“SQS India BFSI Limited
Q3 FY17 Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good day and Welcome to the SQS India BFSI Limited Q3 FY17 Earnings Conference Call. As a reminder, 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. Diwakar Pingle from Christensen IR. Thank you and over to you sir.

Diwakar Pingle: Thank you, Zaid. Good Afternoon, Good Evening to all the participants on this call. Welcome to the Q3 FY17 Earnings Call for SQS India BFSI Limited. We have emailed the results and the presentation and the same is also on the website. In case any of you who have not received the same, you can write to us and we will be happy to send the same over to you.

To take us through the results and to answer your questions, we have today, Ms. Aarti Arvind – Managing Director and CEO, SQS India BFSI; Mr. René Gawron – Director of SQS India BFSI and CFO of SQS Group 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. 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 prospectus 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. Over to you.

Aarti Arvind: Thank you, Diwakar. Good Afternoon everybody and thank you for joining the call today. I would be providing an overview of our business performance for the quarter and then would request Mr. Vaidyanathan to take you through the financials for Q3.

In some of our previous calls, we had indicated uncertainty in the global economy and the impact it would have on business performance compared to earlier quarters the full impact of Brexit has been felt in terms of currency depreciation as well as indecision in terms of customer spend. Retail banks continue to do well while the growth of Investment banking in UK is little bit more muted. The Middle East market has not picked up and the effect is felt more this year due to customer spends coming down even further and not much new investments coming in the way of transformation projects. As you know, the uncertainty in the US market continues and with regulations set to change, customers may choose to defer the investments. At the same time, European economy has a positive impact with banks and financial institutions looking over a couple of years in terms of time span to move out of the UK or move to other locations also and are looking at moving jobs to Continental Europe. Ireland is stand to gain since it is not very far and the government also has quite a few pro-business policies in place to encourage investments. Overall, in terms of the economy over there and with the changes which are happening, we expect the economy to grow because there will be changes in the banking system, changes in regulation and these would need to help us to revamp banking systems to comply with these new regulations. Since our group presence in Europe is very strong, this is having a positive impact in the future. With respect to India, it continues to be a growth market and we expect further changes in investment in the financial sector which is a positive for us. So, this is just an overview of how the markets and economy across different regions or continents is doing.

If you look at the market, it is changing, the customers moving away from typical traditional services to end-to-end Quality Assurance (QA). Most projects had either moved or are in the process of moving from waterfall to agile with all teams being distributed across multiple regions but all working together in an agile mode to ensure that their scores and achievements are the same. Automation and the need for technical expertise have increased. Just functional knowledge is no longer enough and team need to understand technology in addition to understanding the business. So, this is something which is very key, which has stayed in the last year or so. There are quite a few changes which have been in motion for the last couple of months and the effect of these will be more pronounced in 2017. If you look at our organization growth, we have grown well in the previous 9-12-months but in the last quarter we had a decrease in revenue compared to the earlier quarters. We had a couple of large projects in Europe and the Middle East where the revenue was primarily onsite and these are completed or nearly completed in the last quarter and hence we had a decrease in overall revenue for the quarter. Some of the larger projects are moving to a maintenance mode and where we expect the offshore component to be higher where rates could be lower but over a period of time the margins and profitability would be higher. Traction in the US market has been less than expected and we have not added any customer wins in this region. So, these two would primarily contribute to the reasons for the lower revenue in the quarter. On the other hand, we are also in the process of signing a three-year agreement with one of the customers whom we had a large onsite engagement was primarily in Europe. Since revenue in the years to come would be more offshore and the excellent work we did onsite has helped us to gain the entire QIP. So, it is not just one portion of it but more so in terms of pitching the entire QIP which gives us a lot of leverage in terms of progressive services that we offer.

It has not been an easy quarter but at the same time we see a good movement in 2017 in the right direction. Having said that, I would like to take you through some of the highlights of the last quarter in terms of revenue and other important metrics: Revenue wise, we closed at $9 million which is lower than the previous quarter where we have done $10.2 million, in constant currency terms, this would be around $9.5 million. Also, if you look at YTD basis from April to December of the previous year, we are higher by around 2% in dollar terms and around 5.5% in rupee terms. Region wise revenue has not changed much from the previous quarter; India is a little bit more in terms of absolute as well as in terms of percentages, mainly attributed to decrease witnessed in Europe and UK due to the project cycle which I have spoken earlier. India business has gone up marginally and our focus is on account mining to specific customers and where we want to increase the breadth of services that we offer. We find this to be a good space to be in India. Offshore revenue has increased to 38% of total revenue and we expect offshore to increase gradually and feel that in the long run this will help us to achieve better balance of revenue and hence better margins. When you look at the practice split or revenue across practices, we continue to grow in Insurance with absolute numbers increasing in insurance revenue. We have had traction across UK as well as Asia and have also started working more with one of the group's large insurance clients in Europe. Business from cards and payments have decreased in the quarter and this is primarily due to the completion of certain large onsite projects which I talked about in UK and Europe. We see a good number of opportunities coming up in cards and payments and expect that this will increase in the next couple of quarters. Banking has not changed much in the quarter. There are minor changes in Capital markets but nothing significant over there. Group revenue has remained on a similar scale as the previous quarter with Rs.107 million. There is of course some regional changes based on client engagements and the project cycle but we see positive developments in terms of revenue from Ireland and Dutch. There are quarter wise changes in clients due to project cycles but the average is remaining the same as the previous quarter. On an average, we expect group revenue to be in the range of 18-20% in the coming quarters. When you look at the US market, there continues to be uncertainties in this region and we need to see how this develops over the next couple of quarters. At a group level, we have a local delivery center in Kentucky and we would leverage this as well as our local teams to manage onsite requirement because most customers in this market have a mix of onsite and a good amount of offshore when you get into these engagements. On the competency development front, this has been a major focus with us further building on our technical skills with programs which are relevant for building capability in Agile and DevOps. We have leveraged group capability to have trainers from across the group involved in the development of these programs and the skills. We have had quite a few of these over the last quarter apart from the earlier programs on technical skills that they need to have. We have had programs on Tools, Data Warehouse, Programming Languages, and Mobile Testing. We also cover agile concept, how the teams are organized and how prints are developed and so forth. So quite a bit of focus on technical capability building, one, in-house as well as looking at how dowe get people who would help us to build it from outside. We have also focused on industrialized managed services. I think I had spoken about this sometime back in the investor meeting and are in the process of rolling this out across the organizations. This basically involves standardization of our market offerings. We have tool kits for the sales team, it standardized our processes, methodologies and have repositories and structuring of these repositories so that over a period of time once this is implemented, we expect this to help to increase our top line and bottom line through helping us to make sure that we have differentiated market offering and we have consistent, efficient and predictable quality of delivery. So, this is the focus area which we are in the process of implementing it. Lot of hard work has gone into this in the last couple of years and we are in the process of implementing it and as we move along we would see the benefits of this come up. Utilization is marginally lower than the previous quarter and is at 66% but this is also because typically in this quarter you have certain days off taken by people who are in customer locations onsite because of holiday season in December, so this would be one of the reasons why slightly lower than what we had in the previous quarter. Debtor days has improved over the previous quarter and collections are at healthy level.

I think this is in a nutshell some of the main highlights of the quarter. With that I would like to hand over to Mr. Vaidyanathan to cover some of the financial aspects.

N. Vaidyanathan: Good Afternoon, Good Evening and thanks for joining the earnings call of SQS India BFSI Limited Q3. I will quickly take you through some of the highlights of the financial numbers some of which have already been highlighted by Aarti.

In terms of revenue for the quarter ended December, we had Rs. 609 million which is about 10% less than the previous quarter. In dollar terms, it stands at $9 million and at constant currency it is $9.5 million, again about 9.6% lower than the previous quarter. EBITDA stood at Rs.98.7 million compared to Rs.133 million last quarter and PBT before exchange loss was Rs. 84 million compared to Rs.121 million. In terms of exchange loss this quarter, we had an exchange loss of Rs.24 million compared to Rs.29.9 million, mainly on account of the Euro depreciated by 4.2% compared to the previous quarter and GBP depreciation of 3.5% compared to rupee and dollar rates, that has resulted in Rs.24 million exchange loss during the quarter. PAT stood at Rs.38 million and EPS at Rs. 3.58, diluted EPS also around the same level. We have a good cash and bank balances of Rs. 836 million compared to Rs.768 million, this is after payment of the interim dividend. Receivable days, which Aarti was mentioning, is 56 days compared to 63 days by end of the previous quarter. In terms of onsite/offshore mix, the onsite has come down from 63.5% to 62% during Q3. The blended utilization has marginally dropped; 66.3% compared to 68% during the previous quarter. There is a marginal decline in the headcount from 925 end of last quarter to 874 during the current quarter. In terms of geographic distribution, the domestic revenue has gone up from 9.7% to 11% and the revenue for the Europe compared to previous quarter from 53.8% to 51.3%. One of the reasons for the gross profit and margins coming down because the revenue from the high billing rate and high margin regions have dropped a little bit. In terms of client concentration, the top clients continue to contribute 19% and top-10 clients contribute to 62% and the group revenue stands at 17% as compared to 15.5% during Q2 of the current financial year.

These are some of the highlights. As we go on, we would like to take the additional questions from the participants. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: My question is on some of the project closure or conversion into the maintenance mode. Just trying to understand are the scope of work has been completed here and there is no replenishment of other projects in the same client or it may happen based upon whatever is their process on the IT modernization front?

Aarti Arvind: It is kind of mixed where you could have some clients where the revenue is moving to maintenance mode, at the same time other ones where it could be that the project is decreased, so we are doing a little bit less work for them. The one that I was talking about where they are moving to a maintenance mode, the one I was talking about in Europe. Now, there was a large project which we are involved in for a couple of years. So that project cycle where the project and the rollout has happened but we are moving to a state where the customer is extremely happy with what we have delivered, the way we have delivered onsite and is looking to engage us with a single QA partner where we will handle QA end-to-end. So it would involve both maintenance and new projects which come up, it would involve not just a functional part, if they have any requirements for performance or any other areas, we would be involved in it. So, it is a different kind of engagement where we would move from being involved in a single large project to one where we are a single vendor of choice for providing end-to-end QA. So, that way it is a complete shift in what we have been doing and this is based on how we delivered in the last year and a half or so.

Rahul Jain: If you could bit share your thoughts on the three year MSA or something which you shared and you said about trend towards moving to Agile and we have built the repository?

Aarti Arvind: If you look at some of the trends in the market, I think the buzz word everybody is talking about are Agile and DevOps and Agile is a way of life. Now, where it is a choice for anybody either the customer side or the QA partner side, most customers look at Agile as a way by which they can speed up their processes and have more interactions where the entire group which is focused on a project whether you take the customer team or the development team or the QA team, everybody is focused, works together as a single team to achieve the end result of the project. So, all of them work together, lot more cohesively and Agile is also a way by which timelines can be compressed where it is not an iterative model where you finish one part of it, then it goes to testing and QA, then comes back and then the fixes happen, then it goes back. It is each person who is involved in the project is an owner where he or she has to take it through and make sure that it happens on the particular day. So, it helps to save a lot of time from the customer point of view and also it helps to identify problems and issues or fixtures that need to be done much earlier on. So, Agile is definitely something if it is not, it is already there in a customer place, it is definitely something which they are looking at and what we have also done is we have had a good experience in Agile where for some customers we have had what is called distributed agile where lot of people think that Agile can be done only onsite because everybody has to collaborate more, work together more and make sure that they are sitting in the same place and doing it. That is not quite true. We have distributed Agile where you might have different teams, the developer in one location, it could be in India, then the client teams are based in other country, you have the QA teams, you have an onsite and offshore mix but this has work even in Agile where you do not need to be completely onsite, so this is the assumption made by quite a few. So, I think Agile is something where most projects will move and most customers are moving and we see that as something which started as a trend but now it is more of day-to-day reality which is there. So, this is definitely one and customers are looking at what more I can achieve using the same spend. If they spend $100 earlier, they are saying, I am willing to spend $100 but for that $100 I need that much more which we have heard over many years and that is typically what a customer wants but the need to get there faster and do lot more is I think coming up more where every customer talking about one is automation, yes, it is not just your classical definition of automation but how do I even automate some of the processes in my business so that I do not have to even have somebody manually doing that. So, that is another space we are kind of having a good market offering is called Robotic Process Automation (RPA), where we understand the business and the business processes. From the customer perspective, they could be looking at certain manual processes in their system, in their banking transactions where they feel automation of these processes is possible so that somebody in the operations team does not have it. So, we are also waiting into the space just saying that, hey, we know the business processes well, we are functionally very strong and now we are also looking at certain tools which we will be using in this space to offer customers Robotic Process Automation. So, it is various things which are happening in the industry but lot of it is space that we are either already in or getting into.

Rahul Jain: Right, so this is the same repository cases which we are building which may help us?

Aarti Arvind: Repositories would definitely help and repositories are not exactly new because typically organizations over many years have built up repository. So, these are important, no doubt but is also about how you get these repositories into tools, into systems so that you are able to use them well. One of our strengths is definitely repositories because we work with multiple products, multiple regions, we know the flavor of it. So, I think having the repository, yes, it is essential which we do, but how do we use the repository and how do we offer saving to the customers and how do we help them to optimize and how do we optimize. I think that is what we are focusing on, more than building the repository which is already in place.

Rahul Jain: You missed on that three year MSA which you said?

Aarti Arvind: I would not be able to share more details on that but as I said it is one of the customer whom we have been working with I think close to two years, we started out with a large project which is primarily onsite in Europe but now based on the work that we have done and the fact that we are very happy with what we have delivered is the value and looking at a single organization to support them in end-to-end QA, so that is where we are getting into and we will be supporting them end-to-end QA for the next three years or so. So, that is what that particular deal is all about, but I really would not be able to share more details on that.

Moderator: Thank you. The next question is from Rohan Shah from Kroma LLP. Please go ahead.

Rohan Shah: In the medium to long-term, would you as domain expert say that due to this continuous disruption happening, the size of opportunity is expanding particularly for the services provided by our company?

Aarti Arvind: If you look at the scope of what is the QA, yes, it is changing, where it is not here classical just you get into one portion towards the end. Earlier in the SDLC you will have the development done, you will have the business requirement, then you will have the development, then at the end once development is done, you have the testing part done. So from that perspective, I think things have completely changed now where you have right from the requirement side you have the QA organization involved, right from defining the requirement so that you do not have misses later and then with Agile coming to the picture, it is a continuous development, continuous QA which happens rather than at the end. I would say the industry is overall moving in a different direction from what it used to be in a classical sense. This definitely brings up opportunities because what we can offer as QA has dramatically changed, it is not just about that end part which is testing, and it could be we understand the business, we can be part of your solution to optimize the business. So, it does offer a lot more opportunities both in the short run as well as in the long run, and one of the strengths of the organization is our domain expertise because that is what we have been focusing on apart from QA. So, the combination of both definitely is a strength where we have a good number of people from operations, from banks and financial institutions. So, I think that definitely puts us in a good position to understand the business and also offer solutions. I also talked about us building on our technical capability. What we are finding is, you may be functionally great, but at the same time you need to be technically strong, you need to be able to offer the kind of solutions that you could have other SI offerings. So, we are not looking at being in the space of SIs, but at the same time there is a certain amount of technical knowledge and capability, certain programming languages that people need to know even to use tools, you need more technical skills. So, that is something we are building. I think the combination of being good functionally and having the technical capability is what we get us there more than just one or the other.

Rohan Shah: Madam, are your customers actually buying these arguments that we are domain experts, do they really appreciate our position now in this continuous disruption?

Aarti Arvind: Customers do look at it as a combination of you need domain expertise, but you need very good processes to be able to make sure that you perform your QA role well, you need to have repositories, you need to have tools so that cost will be optimized, you need to be able to offer that much more for the same dollar and you also need to be able to help them on the technical side, it is not only on the functional side. So, customers definitely appreciate the domain knowledge because from the business side, from the customer it is only when you understand their business and the business things can you offer the right kind of solutions which help them to meet their end objectives. So, knowledge is the business, there is no doubt about it and as an organization that has definitely been one of the reasons we have also grown well the domain knowledge that we have. Even if you look at group, we have been reorganized, as verticals over the last couple of years where the emphasis on you need to understand that particular vertical, you need to understand the space well, so you need to be able to focus on the solutions for the customers and the space. So, I think domain knowledge important of verticalization has definitely there and customers do see that.

Rohan Shah: Due to the automation component increasing, has anything changed in the eyes of the parent as to how they view their Indian subsidiaries?

René Gawron: No, not at all because automation is not an opportune or is something you talk about, it is daily life especially in all engagements where there is a more Agile style deployment gives because with automation is a must because you have very often Agile environment, you have 10x more of the quantity that needs to be tested because this is about rapid deployments every few weeks and constant changes in the requirements and also in the deployed applications. With the delivery centers and the expertise on domain and on technology, we have in India (Chennai), this is usually the place where automation is being done, typically you have the small front end of people who are more used to a kind of Agile development style being the moderator or the interface of the project manager onsite at the client, automation is a core part of our teams in India that do this kind of delivery. Just yesterday we have had a teaching here with investors for SQS Group in London, and there was a former CIO of Hiscox Insurance was speaking and actually it is a business case which BFSI has delivered and he elaborated that there is 10x the amount needs to be tested in an Agile environment and automation is the only way how you can cope with that because as I said Agile requires a much higher speed and much higher quantities that need to be processed.

Rohan Shah: So if 10x more testing would be required in this environment, does this translate into at least 3x kind of revenues for us or there is price erosion but the amount of work increases?

René Gawron: Yes, it is the latter, because it is quite a simple thing and this shows that now the industry in IT services but also in quality assurance is becoming a much more industrialized business, not just the people's business. I give you the reason why the price is not going up but you need to deliver more for this. So, the price of an insurance or the price of a card or the price of a financial services product, they do not go up or they go up maybe with inflation rate. So, companies all in all this is true for all their IT spends, do not have more room to spend 3x more for IT, they still have the same spending because end product does not go up. So, actually the price per item what you deliver goes down and you need to use automation. That is why automation is not a discretionary thing or a thing of the future, it is essential to be competitive and we feel at SQS Group and also with our Chennai entity, we are very advanced in this and this is kind of that is why industrialized delivery is at the heart of what we are doing.

Moderator: Thank you. The next question is from Sameer Shah from Value Quest. Please go ahead.

Sameer Shah: Just wanted to check for the last two-three quarters, the headcount has been falling for us and in fact recently increased our capacity. So, what is this dichotomy and whether we see the decision making continued to remain delayed and so the revenue visibility being lowly reflected here or what is it?

Aarti Arvind: If you look at the headcount and the business, it is always not a linear progression where you say you have more headcount and hence you have higher revenue. We are finding that is not the case, which is quite often what René talked about also in terms of automation and optimization and as you standardize and industrialize, you may not need the same linear higher number of people to deliver on the piece of work, so that would change. So, I do not think we should be linking the number of people that we have and the number that we add and the number that we do not have to the potential. Sometimes you need to add more certain projects, sometimes you do not. But I think the link is more in terms of what are the kind of skill sets that you need because that is also important where if you have somebody with the technical skills, then you might be able to deliver on a project which has a much higher value in certain cases or you have somebody who has a domain expert or consulting person you may be able to deliver on a higher value in terms of the engagement. So, it is not quite linked to per person and what they make on that. That is one.

Sameer Shah: So how do we read this headcount going down and capacity increasing for our company in particular?

Aarti Arvind: If you look at the capacity increase that we did in terms of seating capacity we had done that in last year around July where we had planned for it a quarter earlier and then the facility became operational in July. In the long-term, we do see that we will need to add people and at the same time we also need to make sure that we have facilities which are compliant with the requirements and you have to have multiple facilities for you to manage your risks and also offer the kind of business continuity plans that your customers need. So, we have expanded when the client said, we will be adding no people. But at the same time we may add people as and when you need them is number one and with the right skill sets that you need rather than just the sheer numbers of what you might need for a particular project. So, it is a combination of factors and there need not always be a direct correlation that you add the capacity in terms of seating because seating and capacity building in terms of space is not a short term kind of a plan, that is something that you plan for the future because for us it also makes sense at that time it is we are getting it in the same facility which also helps us to optimize and have two facilities in a particular city instead of multiple one. So, it is also the timing and facility addition is not for the short-term, it is for the long-term where as you expect growth over time we would invest in the facility, make sure that you are ready because when customers come and visit you also, you need to have that extra space, you need to be able to have that facility with the right certifications and the requirements and the ambience, everything to cater to that. So, that is something that you need to plan in advance and have. On the people front, you will add the right skill sets based on the typical training timelines that you have and the areas that you need to focus on you need to grow in. So, the two need not have a direct correlation that you have the facility. I think we mentioned this even earlier, it is not that you have the facility and immediately you need to build the facility to make sure that you are able to deliver on requirement. On the people front, yes, our people numbers have slightly gone down compared to earlier and we typically recruit when we need people in a particular area or a particular space, it is not linear to revenue. So, our recruitment plan is completely dependent upon what we see as immediate need or it could be technical or it could be domain. So, it varies based on that.

Sameer Shah: One of the reasons for the revenue shortfall in this quarter, you mentioned is US we have not been able to add anything this quarter. So, on the US geography in particular, if you can throw some light from 2-3-year point of view how big is the opportunity for us and what is our strategy?

Aarti Arvind: I think US, there is no doubt about it, it has always been a large market and most other organizations have a larger pie from the US geography whereas, for us it has been other geographies, Europe, UK have been stronger markets apart from our Asia markets. But US is something which is not losing our focus, I think we have ramped up our sales teams in the US, we are very focused on, having people who have been there, done that earlier and have worked in a similar space. So, I think team-wise we have really set in the US in terms of whom we need to have to get the business. But apart from the team, it is also the market offering. If you talk about the US geography, what sells in the US could be slightly different from what sells in UK or what sells in the Middle East and India. So, we have been also focusing in part on what are the kind of market offerings which US is a little bit more advanced at times and the requirements of that market are different, you have these RPA tools, you might have omni channel banking, you might have various offerings that you need for that market. So, we have also worked on having these markets offering ready apart from having our sales engineer going and looking at what are the potential risk in the market. I think most of you would know what is happening in the US market and it is very uncertain in terms of some of the changes which are happening. But at the same time how do we mitigate our risk from that because for us it is also good because we have a local delivery center in Kentucky as part of the group. So, we are able to leverage that and we have a good number of H1 also. So, we should be able to handle the opportunities as they come up. So, we are not seeing that as a challenge. US being a big outsourcing market where the onsite requirements may not be as high, the ratios could be very different where you could have more offshore. So, we do see that, not there could be challenges if the regulations change, none of us know exactly how that is going to pan out, we need to wait a bit and see how that goes but we are optimistic in terms of yes, there will be traction, I think we have put in a lot of things into place to make sure that happens, it is just a matter of waiting and seeing when that kicks in.

Moderator: Thank you. The next question is from Rohan Advant from MultiAct. Please go ahead.

Rohan Advant: I wanted to understand what would be your onsite/offshore revenue mix of only those revenues that we get from the parent the 17% odd?

Aarti Arvind: I think we do not have those details readily available, may be we will get back to you on that, but I would say though I do not have the number readily it is a combination because some geographies when you are initially starting the engagement even with a new customer when we pitch together with the group, it could be a little bit more onsite, but we have also found that for existing customers we are able to leverage and do more offshore because it is already an existing customer with the group, they have already got the onsite component going where we are able to pitch more for sure. So, it would definitely be a mix and different geographies even within the group could have different mix where one geography could be a little bit more onsite, one could be offshore. But it would be a mix, maybe we can share that a little later.

Rohan Advant: So, even if it is the new project and there is onsite deputation, does the parent involve the Indian BFSI listed company in it and we would have onsite deputation of our employees there as well?

Aarti Arvind: Yes, definitely, across multiple regions. Whether you take UK or South Africa or US or any of the regions even Europe, you would have a combination because if you have certain skill sets and certain experience which you need onsite for you to be able to deliver the offshore, you would have people who are moving to these customers at their intent and we have that across regions in the group. It is not just a matter of only offshore, even the group revenue would be a mix of onsite and offshore.

Moderator: Thank you. The next question is from the line of Krunal Shah from Amideep Investments. Please go ahead.

Krunal Shah: I have two questions; one is what would be the near-term, mid-term and long-term growth drivers according to you for the Indian entity? The second question is in the current Agile DevOps environment, how relevant is third-party testing?

Aarti Arvind: To your first question, I think if you look at the short-term, it would be more in terms of what are the capabilities that we can offer and what are the markets that have the immediate requirements and which are the ones which are changing that we need to cater to. But as I see it, it is also a matter of where are the regulations going, what is happening in the global economy because you also have to synchronize what you are doing with what is happening in the markets across the world. If you are going to have changes which are happening, what I talked about in terms of UK and Europe, we need to look at what is changing in the environment based on the changes in the economy, what could be the changes in regulation and how will these impact organizations or the institutions that we work with and based on that what are the kind of offerings that we would develop out of that. So, as I see it, how we look at is, we look at every region, what is happening in the market, what are the trends which are happening and based on these trends, what is the market offerings which makes sense. We iterated with the market units that is the local team, yes, this makes sense for us, this is the future offering which we have when we do the detailing and prepare complete market offering. So, mid-term and long-term definitely economic changes in the market would drive that. Short-term is more of the opportunities which could be there based on transformation projects or the kind of roll outs that the customers have planned.

Krunal Shah: Any ramp-ups or ramp-downs probably next year or any plans regarding that in terms of projects?

Aarti Arvind: There will always be a pipeline in terms of opportunities that we pitch for which are the ones that get converted and which are the projects that materialized. So, of course, our objective will be to look at longer-term projects and one which have an healthy onsite/offshore ratio and we also try to maintain our mix across regions because finally as an organization we need to have a good mix across the multiple geographies where some could give you different kind of projects to different onsite/offshore margins it could vary. So, we try to maintain a healthy mix across these and then look at our pipeline to make sure that we build up enough so that when we do the conversion from the opportunity to the order that comes in, we try to maintain that ratio and make sure that we have enough in our opportunity queue. On the second question - where third-party testing and QA and how would that be relevant in the changing markets, now if you look at the way customers look at it, it is not that they would like the teams to work together because at the end of the day what they are saying is I do not want different organization to have different priorities but working on the same project because then the end results may not be as valuable as everybody is working together. That is what organizations are looking at in an Agile mode. But at the same time, they are not looking at everybody being from the same organization because they see strength, they see value coming in from independent players, where you might have the development done by an SI, you might have even the fitness requirements done by the consulting firm or another organization which offers management consultancy which we are also doing. So, I have your requirements and your definition by a separate group, you might have the development by a different group and you have the QA by another organization. So, what we are looking at some of them look at consolidation so you do not have multiple vendors in the same space if you have development, you might prefer to have a single vendor so that you are able to optimize. If you have QA, you might prefer to have a single vendor. But they are not looking at how do I have a single vendor across all these groups because then the value that each one brings and also a bit of the check and balance would not be there. Also, clearly, understand that specialization is required and they appreciated, customers are not obligate of that, they know that, when you specialize in a space, you will be investing and growing that space, you will be investing in your people, capability, you will have the knowledge from across customers, I think they are aware of that and are looking at different players working together better to make sure we deliver.

Moderator: Thank you. The next question is from Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Ma'am in last call you mentioned hiring of some high class new people for cost of marketing. So, how is the project going on and how much business we received from them?

Aarti Arvind: What I meant was the people we have hired are people at senior level within the BFSI space, so they handle roles where it is more of a vertical role, where they help to look at what are the trends in the market, they are the people who understand the business side, they look at the trend, they help us to develop market offerings, they help us to standardize our processes and deliver these projects also, so these would be people who are more in the verticals, they are not sales team members per se, but they are people who are part of the delivery team to help us to conceptualize the offerings, look at trends and help us to build on our capability.

Ravi Naredi: We have hired. So the benefit will be received to the company in next few quarters?

Aarti Arvind: When you hire senior people to build capability that typically will take a couple of years for you to be able to leverage their knowledge and build. But at the same time any senior hire you are looking at how will they overall help to grow the organization, not a matter of them helping in a particular project or engagement. So, any senior hire is somebody whom we are investing for the long run. So, in the short run also, they would help us to develop certain offerings which we can take to the market and benefit. But typically senior hires are more for the long run and growth and expansion plans and how you deliver better and how you deliver more.

Moderator: Thank you. The next question is from Deepak Rao from Julius Baer. Please go ahead.

Deepak Rao: You mentioned about huge amount of opportunities and business that you can get for the use of Agile and Automation in this dynamic environment. When I look at the last two quarters, your revenue has sort of dropped sequentially by 10% this quarter and 7% last quarter and 35% drop in bottom line because of operational deleverage. So, what is the reason for lack of business? What are the specific plans you are executing to have a good calendar 2017?

Aarti Arvind: I think on the revenue decrease compared to the previous quarter was slightly lower than the one before that. One would be the larger projects which we had, where we had engagements over the last year, year and a half or even longer where our onsite component has been very high. If you have seen the onsite/offshore ratio over the last year and a half, our onsite ratio has been extremely high and at point is in 65%, 68% has been very high. So that was primarily because we had quite a few onsite engagements, customers where we started off with onsite projects in Europe and UK and this resulted in a revenue going up but at the same time the onsite component also has gone up. What we were expecting is over a period of time some of these projects will move to offshore but at the same time it is more once that project gets over or near completion that we will start talking to the customers based on how we have done on the future and how we can support from offshore rather than doing all of it onsite and the customer would also have the confidence in that. So, I think that is kind of played out in a couple of cases where we are able to move these offshore and even have long-term engagements with these customers. So, that is something which is played out well. But that will result in a certain amount of decrease in the top line for a short period and at the end of that project you may have a lull between the completion of a very large project and starting the maintenance part in full swing and also looking at what are the future projects would come. So, that is one of the reasons why we had a lower revenue in the quarter. Apart from that, if you look at our regional spread of revenue, we have not had that high revenue from the US and it has also decreased compared to what we had earlier. This is also because we had certain engagements in the US which were more driven onsite so the rates were higher and we were making good amount of top line. Now at the same time, we have not had as much traction in adding new business in the US, we are looking into that to see, we have initiated various measures over the last six to nine months or so to improve that and we expect that to help us going forward but these would be the primary reasons why revenue wise it is lower than earlier. If you look at what we have been doing, I think some of the areas that I talked about, most of them tie in terms of the business because if you look at market, market is changing where the expectations from the customers' business as well as technical and so we have been investing in that space one at an entity level, but if you look at group level also, there have been significant investments into, it could be tools, it could be capability. So, there has been quite a bit at the group level also. So, this is one at a strategic level that we have. Apart from that, building our capability is also building accelerators, having market offerings which have the right solutions for that particular market, having partnership with different organizations with the tool providers or experts in that space, that is something they are looking at so. There are multiple things that they are doing in different geographies based on the geography and what work for us to look at how do we build up this traction, but some of the reasons for decrease in revenue or ones which are more short-term where it is also the movement of these projects and the shift in the kind of projects that they are having.

Moderator: Thank you. The next question is from Akhand Pratabh Singh from Axis Securities. Please go ahead.

Akhand P Singh: I wanted to know what was the contribution of Euro and GBP in overall revenues.

N. Vaidyanathan: Euro accounts for around 30% of the overall revenue and GBP is 20-25%.

Akhand P Singh: What are the contribution of parent's revenue in overall revenue?

Aarti Arvind: Parent's contribution is 17%

Moderator: Thank you. The next question is from Ketan Chafalkar from Zaphire Financials. Please go ahead.

Ketan Chafalkar: Is it possible to get revenue guidance and margin guidance for the next year?

Aarti Arvind: We typically do not give any guidance either in terms of revenue or people or margin, so sorry, cannot help with that.

Moderator: Thank you. The next question is from Rahul Jain from Systematix Shares. Please go ahead

Rahul Jain: The question is in terms of the group revenue which we said should be around 18-20%, I know it is indicative number. But this question is more to René given that we have such a large base of BFSI client at the parent level and Aarti spoke about this more for same attitude from customers and the distributed Agile delivery that we have, I think there is a lot to gain from that piece of portfolio where it may help the client at the end and make a better operating margin proposition for us as a group?

René Gawron: Happy to give an answer on this. You are right. I think as Aarti said previously, we are using also increasingly domain and technology experts from SQS India BFSI and some of our key projects especially also in insurance. But when I move to Agile and the move to more DevOps and a much more rapid deployment, there is at least currently stronger demand in many client projects for more kind of onsite consultancy, how to change this from previously more centralized waterfall like a sequential way you develop something and then it goes through a test center. This is kind of moving out too much more decentralized groups of people. This is also a new thing for many clients and this is unchartered territory and unchartered waters in a way for many clients. So, they also seek our help and consultancy how to do quality assurance in this environment and we are providing this and actually we are currently putting on more onsite people on doing this. We use some from SQS India BFSI where it is appropriate but for some of them, I use some local people.

Rahul Jain: This client count which has gone down from 70 to 60, is it more like we are exiting some of the tail account and trying to build more on the larger account because we are seeing growth on the $1 to $6 million kind of a bucket?

René Gawron: Maybe let me answer this although it is a specific question to SQS India BFSI. In general, in the group we are also reducing our account numbers by focusing on more profitable accounts and those accounts that are more promising growth history. So, actually on a group level, I can share with you this has really helped us to improve profitability and BFSI is more or less probably doing the same.

Moderator: Thank you. The next question is from Rohan Advant from MultiAct. Please go ahead.

Rohan Advant: My question was that I wanted to understand what happens to our revenues, profit when we shift more revenues from onsite to offshore, we have seen this ratio go from say 68% to 62% onshore now. Going forward if it continues to become lesser and lesser because billing rates are far lower offshore, so will there be a continuous pressure on revenue growth if we see this trend continuing?

Aarti Arvind: I think we will always have a combination of onsite and offshore, it is not that it would completely shift to a larger percentage which is offshore. If you take a couple of years back, we added close to 50% onsite, 50% offshore and subsequently when we started some of the new engagements, we shifted more where customer preference is also onsite and the regional mix also makes a difference if you have say Middle East markets typically it is more onsite in certain customers and other regions are more onsite. So, the ratio has shifted a bit but over time in the last year, year and a half or so, we had extremely high onsite. You are right, in terms of the revenue it would be higher but over time what would also happen is you need to look at how do we move some of it offshore because the profitability for offshore would be higher and it is not only profitability, it is also managing customer expectation and managing delivery is easier when you have it offshore, you can scale whereas onsite scaling with the visa and immigration restrictions that are there across multiple countries. Scaling onsite to huge numbers is challenging whereas offshore is possible and customers also when they want to spend a certain amount and not to increase it, this gives them the leverage of getting the same delivery with the vendor whom they are comfortable with and at the same time spending a little less by using this leverage. So, it is a kind of balancing act but you need to do between onsite and offshore, it is not that you completely shift from one to another or try to do away with one and another. As we add new customers, yes, onsite would come up again because typically you would start onsite and it depends upon the region mix again. So it is a combination that we try to maintain, at the same time long run any customer we would look at, how do we increase the offshore component because from the profitability and overall engagement management point of view that does make sense for us.

Rohan Advant: Ma'am, when you say profitability, is it a percentage that you are talking about or the absolute profit for SQS India would go up?

Aarti Arvind: I think it will be both because you cannot compare one onsite person and one offshore person because the rates are completely different and it also depends on the geography. So, you cannot compare the profitability of a single person onsite and offshore, you have to look at volume of business that you are able to deliver from offshore vis-à-vis what you would do onsite and how much the customer is willing to pay. So, if for example, we pay $1000 onsite, you might be able to have one or two people whereas if we are talking about $1000 offshore you might have a much larger team size which can get more value. So, it is difficult to do a direct comparison of the profitability but overall when you do a certain percentage with offshore, both absolute as well as percentage profitability would be better but we would maintain a combination of both. I think from any customer point of view, now they look at one is onsite, then they look at near shore, in certain cases for example US, they would like to have a certain percentage delivered from any location within the US which is a near shore center and you have offshore. So customers also want flexibility on various combinations or various formats in which you deliver.

Moderator: Thank you. The next question is from Krunal Shah from Amideep Investments. Please go ahead.

Krunal Shah: My question is regarding the other income. There is Rs.83 crores cash on the balance sheet. Why is the other income so low in that case?

N. Vaidyanathan: Compared to the previous quarter, especially in Q1 we had surplus balances available which we had deployed in term deposit. With the payment of the final dividend sometime in August and the interim dividend sometime in November, the cash balances have come down and hence the deposit income was also reduced.

Moderator: Thank you. The next question is from Deepak Rao from Julius Baer. Please go ahead.

Deepak Rao: This is a follow up question from my earlier question; given the decline in revenue, I just wanted to know whether you have your own, i.e. SQS India sales people out in the US and in Europe or do you rely with the SQS company and its subsidiaries in US for sales?

Aarti Arvind: It is a combination across different region where we do have our own sales team as well as local sales team but what we have done over the years is we have found a single sales team because it does not make sense for us as a group to source a customer from two different sales teams and I think our reach and our ability to service customers is much better when we go as the single local team. So, we have market units in each of the countries that we are present both in Europe as well as US, UK and our sales teams work along with these local market units and a part of the local market units and they work with these teams to deliver on the sales for us. But it is also not limited to only our direct sales teams where we get business. What you will find is for example even earlier we never had sales teams across Europe. But now we work with the local market unit team who are in our payroll but at the same time it does not make a difference because they are local sales teams who are looking at business for the group and business for us. So, it has not been a limiting factor and I would say that the reach is much-much more than earlier because you cannot have n number of sales teams in different countries for you to be able to service those countries and customers and it also helps because in a local market having somebody local who speaks the language is very important in Europe. So from that perspective I think having local teams there has really helped us in the last couple of years.

Moderator: Thank you. The next question is from Akhand Pratap Singh from Axis Securities. Please go ahead.

Akhand P Singh: I wanted to know on the contract side actually suppose if you compare for the last two years on number of contracts and the deal size actually, so do we feel that there is any pressure on the number of contracts or the average contract size or it is in the same digits?

Aarti Arvind: I would not say it has dramatically changed or very different. It depends upon various factors but I would not say that if you go by a couple of factors, I think it was 167 or so, then we move to close to 180-190, I think now it is slightly lower because the revenue is lower by 60 clients. So, it has not dramatically changed but at the same time we are trying to see how much more to mine from account, we have clear account strategy, account plan where the sales teams as well as the practice teams work on to say that yes, these are my existing customers. I definitely want to get more. Are there other lines of business? I can work with this particular customer. Is there any other space I can go to? Because that makes a lot of sense for us. So, we are definitely focused on how to get more from each customer, but I would not say that has dramatically changed in the last year, year and a half or so.

Moderator: Thank you. The next question is from Sunil Shah from Axis Securities. Please go ahead.

Sunil Shah: Given all the headwinds that we are facing right now, how confident we are of retaining the dividend that we had paid last year?

N. Vaidyanathan: The dividend is something which is actually decided by the board. At the time of the discussion for the dividend consideration, they would take into account the surplus profits available for the year as well as accumulated profit and the cash balance based on that it will be decided. So, I do not think the management will be in a position to comment on that now.

Sunil Shah: In the last three-four months, have we seen any senior management level exits from the company?

N. Vaidyanathan: No.

Moderator: Thank you. The next question is from Puneet Nandwani who is an individual investor. Please go ahead.

Puneet Nandwani: So I have two very small questions for Mr. Vaidyanathan; one is looking at all the forex fluctuation, is company taking any steps for hedging on mitigating the losses? Second is do SQS India BFSI has a dividend policy because we know at a group level SQS group has a dividend policy of providing 30% dividend for all under net adjusted profit to the shareholders or do they plan to have?

N. Vaidyanathan: In terms of the forex hedging, we do have a natural hedging because as you know we have about 60-62% of our revenue coming from onsite to the expenditure also is incurred in the same currency, so there is a natural hedging. What we also do is we take decision at the appropriate time by consulting with our group and then also take steps to hedging when it is appropriate. But the major thing would be like we need to have about 50-52% of our total revenue in GBP and Euro, it becomes imperative that over the last quarters there has been a continuous depreciation on both GBP and Euro. GBP has come down by about 3.5% and 4.2% for Euro. The major part of the forex loss is unrealized. We have to do a mark-to-market. That is the part one. As far as dividend policy is concerned, the company does not have a stated dividend policy but generally the principles that has been applied is about 35% to 45% of the profit is being shared with the shareholders until and unless if there is going to be a major expansion project or major capex at position, otherwise, this is how it is being done over the last few years.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to you.

N. Vaidyanathan: Before we close, there was one question which is raised by one of the participants on the proportion of the onsite/offshore revenue from the group company, the group company revenue onsite/offshore component is almost in line with the general which are ranging anywhere between 55-60% for onsite and the balance in offshore.

Aarti Arvind: Thank you all for joining. It has been an interesting period where there are lot of changes which are happening in the global markets, it also keeps everybody on their toes to see what is happening, what are the developments, but I think what is important is for all of us to be aware of what is happening and making sure that anything which is happening, how do we capitalize, how do we maximize on what changes are happening in the market and that is what we are doing. So look forward to talking to you all next time. Thank you for joining.

Moderator: Thank you. Ladies and gentlemen, on behalf of SQS India BFSI Limited, that concludes today's conference call. Thank you for joining and you may disconnect your lines now.