



“Thinksoft Global Services Limited Q3 FY-14 Earnings Conference Call”

January 23, 2014



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MODERATOR: **MR. DIWAKAR PINGLE – MANAGING DIRECTOR, CHRISTENSEN INDIA PRIVATE LIMITED**

Moderator

Ladies and gentlemen good evening and welcome to the Thinksoft Global Q3 FY14 Earnings Conference call. As a reminder all participants will be in the listen-only mode and there would be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "Star" and then "Zero" on your Touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Diwakar Pingle of Christensen IR. Thank you and over to you, sir.

Diwakar Pingle

Good evening and good morning to others you might have logged in from other parts. Welcome to the Q3 FY14 Earnings Conference Call of Thinksoft Global. We have sent out the results and the presentation. I hope all of you have received it.

On the call today we have Mr. Asvini Kumar – Managing Director; Ms. Vanaja Arvind – Executive Director. We also have Mr. Rene Gawron – Director and Mr. N Vaidyanathan – the CFO of Thinksoft Global.

We will start the proceedings with a brief overview of the quarter gone past by Mr. Asvini Kumar post which we will kind of throw open to questions and answers. And after the call is over in case you still have any specific questions or queries you can either get to Mr. Vaidyanathan or myself and we will be able to kind of answer any specific questions that you might have on the operation.

With that said I will throw the floor to Mr. Asvini Kumar. Over to you sir.

Asvini Kumar

Good afternoon this is Asvini here. There have been changes in the board composition and now I am the Managing Director; the Chairman position having now been held by our new Independent Director. We will talk about that separately. Along with me is Vanaja Arvind, my colleague, who is an Executive Director; Vaidyanathan, CFO of Thinksoft. We have Rene Gawron who is both a Director on Thinksoft as well as the CFO of the SQS Group. So we are going to divide and share this call Q&A among ourselves. I am not going to take too much time; let me just start with talking about the quarter as well as the comparison on a nine months basis.

In the quarter itself on a dollar terms I think we have grown 4% on a net revenue basis. Of course there were the negative Forex fluctuation on the rupee has impacted some of the top line and some of the bottom line but on a net revenue basis we have still grown during the quarter compared to previous quarter. Compared to the quarter of last year we have grown 8% on a net revenue basis. In terms of nine months comparison we have done pretty well on those terms 16% growth in rupee terms and in terms of total income we have grown 21% in rupee terms. In terms of the EBITDA we have grown about 44% and in terms of absolute net profit we have grown 61%. This is on a nine months to nine months comparison with the previous year. On the same basis even the EPS has increased on a nine months compared to based on the previous year. In terms of clients additions we have added 19 clients during this quarter and four clients

with revenue US\$. 0.5 million to \$. 1 million; about eight clients greater than US\$. 1 million and there are 19 clients whom we have opened up on an engagement basis. So anything else you want to add NV?

N Vaidyanathan

In terms of the receivables there has been an improvement in the collections with receivable days reducing from 117 days at the end of previous quarter to about 96 days as at the end of Dec. The collections have improved apart from the cash position which has improved and this is also one of the reasons for the foreign exchange loss on account of the mark-to-market which has to be done at the quarter end. So the Bank Balances in foreign exchange and the receivables have to be valued as the period end rates was at Rs. 62.82 per dollar end of last quarter to Rs. 61.9 per dollar at the end of the current quarter. Those are the highlights of the quarter.

Asvini Kumar

I think continuing from there in the last quarter we also had an important event in the company's history that is we had signed the share purchase agreement with SQS AG of Germany; it is a \$300 million company specializing in independent software testing across the globe. They are the biggest player in independent software testing and they have taken a 26% stake in this company. This will be followed with an open offer to acquire additional 30% equity shares, which will lead to a 50% plus and consolidating interest for them and this is a very synergistic deal which happened in the last quarter. We have Rene from the SQS who is also now on boarded as a director here to talk about it, if there are any generic questions on the deal. We have Vanaja here to talk about operating metrics and marketing directions and market environment how they are looking today and in the near future. With that I hand this over back to Diwakar to coordinate the questions.

Moderator

Thank you very much, sir. We will now begin the question and answer session. First question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja

I had a number of questions. If you could first of all just give us a sense over what is the status of your open offer from SQS? Secondly, since we have representation from the SQS team if you could just give us a sense on SQS plans for Thinksoft and in that context you guys had made an acquisition of a company called VeriSoft in India sometime back. So in that context just wanted to understand your reasons for acquiring Thinksoft and the scale up plans for Thinksoft and any particular reasons why in case of VeriSoft you guys have just targeted manufacturing clients with VeriSoft and what was the size of VeriSoft when you acquired and how is that business done?

Asvini Kumar

Yeah, I am handing this over to Rene and he will take this question on a very generic level.

Rene Gawron

I am happy to do this. I think your question was around the rationale why we did it and what are our plans with Thinksoft. So first of all I think the very positive thing is that both SQS and Thinksoft share lots of common values we are both pure play companies focused on the field of software testing and quality management and also SQS never wanted to go in to the field of system integration or other things. So we both share the same values as we are both very strong

methodology driven companies. Now the good thing is SQS is a company that has been around since more than 30 years and we do more than \$300 million revenues globally in that field. About half of our revenue comes from financial services clients from mostly large European banks and insurance companies and also few of the US. Thinksoft's major sweet spot is that it has always been focused only on the financial services and insurance verticals and they have a very good reputation in the European and American market, we also know this from our clients. Thinksoft will enhance our strong BFSI capacity and ability and we are very sure that the additional business which will come to Thinksoft in the future will be far greater and we can accelerate the growth rates by using the strong knowledge and experience Thinksoft has in this field. So this is very beneficial for Thinksoft as a company.

Manik Taneja

So if I could add, if you could just give us a sense on how since you said that you had good references from your clients and more Thinksoft if you could talk about how your clients have reacted after you made this move since you have taken this company and any joint go to market sales strategy?

Rene Gawron

I think your question was how the clients have reacted and about going to market strategies? Well, of course we are currently working on a joint or more integrated going to market strategy and some of the initiatives are already happening. In the future we will have a full integrated going to market approach which will be slightly different from regional market to regional market, but we are working on this. I think the feedback we have received from clients on this was extremely positive I think clients are valuing what SQS brings to the table is the strong onsite presence mainly in the European and also in the US market whereas Thinksoft has lots of experience in global delivery in almost all the continents except for Africa. So extremely positive feedback from the market now.

Manik Taneja

And if I can ask a couple of more broader level questions if you could give us a sense on how is the testing marketing doing what do you see in terms demand for testing services both from Europe and US over the next 12 to 24 months? And secondly, Thinksoft we used to pay about 20% plus kind of a dividend payout policy do you intend to retain that policy?

Rene Gawron

Well, I think at least one part is how we see the market. We see the market is strongly recovering and it has already strongly recovered in 2013 and this is also forecasted by market research institutions for this year. The likes of IDC or Nelson Hall expect that the market in dollar terms will rise by roughly about 10% in 2014. That is the market for externalized software testing services given to third parties like Thinksoft and like SQS. By regions this market is mainly dominated by Europe and the United States. We are both operating in those markets so we can expect to have growth rates substantially higher than 10% as we are as an independent supplier I think well positioned in those fields. So we are very optimistic on the forecasts and believe it is going to be a strong market in the next 24 months.

Asvini Kumar

Actually regarding the dividend question of yours we do not have a documented dividend policy but we do look at all our requirements both for CAPEX and other growth plans and then

based on that we take a call and we have been paying dividends. At this point of time we still do not have a documented dividend policy. So the past track record is what you can go by.

Manik Taneja

Just couple of other clarifications. When you said that we expect the overall third party testing market grow by about 10% and you guys are expect to do better than that then you are talking about SQS in general or you are talking about Thinksoft? That is point number one. And second thing is that whatever I could gather from my initial readings is that you guys are very extremely strong in Europe and have made investments in to penetrating the US geography in the last couple of years. Does your taking buying out Thinksoft also improve your footprint in US because Thinksoft largely has been doing lot of business with US customers?

Rene Gawron

I can fully agree to what you just said. I think we are buying the majority of Thinksoft because it was highly complementary as Thinksoft does traditionally about 30% of its business in the United States in the banking field. This is a field where SQS has only started its business footprint in the last one-and-half years and in this US right now we are active in all other verticals but not in BFSI so far so it is highly complementary and therefore very positive. It is also highly complementary for us to the Europe where SQS has a very strong footprint in financial services. For the clients, the global delivery experience Thinksoft brings to the table which fits very well with the strong foot print we have with onsite consultancy. So yes, we expect good synergies which we also expect to be fulfilled in other regions but Europe and the US like for instance in selected Asian markets where we hope to kind of extend our business.

Asvini Kumar

I think while the general market is going at 10% as Rene said the combination of these two companies and the synergies which are going to come out of it both in terms complementary geographies, complementary customers without any overlap and then there dominance in Europe and having a very strong balance sheet and sales force compared to Thinksoft. All these put together I think it is going to allow us to bid for higher projects from the Thinksoft angle larger projects, different geographies and cross selling to our customers both for them and for us. I think this is all good positive news.

Manik Taneja

My question on VeriSoft still remains unanswered. In one of the media articles you guys have indicated that after SQS bought out VeriSoft, VeriSoft scaled up about 5 to 6 times in the last five years. If you could just give us a sense on what was the size of VeriSoft when you acquired it and any rationale why VeriSoft was only used to target manufacturing clients?

Rene Gawron

VeriSoft, when we acquired it about five years ago to give you idea the number of kind of fee earning or billable headcount five years ago was a company of about 100 people now it is a company of about 700 people billable so the size increased by seven times over the past few years. VeriSoft, which is SQS in Pune will continue to be focused on other fields outside our financial services. Mainly they will continue to be concentrated in the field of software testing in the manufacturing field, for telecommunication in the retail and logistics sector, while Thinksoft will continue to our sole partner and sole center of excellence in when it comes to deliver out of India for financial services and insurance. So there is a clear distinction playing to the strength of both those operations.

- Manik Taneja** Sorry, I have a long list of questions. With regards to SQS you have a business which you called Managed Testing Services if you could explain how does the Managed Testing Services differ from your regular testing business and does offshore form a big part of your Managed Testing road map as well?
- Rene Gawron** Managed Testing Services or Managed Services is today our strongest business stream. SQS at present is getting more than 40% of its revenues from the Managed Services field. The key differentiator is that these are multiyear deals; typically you do at least three deals in Managed Services where the testing services are outsourced to us and we provide it to a large extent not by selling day rates and just consultancy services but we have models like output based pricing or we are paid by certain service levels. Managed services contracts give us better visibility and they lead to better utilization of staff and higher profitability going forward and they all have a very strong component of global delivery. And global delivery means always the right mix between the onsite consultancy but always a growing and large share to be delivered out of offshore like the India based test centers but also sometimes near shore test centers we have in some more remote European locations.
- Thinksoft has a lot of experience on that also with a strong methodology in that field to fully support managed services but in the end for shareholders what does it bring? It brings more visibility and also better margins.
- Manik Taneja** Last set of questions from me. If you could give out the different puts and takes on with the margin outlook ahead and finally how has that position?
- Asvini Kumar** We as a policy do not give forecasts or guidance so we may not be able to answer that in that kind of flavor but I think enough has been said in the last few Q&A thing to indicate that yes, the software testing market is growing. Yes, there are lots of synergies in this deal so I think things are looking optimistic and that should translate across top line and bottom lines.
- Moderator** Thank you. Next question is from the line Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar** See my question is about the commentary from Tier 1 and Tier 2 IT players about IT spend appetite for BFSI segment in Europe and US has been extremely strong. My question is what are the initiatives being taken at our end to ensure that that translates to higher volumes growth for us going forward?
- Asvini Kumar** Yeah, I think if I get your question right you are saying that BFSI there is a growing appetite for Tier 1 and Tier 2 vendors reporting that they are getting better and better business and they see some good tailwinds in these markets and what are we doing to tap those?
- Baidik Sarkar** That is right, exactly.
- Asvini Kumar** Yeah, so the first thing if you see from the SQS angle they have have taken a controlling stake in this company and we are going to join forces and this is exactly for the reason so that we will

be able to cater to all these growing markets and growing tailwinds. Second thing is this completely translates in terms of strength in certain geographies like Europe and the US and countries such as Egypt and South Africa which are new geographies for us where SQS is strong and then we can marry our expertise over there and also in European clients they can go and offer a global delivery model which has a great and European larger clients have a bigger appetite for this. So this is exactly for that to capitalize on this whereas this deal is very important and it is one in the right direction.

Baidik Sarkar

So you are basically saying that it is relationships that your partner brings that will drive business going forward, is that right?

Asvini Kumar

Number one is relationship which they bring. Number two is also if they can capitalize on our relationships because they are offering testing for non-BFSI segments and if we have non-functional testing like technical testing, or performance testing or volume testing or security testing they bring those to the table so we can expand the horizontal level our services to our clients and they can cross sell. We can cross sell to their clients and a stronger balance sheets means we can bid for larger assignments from \$3 million, \$4 million assignments we can bid for a \$10 million, \$12 million assignment and we can bid for multiyear contracts based on the track record which is already have. So a lot of these and also the skill sets available there the skill sets available here and some of our knowledge assets can be used jointly together to go and showcase to this client who are showing this appetite.

Baidik Sarkar

Is there any leverage available in terms of SQS off-shoring any part of business that they are doing out of India today back to India?

Asvini Kumar

You mean are you saying that is there any visibility our SQS bringing immediately offshore business to India?

Baidik Sarkar

Yes, about the immediate leverage what kind of?

Asvini Kumar

These are things which do not happen immediately; you cannot have a weekly timeframe or a monthly timeframe for these but certainly there is going to be more of global delivery component and they want to try and capitalize on that and which is definitely going to results in of a business but I would like Rene also to add to that.

Rene Gawron

I can fully support this. Typically in our business and IT services you do have sale cycles which are on average about six months and not just six weeks. But I can assure you that Thinksoft and SQS sales teams are working already very well together and there is a significant number of opportunities and leads we are working on so I would expect during the next fiscal year for Thinksoft some results should be visible. But please keep in mind that it normally takes about six months to win a more significant deal and that we are working on that.

Vanaja Arvind

I just want to add to that. Based on our experience in the European market, we observed after this deal has been announced and the clients we have shared the information said that the

clients are definitely interested mainly the synergies were phenomenal one in terms of multiple European language skills which we can bring to the table and also the scaling up of the team size both onsite and offshore leveraging that near shore center has infused our European clients to look for more business to give it to us. So also the banks which were little concerned about our size of just \$30 million are now know that we are part of the \$300 million organization so they are more confident about off-shoring and giving us more business. So we expect the volumes to grow over a period of time but we have just shared this information with the client and they are putting their budgets and plans for the year so it will take some time for this to realize in to business and show results. But that will definitely happen because the European clients are extremely happy they know about SQS and they are happy that we have tied up with them.

Baidik Sarkar

What is your executable order book as of today?

Vanaja Arvind

Executable order book - we do not give this information. Quarter results have been announced and the revenue has been announced but the future guidelines we do not give including the confirmed orders.

Baidik Sarkar

Just a last bookkeeping question from me. I am sorry if I missed this in the earlier call. In Q1 and Q2 there was another income component of Rs. 5 crores in each quarter I was just wondering what that was since we obviously have missed that in this quarter? Just a bookkeeping question and the last question is if you could please reconcile your domestic revenue and your dollar revenue it would place some context the FX impact you suffered?

Asvini Kumar

The other income of approximately Rs. 5 crores of last quarter is on account of the foreign exchange gain; against that during the current quarter there has been exchange loss to the extent of Rs. 50 lakhs as we are following the accounting standards we need to revalue our foreign exchange receivables and the banks balances through the closing exchange rates in various currencies at the end of each quarter and if you see effect on account of the revaluations and during the quarter any collection on account of the previous quarter's billing if it has been at a higher exchange rates as collected as lower exchange rate that also would add up to this. So this is not a reconciliation issue, it is a revaluation as per the accounting standards.

Baidik Sarkar

But you are adjusting that in your top-line as against in the Fine, I get that sir. So what was the exact quantum of FX loss of this quarter?

Asvini Kumar

For this quarter the foreign exchange loss is Rs. 51 lakhs.

Moderator

Thank you. Next question is from the line Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta

Two questions. One just wanted to confirm my understanding of the deal that the open offer is going to start now and in case the shares are not received by SQS in the open offer then the promoters have to make up for the balance. Is that correct?

- Asvini Kumar** Yes, that is correct.
- Pranav Mehta** Second is historically our margins have been say 10% to 15% or so which has seen a big uptake in this year. What is the reason?
- Asvini Kumar** I think one obvious reasons is the exchange rate so we have about four to five months of rupee going from Rs. 55 to Rs. 68 and back and forth. The other reason that better utilization itself of our own work process and the third reason is the mix of orders. So if you get more orders from Europe or if you get more orders from the US or Australia you will get a better realization and if you had a mix of order from Middle East and India and Asia. So these three put together would answer which account for the better performance.
- Pranav Mehta** Do we not have to pass on the currency gains to our clients?
- Asvini Kumar** No, we negotiate in GBP and the US Dollar and Euro and we take the plus or minus on the conversion.
- Moderator** Thank you. Next question is from the line Gaurav Sood from Kanav Capital. Please go ahead.
- Gaurav Sood** One thing Asvini I just wanted to know the status of the open offer it is like delayed from its original schedule so what would be reason for that?
- Asvini Kumar** No, this is the usual we are going through the procedure so as you know some few weeks of delays always happens in many of the regulatory agencies and we are following up with them and we should close that.
- Gaurav Sood** So you anticipate just the open offer to come in February say in the next month?
- Rene Gawron** Yes of course. There are always a number of questions to be answered to the regulators but from our side and from the Thinksoft side all questions have been satisfied and answered. We expect this is going to kick off soon and will happen during February and most likely close in March because there are certain time lines where we know it will be early March when the process closes at the earliest.
- Asvini Kumar** I think from the date we apply to SEBI also if you look at the calendar we had Diwali, we had Christmas, we had New Year, we had Sankranti.
- Vanaja Arvind** And Republic Day is coming.
- Gaurav Sood** So another query is around the open offer like recently the original promoters of the company have been classified as a public holders. So I assume that the management team is going to stay post the acquisition by SQS. So what is the reason for that classification?
- Asvini Kumar** Yeah this is as a part of the agreement between the acquirers and the sellers the new shareholders that is SQS will be classified as promoters and the erstwhile promoters would be

de-promotorized. They would be classified as public. Typically in this environment these people who are in control of the situation would be the promoters and that is what have been the facts behind this de-classification.

Gaurav Sood So just to cross check then the current management team they have no plans to leave in the immediate future then?

Asvini Kumar No, as per agreement we are still on board.

Gaurav Sood Still on board but is there an expiry period to that arrangement or you continue?

Asvini Kumar Yeah, we have to be associated with the company for a minimum period of one year in a senior management position and take this thing forward and bring all our experience and capability to the table and we will be guiding them or sharing our inputs with them on strategy, on compliance, on other integration issue and so on.

Gaurav Sood And then post that it is you will decide on?

Asvini Kumar Yeah, post that we will decide. Also over the last three years we have created a very strong leadership team and we have 10% of the of the employees identified as the Leadership Team of the Company and we are prepared for this transition and I think the company has very good capabilities of working on its own and taking this forward. So I think we do not see any concern there plus SQS itself is a larger company. They have a good leadership Team and I think the meshing of all these things is good for the company as a whole and it is a move towards broad base leadership and it is a good de-risking on the leadership side also.

Gaurav Sood And give the numbers are not reported, what are the current cash and cash equivalents on the company's books now?

N Vaidyanathan The liquid cash balance is Rupees 616 million that is Rs. 62 crores as of now.

Gaurav Sood Are there any plans for this cash now that the company has been acquired by a larger company and may not any subsequent acquisitions might happen to the parent company rather than this company now?

Asvini Kumar No, I think the very synergy of this gain is really going to translate in to a lot more work being done and the management and the board of this company will look at all those requirements and take a call on this.

Gaurav Sood Okay so how to utilize that cash so that decision is some time away?

Asvini Kumar Yeah, that is some time away definitely.

Gaurav Sood This question is directed at Rene. So basically just wanted to understand that in terms of the acquisition what is the time frame that you are looking at that one is the incremental business

that will come through the joint ventures but there might also be a strategy where some of the existing business that has been delivered out of higher cost countries that might be migrated to Thinksoft. So any time frame to that?

Rene Gawron

In the end the time frame is finally driven by what we can agree with the clients but if I take a more midterm view for us as a company our general trend is by growing the amount of those long term and services deals that will soon be more than 50% of our total company in aggregate and by that moving continuously to a higher share of the delivery to offshore locations. At present I can give you that for SQS as a group at present we are delivering about 20% of our revenue from offshore or near shore locations and we are certainly seeking to move this to more than 50% for the whole group and 50% for the whole group means to get to at the present revenues more than \$150 million to be delivered out of offshore and nearshore locations. So this is a clear strategy for us and this is the reason why we acquired the majority of Thinksoft in order to use a very mature company like Thinksoft to contribute to this. This will mean a lot of advantages and synergy going forward and we see a lot of additional business coming to India with this.

Gaurav Sood

Given that the fact that rupee has depreciated against Euro and Dollar so the current margins are upwards of 20% right now. But in the long term also do you anticipate that these kinds of margins can be sustained?

Rene Gawron

Well, also from our side we do not give any forecasts on margins. We will be doing everything to at least hold the margins at where they are or improve them and that comes from bringing more business to the table combined with a much bigger organization with more global delivery. We continue to be solely focused on software testing so by doing this we have better synergies to use our overheads, use our R&D, and our IPR put together. This is the synergy which is generally improving margins not worsening them and also by a growing organization that helps with more long term business in managed services to also improve utilization. We at SQS are running in general at pretty high staff utilization rates and this only comes from the fact that we have more long term business and a very good visibility of the business. So all that typically helps margins and I think that is all what I can say on the future.

Gaurav Sood

And just a last question. Currently Thinksoft really does not do any hedging of its receivables. So would the SQS implement a new FOREX hedging policy or they will continue with the existing strategy?

Rene Gawron

Constantly at SQS we also do only a very limited amount of FOREX hedging because to a large extent there can never be a clear policy because you need to make the continuous market judgment how you expect markets may be in the future so hedging itself is not a good instrument, it is good in certain situations. So we will certainly also include the finance team here in Chennai in our when we think about hedging but in general we also do this only in a very, very limited scale at SQS.

Asvini Kumar

I think the same was true for us.

- Vanaja Arvind** Yeah, we were not hedging earlier.
- Asvini Kumar** Very tactical and very limited.
- Rene Gawron** And all the clients honestly if any of us whether Thinksoft or SQS if any of us would have done forward hedging earlier this financial year especially because when you make your revenues in dollars or Euros and have the cost in rupees we all would have lost a lot, it was good not to do it and that kind of shows hedging we are going to be quite careful about it. So no general policy that which we will change here at Thinksoft because we follow the same principles.
- Gaurav Sood** So Rene, what I get from you on this is that they would not be any major change from the way the things are being done currently.
- Rene Gawron** Yes.
- Moderator** Thank you. Next question is from the line Krunal Shah from Amideep Investments. Please go ahead.
- Krunal Shah** My question is regarding is there any FIPB approval needed SQS being an MNC and investing in shares of Thinksoft an Indian company are we required to get any FIPB approval?
- Asvini Kumar** No, this is an automatic route because it is an information technology so there is no FIPB approval. There has been an RBI approval which is required for the deal which has already been obtained.
- Krunal Shah** So now only the SEBI approval is pending?
- Asvini Kumar** This is a secondary market transaction and it needs a RBI approval because there is a foreign party involved which has been obtained quite some time ago.
- Krunal Shah** So now just the SEBI approval is pending, right? Nothing else apart from that?
- Asvini Kumar** Yeah, nothing else because SEBI goes through this process of clarifications.
- Krunal Shah** Sir, few questions regarding the P&L. One question is in the nine month period what would be the FOREX gains?
- Asvini Kumar** The cumulative net FOREX gain is \$94 million.
- Krunal Shah** That will be a part of the other income line item?
- Asvini Kumar** Yeah, that comes in to the other income items.
- Krunal Shah** And FOREX loss would be under the other expenditure line item?

- Asvini Kumar** No, this is net of that. I am talking about the YTD. Quarter-on-quarter basis it will come under line items on an YTD basis it will be one single line item.
- Krunal Shah** And what would be your tax rates going forward?
- N Vaidyanathan** It is in the region of 29% to 30%.
- Krunal Shah** And sir, just one question regarding the business performance. When are our deal re-negotiation with our clients in Europe and US majorly done? A major part of your turnover is re-negotiated in a particular quarter what would that quarter be?
- Vanaja Arvind** See for the US it is the last quarter because their years are January to December. So all agreements will come for renegotiation at that point so that process is going on and it is more or less similar in Europe also whereas in India and Australia it can be the last quarter or our first quarter. So it depends on the client's annual year.
- Krunal Shah** And Ma'am if you are looking at the presentation on Slide #6 there has been an increase in the domestic revenue and the foreign and international revenue QoQ what could that be attributed to that and what happened exactly?
- Asvini Kumar** Diwakar, which slide would this be please?
- Krunal Shah** Operating metrics.
- Vanaja Arvind** What is your question?
- Krunal Shah** Why the domestic revenue as a part of the turnover increased and the international revenue fell?
- Vanaja Arvind** Okay we closed two important clients in India which is Oracle and State Bank of India so in fact last quarter there was a distant lapse because the project got delayed and the project kicked off in this quarter so the revenue went up.
- Asvini Kumar** Yeah instead of being distributed over a quarter it ramped up into one quarter.
- Moderator** Thank you. Ladies and gentlemen we are going to take the last question from the line of Kiran Kartik from Individual Investor. Please go ahead.
- Kiran Kartik** I just had one quick question as all other questions have been answered. Would SQS merge the Pune facility which is SQS Private Limited with Thinksoft? The only reason that I asked SQS Pune specializes in manufacturing and entertainment and Thinksoft is specializing in BFSI. The only reason I asked is this facility according to SQS annual report is the 18% facility and currently they employee only 700 people. Thinksoft if it is going to get revenue in the future, right from SQS and cross selling they obviously have to add employees. So would not it be beneficial for Thinksoft to add employees in the Pune SEZ facility where the tax incentive is lower? So that is the reason would you go for a merger at all?

- Rene Gawron** The tax aspect is certainly something we can look at going forward. Just to make a clear point: Thinksoft will remain the center of excellence for BFSI and what we have in Pune remains to be focused on other verticals. However, we will certainly look at tax benefits as we have got buildings in Pune which we can extend up to more than 2,000 people and they are in the special economic zone and if it makes sense we will develop a business plan if for the Thinksoft part to kind of rent one of the buildings there in the future if there is certain business which may make sense to base it in Pune but quite clearly it would then be under full control of Thinksoft and just taking use of that we have there in the special economic zone. The space and the facility in Pune are potentially there but the buildings still they need to be extended and built. Right now they are all occupied by the current SQS Pune operations.
- Kiran Kartik** One last question. From the Thinksoft perspective what is the blended utilization rate and what is SQS target utilization there for Thinksoft? Current utilization rate versus future utilization rate blended again?
- Vanaja Arvind** We have achieved about 72% this quarter. Our target has been 75% but since some of the projects in India and Middle East sometimes the dates keep shifting so the utilization fluctuates a little we have explained it in each quarter call why it changes so much. That is because this type of projects in the low cost countries it changes. So this quarter and overall for nine months we have achieved about 72%. So our goal is to maintain it between 70% and 75% not to worry about the exact percentage.
- Kiran Kartik** Because SQS does a lot of managed services and there is a lot predictability around the business now that SQS has bought over Thinksoft would you see there is a reason for increasing or pushing the utilization rate upwards of 80%?
- Vanaja Arvind** It would definitely be desirable but it will happen like we both Rene and me said earlier that the contracts renegotiating the new business will take over a period of time and so there will be gradual improvement in utilization it will not happen overnight.
- Kiran Kartik** So there is a vision in terms of pushing the utilization rate to 80% to 85% is what you are saying may be one year, may be three years?
- Vanaja Arvind** I do not think it is a good idea to have 80% to 85%. 75% is what we are shooting for.
- Asvini Kumar** Yeah, the global delivery model is dependent on bench strength because we will be able to quickly adapt and get opportunities as they are coming so if you tie up all your resources and you do not have space to move it will be very difficult to grow the business. So I think all companies in global delivery models are around 75% and beyond 80% is really a dangerous level. And the second thing is that because of this joining the forces the predictability is bound to increase year after year but I think like Vanaja was saying it is for example even for us the onsite utilization is 98%.

- Vanaja Arvind** If it is people business then the utilization can be much higher. This is more expert based business where you will need to have trained people they need to have time to scale up and understand the organization methodology process and other things. So 75% is a good utilization rate for Thinksoft.
- Kiran Kartik** Just last question. Any plans on the ramp up in terms of number of employees any idea?
- Vanaja Arvind** I think we moved up from 740 to 775.
- Kiran Kartik** No, in the next one year are you planning to ramp it up to 1000 or no clarity in such things?
- Vanaja Arvind** As our business planning session is next week at that time based on the region forecast we will sort of assess and decide what will be the number we will shoot for, for the next year and since we do not make power guidelines we will not be able to share with you but as and when we grow we will inform you.
- Asvini Kumar** But I think we should be able to tell you in the April call as to what is the likely growth in numbers.
- Moderator** Thank you. I would now like to hand the floor over to Mr. Diwakar Pingle for closing comments.
- Diwakar Pingle** Thanks everyone for joining in and I think before we close I would like actually Asvini to say a few words to all our people joined in. Asvini, over to you sir.
- Asvini Kumar** Thank you ladies and gentlemen for making the time to attend this call. As usual there has been a wide range of questions and I hope we have been able to provide appropriate and suitable answers and we have to of course repeat that as a company policy we do not give out hard numbers guidance but I think in terms of qualitative factors or qualitative flavors and enough has been talked and discussed. I think we are looking forward to a good year ahead. Thank you for joining.
- Moderator** Thank you sir. On behalf of Thinksoft Global that concludes this conference. Thank you for joining us and you may now disconnect your lines.