



**“SQS India BFSI Limited Q1 FY18
Earnings Conference Call”**

July 28, 2017



**MANAGEMENT: MS. AARTI ARVIND – MANAGING DIRECTOR & CHIEF
EXECUTIVE OFFICER, SQS INDIA BFSI LIMITED
MR. RENÉ GAWRON – DIRECTOR, SQS INDIA BFSI
LIMITED & CHIEF FINANCIAL OFFICER, SQS AG
MR. N. VAIDYANATHAN -- EXECUTIVE DIRECTOR,
SQS INDIA BFSI LIMITED
MR. K. RAMASESHAN – CHIEF FINANCIAL OFFICER,
SQS INDIA BFSI LIMITED**

MODERATOR: DIWAKAR PINGLE – CHRISTENSEN IR



*SQS India BFSI Limited
July 28, 2017*

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Q1 FY'18 Earnings Conference Call of SQS India BFSI Limited. As a reminder, for the duration of this conference call, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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, Azad. Good Evening to all the participants on this call. Welcome to Q1 FY'18 Results Earnings Call of SQS India BFSI Limited. Please note that we have mailed the 'Results' and the 'Presentation' and the same are also available on the Company's website. In case if you 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 answer your questions today, we have Ms. Aarti Arvind – Managing Director and CEO, SQS India BFSI; Mr. René Gawron – Director, SQS India BFSI; and CFO of SQS AG; Mr. N. Vaidyanathan -- Executive Director, SQS India BFSI and Mr. K. Ramaseshan -- CFO, SQS India BFSI Limited.

We will start the call with a Brief Overview of the Quarter gone past which will be given by Aarti, and then we will go into the Financials, which will then be followed by the Q&A Session.

I would like to remind you that anything 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 conjunctions and uncertainties that we face. These risks are included and are not limited to what we mentioned in prospectus filed with SEBI and the subsequent annual reports which you can find on our website.

With that said, I will now turn over the call to Aarti.

Aarti Arvind: Thanks, Diwakar. Good Evening, everyone and thanks for joining the call today.

I will provide an update of the business performance for the period April to June 2017 and then would hand over to Mr. Vaidyanathan -- our Executive Director.

The last 12 months have been marked by changes in the economic and political environment across geographies, while in the last quarter, there were no new surprises and some of the changes which had taken place during the year have stabilized. In terms of the different markets, there continue to be changes in the UK and we need to monitor and see how it will move next six months. Apart from the depreciation of currency, there has not been any dramatic change in customers spend till now and with Brexit discussions beginning, we need to see how this develops but at present we have not seen a significant change in customer spend. The US



*SQS India BFSI Limited
July 28, 2017*

compared to earlier have settled down a bit and we expect that the onsite component of engagement becomes more important and the pressure for local resources increases, though as a market, it continues to be extremely attractive from the IT services point of view. Middle East is the market is still in flux and we do not see any large investments taking place at least in the near future. Asia is quite stable and certain pockets of countries are more aggressive as they move towards digitization. So, there is more scope for growth in certain Asian countries.

In terms of our performance compared to the previous quarter, we have grown in terms of revenue and some of the opportunities we have been pursuing have materialized. Revenue has increased from Rs.8.66 million to Rs.9.41 million, which is a growth of close to 9% in dollar terms and in rupee terms we have grown by 6%. This includes additional revenue from SEIS Scrips sales during the quarter. Offshore revenue continues to be at 41% but has increased compared to the previous financial year. We have maintained our EBITDA at 20.5% and this is as restated as per IND AS which is quite similar to the previous quarter. Region wise, revenue from Europe has increased to 61% and this is due to multiple factors -- One is, we had higher revenue from a large customer in Spain as well as revenues from new customers in DACH region, we had a couple of new additions to this also contributed and higher revenue from a couple of existing customers. As part of the engagement in Spain, we rebatch the sizeable number of local consultants which has also helped to increase revenue, but could have a slight margin impact in the next couple of quarters and current quarter. But I think this will help us in the long run because when you get long-term engagements, you have certain tied up commitments for a couple of years which helps. Revenue from Middle East has decreased while revenue as a percentage for other regions remain pretty much the same. Practice wise, revenue has changed with cards and payments increasing to close to 40% of total revenue. This is a combination of increased revenue from the large customer in Spain as well as increase some other customers in multiple geographies. Banking revenues has decreased and this is primarily due to some of the larger project mode engagement we had in multiple geographies coming to a logical exposure. So, Banking overall has gone down from the 50% that we used to have earlier has gone down quite a bit compared to what we had. We have steady revenue from treasury and capital markets and also have some long-term engagements which we have begun over there, which we expect to grow and they are doing quite well. Insurance had grown in the previous quarters and this continues to remain as a percentage pretty similar to what it was earlier. Group revenue has marginally increased to 19.7% from 19.3% of the previous quarter. We added new clients in DACH through the local group entity and have also increased revenue from certain clients whom we were servicing earlier through the group. So, revenue wise, it is only marginally higher than the previous quarter. Over the last year, one significant change that we have had in terms of the mix of group revenue, where the offshore component has increased to 65% compared to the 30% that we had previously. So, I think this is something which is significant because it shows that the quantum of work that we are doing with the group has gone up and offshore is also increasing which is a move in the right direction.



*SQS India BFSI Limited
July 28, 2017*

Utilization has improved from around 71% to 73% in the current quarter and US revenue has increased marginally in the quarter and revenue from existing clients has increased. We need to add new clients and that is the focus of the sales team and the entire organization. We are investing more in the US in terms of sales capacity, marketing and specific areas of expertise locally. These should over a period of time help us to improve new customer acquisition in the US, which is our focus.

On the People side, we have started to add staff over the last quarter with over 60 people being recruited. We had a certain number of staff also left the organization. So, if you look at the total number of people, it would be just slightly more than what we had earlier. We continue to take in people who are domain experts, people with more technical skills or specific areas that we need, and we also on-boarded a certain number of entry level staff because that also helps us to manage our cost structure and employee and our overall margins. I mentioned earlier that in Spain, we had on-boarded local consultants. So, we do have a sizeable number of consultants who are working with us. That way we are able to handle the local language capability and this gives us better leverage at the customer location. On the industrialized managed services part, all projects in India have moved to an industrialized managed services model which in the medium to long term will help us to ensure consistent delivery of quality as well as increased efficiency and productivity. I think I had spoken about this in a couple of previous calls saying that we were implementing it, but now we have gone ahead, done that, improvement in quality would be an immediate benefit. Apart from that, we would look at what are the measures that we track it by, how do we improve efficiency and this would overall help in better standardization and improving efficiency in the future. I have pretty much covered most of the points relating to our performance.

In terms of the trends and changes in the QA market, it is moving more towards the digital space where the number of digital initiatives that the banks and financial institutions are taking up is significantly increasing. This has been in the making for some time now but I think it gets more significant with every passing quarter. The quantum of automation of course continues to grow. More organizations are embracing agile, and this in turn help increases the need for technically qualified staff, DevOps something which is definitely on the rise. Lot of the changes are more technical, but at the same time, I think the functional side is equally important where you need a mix of technical as well as functional. So, that is something which we are quite strong with. As pioneers in the QA space, we continue to invest in the creation of tools, accelerators, offerings and services which are in line with our changing customer requirements, which are getting more digital and agile in nature. I think this pretty much sums up. Some of the changes which have been happening over a period of time but are getting to be more significant as we progress.

Thank you. With this, will hand over to our Executive Director -- Mr. Vaidyanathan.



*SQS India BFSI Limited
July 28, 2017*

N. Vaidyanathan:

Thanks, Aarti. Good Evening to all and thanks for joining Q1 2018 Earnings Call of SQS India BFSI Limited. I would like to introduce our new CFO -- Mr. Ramaseshan Kothandaraman ... we are calling him as Ram who has joined the company recently. I will be retiring from the company in early September this year after satisfactory innings of about twelve years with the company.

Our new CFO, Ram is a qualified chartered and cost accountant with more than 23-years of professional experience. He has vast exposure to all aspects of financial management and experience with listed entity in India. Prior to joining SQS, he was the CFO and Head of Business Excellence of TATA Elxsi Limited. Ram has held key positions with the organizations such as, TVS Suzuki, Wipro and IBM. During his stint with as a Director of Network Solutions Netsol, a subsidiary of IBM India, he had worked in India as well as outside India on international assignment and we are sure that SQS will benefit out of his experience. Ram will take you through the Financial Highlights for the Quarter-ended June, 2017. Over to you Ram.

K. Ramaseshan:

Thank you N.V. Good Afternoon to everyone in the call. In terms of our Financial Performance for Q1 FY17-18, we ended with an operating revenue of Rs.607 million as compared to Rs.575 million during the previous quarter. We grew around 6% in the first quarter. This revenue includes Rs.19.7 million towards the sale of SEIS Scrips. The total income for the quarter was at Rs.611 million as compared to Rs.576 million during the previous quarter. EBITDA we ended up at Rs.124 million with the margin at 20.5% compared to Rs.119 million in the previous quarter at 20.8% margin. Profit after tax stood at Rs.90 million in the first quarter vis-à-vis Rs.45 million in the previous quarter, which helped us to end the earning per share at Rs.8.43 compared to Rs.4.18 in the previous quarter. As Aarti mentioned, our financial from this quarter is following the IND AS accounting guidance. For comparative purposes, we have reinstated our financial for the previous quarter as well as for the previous year. Finally, on the balance sheet side, we continue to have key focus on the cash and we ended up with Rs.997 million of cash which is up more than Rs.100 million quarter-on-quarter. So, with this, I hand over the call for Q&A to moderator.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda:

My first question is on the revenue break-up. If you could highlight the percentage growth in revenues from within the group and outside the group?

Aarti Arvind:

Pritesh, group revenue has marginally gone up compared to the previous quarter both in terms of percentage as well as absolute, but overall, the growth which is there both at a group level and at direct clients level is not significantly different, so it averages out to the overall growth.



*SQS India BFSI Limited
July 28, 2017*

Moderator: Thank you. We will take the next question from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: My question is first on the sale of the Scrip that we did in this quarter. Just wanted to understand how it has affected the entire P&L... is it added to the top line, so you have the benefit coming all through the PAT line and how much revenue we would earn on an annual basis because of the sale of this thing?

K. Ramaseshan: As we disclosed, the total revenue includes Rs.19.7 million towards the sale of SEIS Scrips. I just spend 30 seconds explaining the Scheme and what we have included. The Services Export from India Scheme which is called SEIS was introduced by the Government of India effective 1st April, 2015 and the Scheme actually is aimed to promote export of services from India by providing the duty scrips credit for the eligible export at 3% of the net foreign exchange earnings. So, what we have included is for the year 2015 and 2016, based on what we actually realized on the eligible export. So, in the first quarter, we have sold the scrips based on our realization and included Rs.19.7 million worth of scrip sale in our revenue. So, to your question, yes, it is a 100% profit, it is included in our total revenue as well as ~~actually~~ in our profit, Rahul.

Rahul Jain: So, it comes to PBT and then it is taxed?

K. Ramaseshan: Yes.

Rahul Jain: So, any such opportunity on this kind of thing or this is one event and which would not follow up?

K. Ramaseshan: Every year the Government of India issues notification on the eligibility in terms of giving this duty credit scrip for the exporters. So, FY15-16 as I said is included, and we are eligible for FY16-17also. However, as I said, it depends on the 100% realization of the export. So, we will have to work on the realization and after that get the scrip and sell the scrip to somebody else to book the revenue. So, that is the process. We will have to get this done for FY16-17, Rahul.

Rahul Jain: So, in a way this is a part of the recurring opportunity that will create by as we do export all the year...?

K. Ramaseshan: Yes, the challenge here is that it cannot be every quarter event, because it involves lot of procedural aspect. So, we will have to do it for FY16-17. But in terms of the timing, it is very difficult to say when it will be booked because it depends on the realization of the FOREX.

Rahul Jain: On the commentary which you shared, Aarti, in terms of Asia looking good in terms of the deals and all that, so can you explain more in terms of which areas and all that and also what is the



*SQS India BFSI Limited
July 28, 2017*

situation in US given that there was assert even from a parent perspective to boost the positioning of the CEO in that location, has some of those things materialized to some extent?

Aarti Arvind:

Hi, Rahul. I think two parts; one is on the Asia part, there are certain markets which are picking up in Asia, where spend on digitization is higher, if we talk about couple of the countries in Asia that is Singapore, Malaysia, Philippines. Those are the ones we are focusing a little bit more on, we are seeing more traction there, so we need to see over the next 6 to 9 months how that moves, but today there is positive movement there, and if you look at it India also, we had some large projects which came to a logical closure, but India still is a market that we are focused on to see because there are a lot of changes happening, lot of innovative technology which is being rolled out by the bank, so there is a lot happening and we would continue to focus on India and see how that can grow. I think this would be pretty much the market that we are focusing on in Asia. On the US, if you look at the size of the market, I think we have talked about this earlier, the size of the market, the potential of the market, everything is there. We have had more traction with some of our existing customers and this has helped to increase revenue a bit, and now our focus has been also in terms of adding new customers which we would do. So, we have new sales people in place and we are also figuring out certain investments in terms of certain amount of local delivery we might need to have, also, we do have our group, Kentucky center, other things, but we may need to invest in certain specific skill sets which are required in the US market. So, that would be something that we do. So, there is potential, at the same time, there is a certain amount of spend which will come with that, which we feel is essential and we will be looking at that now.

Moderator:

Thank you. The next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda:

So, just to take forward from the earlier question, if I heard it correctly, you mentioned Q1 over Q4 the growth in both within the group and outside the growth was roughly similar. Is that understanding correct?

Aarti Arvind:

Yes, it is correct.

Pritesh Chheda:

Secondly, you mentioned that in terms of Asia, there are lot of opportunities, but if I look at your presentation, the share of Asia within the overall pack based on QoQ as well as YoY gone down, so there is a bit of dichotomy between the commentary and what I can see in the presentation. So, do we understand that there were some issues with respect to Asia in the preceding year and now they are getting sorted out, how does one read that?

Aarti Arvind:

I think may be just to be clear, Asia in the presentation that we have includes Middle East, India and Asia Pacific. So, in specific Middle East, we talk about the decrease which was there compared to the previous year because the market has really not picked up and there is a lot of



uncertainty there. So, from that perspective, Middle East revenue is lower. We had larger engagements over there which came to a logical conclusion. So, Middle East revenue is lower because primarily would contribute to the lower ratio number. Whereas, if you look at Asia Pacific, we see more potential there in the future and see that is a market which could help in terms of growth. India's revenue also we had certain large engagements where the quantum of revenue because they came to logical closure. We worked with those customers, but that engagement got over. The quantum of revenue could be lower for the quarter but this is a market which we see a lot of potential in, see a lot of opportunities in. So, India is definitely a market that we focus on. So, that is why I was talking about within Asia or what we call it Asia, the country could be focused on a certain country, we are seeing more traction, not every single country or every single region within Asia.

Pritesh Chheda: On your margin, you mentioned about this consultancy payouts that we had to do or we would do. Any mitigates with respect to that cost and do you believe that these margins of at least 20.5% which we recorded in Q1, those are maintainable?

Aarti Arvind: Actually, that is not a consultancy fees, more than consultancy fee; these are local consultants whom we have engaged because we had a large engagement where we also re-batched them from another vendor because we were taking up the entire QA engagement. So, that was quite large and it is a multi-year engagement, so we did re-batch some of them. We would have them for a certain period of time because you need to have continuity in the project. But over time as we progress because it is a longer term deal, you will definitely look at whether some potential is there to offshore and also, how do you replace them with more profitable options, that would happen over time, but when you typically take over a new engagement and the entire QA, you do not immediately make these changes, so that would come subsequently.

Moderator: Thank you. We will take the next question from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Just trying to understand this SEIS Scrips issue a bit better. So, this revenue recognition does it pertain to FY15-16 or FY16-17 or a combination of both?

K. Ramaseshan: It is full of FY15-16.

VP Rajesh: So, is there a particular reason why it was not recognized in the last year and it is being utilized in this year like two years after as far as the financial year is over?

K. Ramaseshan: Even though this is effective 1st April, 2015, there are many steps before you book this as revenue. As I said, it depends on 100% of the realization of those exports, and then you get a Scrip and then find the buyer. All those take time. That is why when somebody asked what



happens to FY16-17, I said, it is very difficult to commit the timeline. That is why we booked it in the current quarter for FY15-16.

VP Rajesh: So, if I were to look at the EBITDA number, then Rs 124 million I should be reducing this by Rs 19.7 million and that is really the core EBITDA of the business. Is that understanding correct or am I missing something?

K. Ramaseshan: That is correct.

VP Rajesh: While you do not recognize this revenue, does it hit somewhere on the balance sheet or this is completely off-balance sheet?

Aarti Arvind: This is actually revenue realized and booked in the P&L.

VP Rajesh: So, while it is not booked, you are saying it is not there on the balance sheet also, because you are able to realize the same now but your credit must have come to you in the month preceding that, so you never put it on the balance sheet, you just book it when you sell it?

K. Ramaseshan: Absolutely.

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

Pranav Mehta: My first question is can you just help us with what was the revenue growth in dollar terms and constant currency terms in this quarter?

Aarti Arvind: Dollar terms revenue growth was 9% what I mentioned during the presentation.

K. Ramaseshan: In constant currency growth against that 9% is around 6% for the quarter.

Pranav Mehta: This 6% growth includes the sale of the SEIS Scrips, right?

K. Ramaseshan: Yes. It includes.

Pranav Mehta: Another question was on the employee cost line item this quarter and you might have touched on it in your opening remarks but if we see the employee cost for the current quarter, that has gone up sharply at around 11% QoQ. So, if you can just explain the reason behind it and whether there is any element of our annual increments included in this or not?

K. Ramaseshan: The first is the annual increment is not included in the employee cost. Aarti was explaining the consultant of the third-party resources cost for a project which is onsite in Spain, right, where we re-batched resources, that cost is included in the first quarter because we started the contract from



effective April 1st and this is what she was saying that this will take another couple of quarters to settle down and that was the spike near about Rs.25 million is included in the employee cost, that is why you see an increase from the previous quarter.

Pranav Mehta: So the revenue from these projects has started coming in, in our top line?

K. Ramaseshan: Yes.

Pranav Mehta: If I see your customer profile which you put out in your presentation, number of customers with revenue between \$1 million to \$6 million has gone down to \$8 million this quarter versus \$11 million last quarter. So, if you can help us how should we read this data point?

Aarti Arvind: I think if you look at the customers where the revenue has gone down, you do have customers where they have larger projects at different points of time. So, when there are larger projects, you typically have higher revenue and they move to the higher category in terms of the revenue. When those projects get over and you realize less from them, they would move to lower category revenue whereas there could be others which move up and down at different points of time. So, this is what has happened where we had certain projects which are getting over. We continue to work with those clients but it is just that, that particular engagement much larger is over and then you move to another engagement. That is the primary reason why we have shift between these.

Moderator: Thank you. The next question is from Saurabh Jain from Astute Investments. Please go ahead.

Saurabh Jain: I just had two questions; taking off from previous participant's question, about the customer profile, so we have eight clients actually which are having a revenue of more than a million dollars and as we have discussed before, I believe the strategy of the company was that to move towards a million dollar plus kind of per client revenue and we are currently at about \$680,000 as of active clients. So, just wanted to get your thoughts that are we sort of happy with the existing client base that we have and these are clients we can mine and go deeper in or over time we need to actually even get newer clients on board?

Aarti Arvind: I think the clients that we have are some of the clients are quite large and the potential to grow them is significant. So, we would continue to focus on mining existing clients and clients typically have some one-off projects which are extremely large and then they get into BAU, then when the large project comes up, again you bill more. So, it is a time cyclical in terms of how much you get from each one. So that is something which we would continue to do because existing clients are ideal, they are happy with what we do and they are looking at us as a partner rather than a vendor. So, I think we have a good equation with them, relationships of their ideal ones to grow. At the same time as an organization, we also need to add new clients and we are looking at how do we add clients to have a larger potential because you would like to have more clients in your portfolio more than smaller ones, ones who may start small but have the potential



*SQS India BFSI Limited
July 28, 2017*

to grow large, so it is definitely both. We would look at growing existing, but we would focus on adding new clients as well to our portfolio.

Saurabh Jain:

But would it be fair to say that if there are a few clients out there which are having the revenues of \$300,000 which we can actually take up to a million dollars or more than that as well?

Aarti Arvind:

There would be clients in different categories, for example, you may have started your relationship with the client in some of ones in the 1 million to 3 million categories are also ones whom we started off with very small engagements who could grow. So, there are definitely clients in various categories who could move between the categories based on their QA needs for the year and what they might need to what their requirements would be. So, there is definitely potential to grow some of these. Not all will grow, there would be some which grow and some grow faster than the others, and new ones that we had also could grow over a period of time.

Saurabh Jain:

What is the time period of the average cycle of a client for a project?

Aarti Arvind:

If you look at our average time, you have ones which are extremely short, ones which are extremely long, we have had projects which are one and a half years, single project which goes one and a half years, extend by another six months, go for two years, we have projects which are extremely short, quick, testing releases because you need to get the compliance requirement done quickly, so there could be even one month, 15 days. So, very difficult to average it out, but it completely depends upon the scale and volume. If you talk about the core banking roll out, it could take one year to nine months or a year or even longer. If you are talking about the same core banking, once it is rolled out, if they have some enhancement, it could take a month or so. So, it is very difficult to say what is an average time span and now with customers moving more to Agile, what you will find is, time line get compressed. Everybody wants to test more often for the changes so that they do not have to wait till the end to see what happens. So, average timeline is dramatically changing where the pieces that we test are much shorter and more frequent. So, that is a significant change. It is difficult to say an average timeline; it will completely vary depending upon the requirement and engagement model in this line.

Saurabh Jain:

What I was actually getting to is, the compression happening quite fast and is it drastic like earlier the same thing what you could do in say a year and a half, now you can do it in six months or nine months and that is what the client expects?

Aarti Arvind:

There are two parts -- one is there could be certain engagements which continue to be longer, at the same time, it depends upon whether the customer is looking at a Waterfall model or an agile model. There are customers, it is not that everybody shifted over to Agile, the transition is more pronounced now but is not complete. So, customers who are still using the Waterfall model could take longer for certain engagements and you have extension, you have the main project, then you could have after the project is over, the performance testing component which was borne for a



period of time, then you might have another component which comes in. So, it is multiple, you have data migration. So, there are various different engagements that we have with the client where a single project or single engagement for the particular roll out could go for one, one and a half years whereas different components are shorter. So, it varies across time line.

Saurabh Jain:

Rene, in Europe, just wanted to get your understanding and reading about the environment for IT services as well as for testing, in Europe as well as US. In the past few quarters have been little troublesome and they had their own turmoil. But how do you see things panning out from here?

René Gawron:

What I see here in the market in Europe and the US is very much kind of fill what Aarti said. First of all, we see most major clients have changed to more agile, software deployment method, which leads to much more decentralized approach, away from centralized test centers to more decentralized themes where our people are working together with the business side and where there are software development teams to create quality from the beginning and not just test quality at the end. So, this is something we see in all areas. The other part is we are heading and there is a high demand for more technical skills. We see that clients are demanding because many of them change also their all application landscape and one people from us that understand new technologies like Blockchain or other kind of Fintech type solutions coming in. So, we are heading and we see a lot of demand which is positive for us, which is more around how you create quality but also with more technical expertise including also security aspects in more kind of clouds type applications which are much more open systems where all of sudden new security risks were coming in. So, we offer a wider range of quality services on top of the traditional test insurances. But that is across the board, whether it is North America or Europe.

Saurabh Jain:

Are you seeing a greater appetite for spending from the customers which there was a lot of uncertainty earlier and has that sort of reduced?

René Gawron:

I think it is getting better now. In the past 12-months we have definitively seen many clients changing to more Agile and DevOps. When you change your system, we saw many customers did invest less to run the system or maintain the system which also affected us, but there was certainly more demand to change the system. Now, we have seen some of the clients that have been successfully deploying and changing their IT to more Agile approach, our large BFSI customer in Belgium is one of those examples. After now, this has successfully happened, they have changed to Agile. Now, we again see more demand also to run the system or maintenance or maintenance testing of the system. So, we actually do see in the second half of the year pickup of revenues and more deals coming in and demand is picking up again. But the transition was kind of leaving in the past 12 months to more flattish kind of revenue that is correct.

Moderator:

Thank you. We will take the next question from the line of Ankit Pande from Quant Capital. Please go ahead.



*SQS India BFSI Limited
July 28, 2017*

Ankit Pande: Can you just confirm that the contribution from the SEIS Scrips would be about Rs.19.7 million, is that correct?

K. Ramaseshan: That is correct.

Ankit Pande: The growth within and outside the group would be the same. Could you quantify or give me a rough idea of how much the group contribution stands now?

Aarti Arvind: We have mentioned, it is around 19.7% of our overall revenue.

Ankit Pande: Also, how do I look at SQS overall for the full year? You talked a lot about in the press release by digital offering revenues and also about pipeline. Could you quantify that a little bit for me?

Aarti Arvind: We do not typically give forward-looking guideline, so sorry, cannot help you with the forward-looking number in terms of what we are looking at for the year.

Ankit Pande: Especially in the last year as tough it had been for us, how do we see generally the growth patterns panning out for us in the future, not putting a number to it?

Aarti Arvind: I think if you look at growth in the industry and how things are moving, industry is changing and the QA environment is completely different from what it was earlier. So, as an organization, we have also changed in terms of what we were offering earlier and what we are offering now. If you take say, seven, eight years back, it was typically a functional testing, whereas now, it is a combination of understanding the domain as well as technical services, and what we do in QA has kind of broadened and expanded. So, what we do is much higher and these are the requirements which are selling both in most geographies, René talked about Europe as well as the US. What is catching up or what are the trends are not very different. It is the speed with which we catch up in geography which could vary. But there is a lot of opportunity there and even growth wise, the number of changes which are happening in banking regulations and the way banks and financial institutions have taken to technology and the changes which are happening are quite dramatic. All of this could of course require QA. What constitutes QA could be different, your need for QA could be more frequent in smaller berth which are more Agile. So, that could change whereas the need for QA may not change. So, there are a lot of things which are happening in the market which will help us to grow in the future.

Ankit Pande: In your opening remarks, Aarti, a couple of new projects that could impact your margins in the next couple of quarters. Could you just flesh that out a little bit for me...will the sort of impact be largely within the projects or would it be very noticeable also at the group level?

Aarti Arvind: I think if you look at the engagement that I was talking about, it is specifically something which is a long-term engagement, which we have got a multi-year three year engagement where initially



we have re-batched some of the local consultants because of their language capability, and their familiarity with application. So, that is something which we have done which may not be seeing higher margin impact in the subsequent quarters, it could be similar to what they had in the last quarter. But this is something which over time as we change specifics, it could help us in terms of margin, so I think that should help in the long run. Typically what we have found is in longer term engagement you make little bit less in terms of margins initially, but as you go along in the engagement progresses, you are able to optimize and do better in that. So, this is not something which is unique, it is just that the size of the deal makes a big difference right now.

Moderator: Thank you. The next question is from V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Could you please comment on the competitive intensity that you are seeing in the deals that you are participating in your two key markets that is Europe and Asia?

Aarti Arvind: Each market if you look at it is very different, each country we are finding is very different, because you typically have a mix of different players with whom we compete with. The kind of customers that they go for typically a much larger one would have the spend and ability to spend on QA. So, in that space of larger customers and geographies you will have, sometimes you will have the SI, you will have other pure play QA organization and you will have local firms also competing because every country our geography has some local players. So, if you take India as a competitor base, could be very different from Middle East, Asia or different countries in Europe, the same UK and DACH also, it will be very different. So, our competitor landscape consists of SIs, local organizations as well as pure play testing firm. Though the intensity of competition, what they compete on, is it more the skills or is it more the price, varies across region. So you do have competition, yes, it is intense, but it varies across countries. This is not something very new, it has always been there. It is that you could have more, you could have less, but nothing very different from the past.

V.P. Rajesh: So if you were to compare the competitive intensity let us say 6 months ago or 12 months ago, you would say it is the same or has it gone up or has it gone down?

Aarti Arvind: I think if you look at competitive intensity, it could be similar. Just that you compete with could change over time. If you take say three, four years back or five years back, the larger SIs may not have been involved in competing in projects which was say, 500,000 or 1 million, whereas if you look at the players in competing for such projects, now even the larger SIs are involved. So, it is not your competitor landscape which has dramatically changed, it is more in terms of it could be that they are competing for the same pie and looking at even smaller engagements. So that is a bit of a change compared to the past. But last quarter to six months nothing significant has changed in any of the regions in terms of competition, it is there, it has always been there and you have more players at different points of time.



*SQS India BFSI Limited
July 28, 2017*

V.P. Rajesh: Then the second thing, just I was looking at your employee cost, it seems to have gone up about 40 million over the previous quarter and the number of employees have been only new addition it seems is only nine employees. So, could you provide some color around that, seems a little bit on the higher side for employee cost?

K. Ramaseshan: I think it was the same question that I answered previously. The employee cost includes the third-party resources cost which Aarti explained, the contract that we acquired from 1st April where we started delivering, we have re-batched some of the high cost resources, that is around Rs 25 million. So, if we add that to the previous quarter and if you have seen the increase in the revenue, the cost would be in line with the revenue.

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Aarti Arvind: Thank you. It has been a quarter where we have started improving in terms of revenue. At least in the last quarter, we have not had any significant changes in the environment both political as well as economic which is a good thing because there have been a lot of dramatic changes in the last one year, and sometimes there has been a roller coaster ride in terms of what changes in the environment and the world. But I think we have handled that well in terms of understanding what customers need, because bottom line is what your customers need in different markets and different environments which help you. We have made sure that we have built good relationships, we have delivered extremely well to our customers to make sure that they never want to go to anybody else. I think it has been a good quarter for us in terms of consolidating some of this. So, I think is overall then at the time of abridge when they build capabilities and also to set new offering which we have done in the past and continue to do. So overall it has been good. So, thank you also joining and have a great weekend.

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