in couple of markets the project schedule was such that there is a decrease in the quarter. Whereas in the case of other cases, we have found traction to be happening in terms of overall account growth happening and offshoring also increasing in certain cases. So I think this is more in terms of specific customers where there has been a ramp down from onsite, nothing very different over there. So Group level offshore business-wise we do have some which have picked up in the last three year and a half, I have spoken about one customer whom we have been working in the DACH region for the last year and a half where onsite teams have been learning German, offshore teams have been learning German. So I think that is going well. And similarly to that we have other ones which are growing, but the decrease is primarily because of the onsite revenue from these clients is going down.

Rahul Jain: And lastly, what are the immediate gains that we see from some of these senior member hiring that we have just concluded?

Aarti Arvind: I think immediate gains, one, senior people need a bit of time to settle down and understand, they definitely understand what is to be delivered and how it is delivered across the globe and they bring a lot of value in terms of global experience. At the same time in terms of some of the senior people who have joined us, they will help us to develop certain capability and solutions which will help us in the short as well as long run. And I think even during some of our earlier discussions we had talked about our focus on technology driven areas because that has become extremely key. So it is not enough if you have junior people who are driving that, you need senior people at the vertical level who understand the business and understand technology are able to drive it. So that is why we have made these investments to make sure that we have the capability and leadership team to drive some of this. And these are people who work across the globe, they will work across countries and understand the business and the solution and overall this will help us as well as the Group to grow.

Moderator: Thank you. Our next question is from the line of Ravi Naredi who is an Individual Investor. Please proceed.

Ravi Naredi: Ma'am, this because the currency Great Britain Pound is down by 20%, will you be able to raise the billing in Pound?

Aarti Arvind: I think if you look at customer contracts or agreements, there are two components of billing that we do, one is onsite billing and another one is offshore billing that we do. In the immediate future I do not see it being able to straight away increase the billing rate for these clients because there could be certain challenges in terms of customer budgets and customer plans and we need to go back to each customer and see what can be done. But I do not see us in the immediate straight away correlating the depreciation and increasing the billing rate because most customers globally look at it as what is outflow that for them rather than what is the inflow and the local currency for the solution provider. And that would also become more challenging for us to have a global model where some of our clients we have people from multiple geographies coming into UK from the group where we have even for our direct clients, some of them we get people from different countries to come in. So, changing our rates based on currency fluctuation does not always work, it is more typically linked to the inflation in the local country which is a more justifiable reason for the rate increase. And that is typically what we do across geographies and talk to clients. It is also depending upon the market factors, one is you could have inflation which is a justifiable reason, but apart from that you could have currency fluctuations but it depends upon the markets and the business that is there in the market and the decision on rate increase, it depends more on that rather than just a currency fluctuation. Because we can also look at decreasing our rates when currency Pound got stronger and that is not something we do on a regular basis, so that may not result in anything right away.

Ravi Naredi: But one point here, this rates you are doing annually maintaining this rates or in two year or three years, what is your timeframe usually?

Aarti Arvind: It varies across clients because if you have a large project which you have taken up which is a multi-year project then you may have certain rates which you have agreed with, on fixed priced projects you cannot change your rates midway through, though you will factor that in when you do the contract and the commercials, you might have certain agreements with clients which could be one year, two year, three year agreements depending upon the contracts that you sign with them. You will of course keep in mind the inflation in the country that you are going to deliver from and what base you need to make in the subsequent years when you do your commercials. But there is no standard that in every country every client you will increase at a specified periodicity, it would be if you have a very short-term project now and after one year you go to the clients you will obviously have some inflation related changes in your rates and cost. But there is no standard in terms of when you would increase it.

Ravi Naredi: And ma'am, what planning you are doing to mitigate this losses of Pound, are you hedging more, anything?

N. Vaidyanathan: In terms of the various currency movements, we will be watching it and then at the Group level we will be taking suitable action as and when it is required.

Ravi Naredi: It is okay, but I am talking to mitigate this loss what are you planning?

N. Vaidyanathan: See, some of this is unrealized loss, as per the accounting standards we need to do a mark-to-market, we have our cash balances lying in different currencies including GBP, these are required to meet our onsite expenses as and when we do delivery out of client site, so we need to maintain these currency balances. And as per the accounting standards we need to convert them at the period end rate for reporting. So these are not the realized losses, a portion of these would be on account of the unrealized losses.

Moderator: Thank you. Our next question is from the line of Kunal Shah from Amideep Investments. Please proceed.

Kunal Shah: You had mentioned that you had acquired a few clients in the insurance segment in Asia Pacific and UK, so have they been completely ramped up now or they are in the process of being ramped up?

Aarti Arvind: I think it is in various stages where the ones that we started say six months to over a year back, even those we find there are increases based on the need, so it is not that there is a full ramp up talks with that because once you start engaging with a client on a long-term basis, the releases which are there you get involved in them and what we have found is you do settle into a certain space after a year but certain clients we have found even after one, one and a half years there are tremendous ramp ups based on their project needs. You might have one year where the project leases and plans are lower, you will have another year where it is higher. So a couple of them we have had a good year in terms of revenue from these clients. A couple of them are in a nascent stage where we have started some work and one of them even we had started out more onsite and then we moved it more offshore with them getting more comfortable and our teams also understanding the client application and the requirements better. So we moved more offshore, so that has helped in the long run. Some are at a very initial stage, we started them a couple of months back and are in the process of delivering a single project, but we hope that once that's done those will grow into larger and longer termed relationship. So different ones are in different stages but you will find that the last couple of quarters we have been talking about insurance growth, both in absolute as well as percentage terms.

Kunal Shah: And in relation to the India business, is it more related to insurance or cards and payments or banking, could you just highlight that?

Aarti Arvind: India business is mixed in terms of banking which would be the larger portion of business that we have in India, I would say quite a large percentage would come from banking. Then we would have cards and payments and then insurance and we also have a dip in capital market space. So India business is a mix, but I would say primary business that we have in India is banking which is not very different from us as an organization where close to 50% is from banking.

Moderator: Thank you very much. Our next question is from the line of Ankit Shah from White Equities. Please proceed.

Ankit Shah: I have just one question, if you can share with us what is the geography split, as in which geographies we can go directly and in which geographies we have to go with the group?

Aarti Arvind: If you will look at geographies, the one that we completely do directly are India, Middle East and Asia Pacific because these are the geographies where we were present in for quite a few years. In Middle East where the Group is present in Egypt and South Africa, it makes sense to grow through them because the local contract makes more sense because of withholding tax and other reasons so the local contracts makes more sense in digital geographies. If you look at UK as well as US, both the Group and we have a presence, but there is no competition and it is more of a complimentary team that we have, we have a single sales team between the Group and us where the team focuses more in terms of the business. Where the business goes, as in who signs the contract is completely driven by the transfer pricing guideline that we have established, so it is clearly based on certain parameters which are defined who would sign the agreement for it to be determined whether it is at a Group level or our level. So these would be the two geographies where we have had a presence in the past as well as the Group had a presence. If you look at Europe, we have not really had sales teams or too many entities except for a couple of countries such as Belgium. So that would be primarily driven by the Group because to sign agreements and to get into local contracts you need to have local entities, so it makes more sense to sign at a Group level. And the Group business is already happening over there even with certain clients whom we could take on in terms of offshore as well as certain onsite opportunities. So there is no hard and fast rule in terms of US and UK, it depends on the opportunity and depends upon the transfer pricing parameters established. But largely in Europe it will be with the Group and the direct regions that we handle directly take care of the business.

Moderator: Thank you. Our next question is from the line of Rohan Advant from Multi Act. Please proceed.

Rohan Advant: Just a clarification, so as our revenue shifts more from onshore to offshore, what I understand is that the revenues would go down but the absolute amount of profits would be higher, is that correct?

N. Vaidyanathan: Not absolute amount but percentage could go up, because the proportion of the billing rate if you look at for onsite and offshore, onsite would be approximately 2x to 2.5 x higher than the offshore rates. So converting onsite into offshore, in terms of absolute value for the same number of persons it would come down but in terms of profitability percentage it would increase.

Rohan Advant: Okay, but then the absolute amount would reduce drastically, because if the revenues are say 40% of the onsite then even if it is a higher profit margin the absolute amount of profits would be lower, correct?

N. Vaidyanathan: Yes, but then what would also happen in an offshore model is the client would get for the same amount in dollars he would get a more quantum of work executed, because we can deploy more people and client is able to get better value for money.

Moderator: Thank you very much. Ladies and Gentlemen, that was our last question, due to time constraints. I now hand the conference over to the Management for closing comments. Over to you.

Aarti Arvind: Thank you all for joining for the call today evening. One of the important factors, I think a couple of questions had come up even earlier during other discussions is there is a definite need to improve efficiencies and offer more for the same dollar value, what NV also talked about, and this is very critical. And we are focusing on how to do more and generate better revenue with the same number of people by using automation, standardization and adding more technical capability. This is an initiative which we have both at our entity level as well as the Group level, so this is something which we are focusing on for the future and are looking forward to the benefits from this in the long-term as well as medium-term. So, on that note I would like to thank you for joining the call and wishing you a great weekend ahead. Thank you.

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