“SQS India BFSI Limited Q4 FY15 Earnings Conference Call”

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Moderator Ladies and Gentlemen, Good day and welcome to SQS India BFSI Limited Q4 FY15 Earnings Conference Call. As a remainder, for the duration of the conference all participant lines are in listen-only mode. There will be an opportunity for you to ask questions at the end of this presentation. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Diwakar Pingle: Thank you Shyma. Welcome everyone and thank you for joining us on the Q4 FY15 ended March 31, 2015 earnings call for SQS India BFSI. Please note that we have mailed the results and the presentations to you and you can also view this on our website at www.sqs-bfsi.com.

To take us through the results and to answer your questions we have with us today Dr. Martin Müller – Managing Director and CEO, SQS India BFSI Limited and Mr. N. Vaidyanathan – CFO, SQS India BFSI Limited. Mr. René Gawron – Director of SQS India BFSI Limited and CFO of SQS Group, is on his way back to Germany and so he couldn't join us on this call.

So we will be starting this call with a brief presentation, providing the overview of the quarter and the year gone past by Dr. Martin Müller which will be followed by a brief on the financials given by Mr. N. Vaidyanathan, the CFO, after that we open the floor over to Q&A session.

I would like to remind that everything said on this call that reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with uncertainty from the risk we face. These uncertainties and risks are included but 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 would now turn the call over to Dr. Martin Müller - Managing Director and Chief Executive Officer, SQS India BFSI Limited. Over to you Doctor.

Dr. Martin Müller: Thank you very much Diwakar for your introducing words and good afternoon to everybody listening to our call. Welcome. We are really happy to step into discussion with you on our results concerning last quarter but also I would like to focus on the full year because this gives us a broader base to make comment on what we achieved so far.

Let me start. We are looking back to the first year anniversary of the integration with the SQS Group. Therefore let me start with a full year 2015 year-on-year comparison. I would only like to highlight key numbers which are very important.

Our business in terms of operating revenue and also on total income grew by 10%, both in rupee and dollar terms, we closed the year at a level of Rs 216 crores and it resulted in EBITDA increase of 5% which was at Rs 41.6 crores.

Let me further comment on this performance. Year-on-year increase in revenue was due to our strong focus on US and Europe region, as we have already mentioned in our earlier calls, these continue to be our main focus regions for the future too. The company's net cash position increased by 32% as at closing of the financial year, so this is also a very-very good indication of operational excellence.

So with the first anniversary of integration with SQS Group, the company is pleased to recommend a final dividend of Rs.20 per share which includes Rs.5 as normal dividend and Rs.15 as a one-off special dividend. So overall, if you take also in to consideration the interim dividend already paid, of Rs.4, it amounts to a total dividend of Rs.24 per share for the whole year.

This is year-on-year comparison, now let's step a little bit deeper in to what's behind that, where we are right now, are we on track and what could be our future option. If you look at our year-on-year comparison, which means Q4 2015 compared to Q4 2014, we grew, this percentage is 3%, so last quarter we clocked Rs 53.1 crores and in EBITDA terms we reached Rs.9 crores, it is also a big improvement compared to our last quarter in Q4 2014 and our EBITDA margin stood at 17.1%.

Let me give you additional information also. I think there would be questions, because you normally compare Q3 and Q4 on a sequential quarter basis. We had a good Q4 and made good progress in the quarter. So this makes us very optimistic as we have already stated the situation in Europe and also in US. The performance also accounts for the fact that we have the Christmas effect and also the effect of the year ending in the US and Europe. Typically at the end of the year, the client’s budgets are not usually fixed but there is some right shifting of projects and budgets and hence our year usually starts a bit slower, but we have made good progress especially when we look at our performance in the month of March alone which we are not reporting in detail but I just want to reiterate that we saw sufficient traction built up during that month.

Looking a little bit where it's coming from, our revenue and what is behind that. As you know we report four practices and the Banking practice was always the biggest one and that has always been driving our business. In this quarter we have 57% of the revenue in Q4FY15 coming from Banking. Second one, which was also big, was Cards and Payment at 24%, but let me also emphasize the practice of insurance. Though it is a small one, we are talking about growth in this vertical and as you can see from the numbers we grew there by almost 3 times within one year, it is a small practice so far, but we have had good opportunities and possibilities to have the first successful footprint especially in the US. So when we are saying US is the biggest testing market with 50% market share and we have plans of growing there, it makes sense to emphasize not only the verticals that are big in our portfolio but also the emerging verticals.

Now let me, report on three major operating metrics, I want to talk a little bit more on clients, debtor days and employee development. Let's start with clients.

We added 12 new clients this quarter and due to this it leads to higher onsite ratio, because they predominantly start onsite. So this has an impact on margin, our margins at offshore are higher than our margins what we achieve onsite. All business predominantly starting onsite gives us the opportunity to develop those clients to an offshore model over a period of time. So the total active clients on our roster is now at 60. So we are always looking at our client portfolio to see which client could really scale up and give us higher revenues over the longer term.

And as you can see, if you look at the customer profile we added 1 more client in the range between $1 million and $6 million and this also shows that if you compare this metric to Q4 2014, we have moved up from 7 clients in the last year to 11 clients this year. So this is clearly our strategy to develop and also to have a better, bigger footprint in single client which should also reflect in better client-customer relation that we are looking for.

What is positive when we talk about debtor days, we were able to bring that number really down to below 100 days, so we made good progress there which is not the end and we will always look at getting that number further down. But it was a subject in our last call, I remember somebody mentioning that 111 days is much higher than it should be. We are also on the same page and therefore we have worked hard on that aspect and made good progress in that regard.

Coming to employees, as you see when you look at the consolidated numbers, there has not been much addition since last year, but if you look at the blended utilization there is a big shift as that has moved up to 69%. We have taken lots of efforts to reorganize, to optimize and to work really strong on utilization improvements and this is shown in the numbers here.

And our attrition rates have also come down and we are below the 17% levels, so it has come down and has remained stable since the acquisition happened by SQS. This also shows that we have satisfied employees and are committed to driving the business forward.

This was only brief overview, you can touch many more points, but I think they will also come up in your questions or in your remarks. But I would now like to hand over to NV to give some additional inside view to some financial figures. NV?

N. Vaidyanathan: Thank you Martin. Thanks participants for joining the call. Good evening, Good afternoon. Just to add on to what Dr. Martin said, I would like to give couple of financial highlights in the Q4 and the full year.

In terms of the operating expenses, the other expenses have gone up mainly because of the exchange loss that was due to adverse movement in the foreign exchange rate. On account of that for the Q4, there has been an exchange loss of Rs 5.3 crores and the impact for the full year has been Rs 4.4 crores loss as against a gain of Rs 7.7 crores in the previous year.

Apart from that, there has been a concerted effort from the company's point of view towards reduction or optimizing on the general and administration expenses. There have been increase the sales and marketing activities and the expenses have been on those lines only.

In terms of the cash and bank balances, they stand at Rs 68.8 crores end of March 2014 as compared to Rs 52.3 crores same period last year. And the total net working capital stands at Rs 109.7 crores end of March 2015 as compared to Rs 89 crores in the same period last year.

In terms of the receivables, the number of days' receivables as Martin has pointed out has come down from 104 days to 97 days over a period of one year and gross debtor stands at Rs 56.7 crores as compared to Rs 55.6 crores, though on a larger sales volume base.

The top client contributed to 20% of the revenue. Top 5 clients contributed to 50% of the revenue and top 10 clients contributed to 71% of the revenue.

The employee headcount total stands at 907 as compared to 905 last year. And in terms of the delivery headcount it has improved, increased from 833 to 836 but on higher volume base. The major reason for the higher volume is improved utilization over the last year and also higher onsite revenue.

With that I would hand over back to Diwakar to continue. Thank you.

Diwakar Pingle: Shyma, you can open it up for Q&A please.

Moderator: Sure sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I just have two questions. The first question is, with reference to one year back when we had a conference call and at that time we were seeing that in the first 12 months it is going to take a lot of time in terms of breaking into a new client as also the integration efforts. In CY15, that is the current calendar year do you actually see the fruits of synergies and more operating profit growth. So since now it is one year, how do you see the pipeline and how do you see the visibility going forward?

Dr. Martin Müller: Thank you for that question, it's a good question. The answer is as follows. Integration means operational integration, but integration also means to integrate with existing clients, with the SQS Group and clients within the SQS Group. We made good progress especially on European clients, so we have worked together in some selected areas especially or predominantly in the Banking area as we have some common projects that we have delivered in common. It has started and it is not that it has only started after 12 months, we see the effect also already in our current numbers and we are looking forward to bringing about the results and synergies to a higher level.

We have done a lot of pre-work and it does take time to execute in a bigger company environment. Steady progress has been made and we have won some new deals and now we have to execute them. You should also understand that just by the virtue of size, you really do no win really large sized deals right from the word go, but it does take time to develop it slowly. It takes that much time, we are confident that we can add some more clients in the future and the sales pipeline looks promising.

Rajesh Kothari: And my second question is, going by the improved confidence of client and also successful integration, how do you see over the next two years in terms of revenue and margins because if you look at current year the operating profit before FOREX gain and loss is almost flattish at around Rs 415 million compared to last year close to Rs 400 million. So whether the focus will be on revenue growth or it will be on revenue growth with better margins and therefore better profit growth as well?

Dr. Martin Müller: Yes, you touched that point which I addressed in my last verse in the introduction. You can drive the business on different strategies, our strategy is that we want to grow profitably. Our focus is not to scale up the business at the cost of profit, we want to do that hand in hand. We look at utilization, we look at very good cost management, but nevertheless it has to grow also with investments. And of course, US is the biggest market for testing but all those clients we are looking for have to be addressed, they have to be convinced and this takes time, also an effort as a consequence. Therefore as I also stated in the last call we have restructured that in the last year, at pre-sales and sales additionally. So this also has cost impact. We are always looking for improvement on the EBITDA margins and the top line and we have both in view.

Rajesh Kothari: So would you like to give any number in terms of what kind of growth one should see over next 1 to 2 years?

Dr. Martin Müller: As you know, we are not giving future guidance. I would have to ask you to make your own assessment based on what we are discussing, what we are saying. Of course we also have in mind an internal target to grow by higher numbers but we do not give those figures as a policy.

Moderator: Thank you. Our next question is from the line of Chetan Vora from Value Quest Research. Please go ahead.

Chetan Vora: We is the status of getting the process integrated with the SQS Global Company, so what are the challenges we typically face?

Dr. Martin Müller: The challenges, in the integration process we have done till now or which challenge we are facing now?

Chetan Vora: Yes, the challenges what we are facing now?

Dr. Martin Müller: The challenges we are facing now is that we have to manage together where we have the overlap. We have overlap with the group in UK and in US. And we brought together all those teams and so they are not working separately any longer, this was done in the second half of year 2014. And now the teams are not only focused on their clients, we also have now the teams working together and this gives us advantage when we are bidding jointly for a client. So there are no negative challenges, only positive effects that we see. So as we said, it takes time for teams to come together but this has been done and so there is no special challenge which stops us now from being successful in the market.

Chetan Vora: Okay. And how much time does it take to flow down to the financial statements sir, the benefit of the synchronization, how much time does it take? The process on the ground level has started so by when we would see the benefit of that coming to the financials?

Dr. Martin Müller: Yes, you already see that in our positive development overall of course, as we always said it takes time to set that up but nevertheless it has started, we are not waiting for big bang or something like that. I think that will happen but we see situations where we are now also being asked to bid for bigger deals. Those deals need a lot of preparation to present our services in answering RFPs. We are working on system integration opportunities as also assignments from product companies as a means to diversify our risk. We are looking then for corporation or partnerships where we can work together with them on the customer side. There is a lot of sales and pre-sales and pipeline upgrades that we are doing now but we are not looking at some big thing happening in the next few months. So, it will be sustainable growth that we are looking for. And we continue to look at the slightly bigger engagements where we can bid also. But until now, we are looking more at a step-by-step development.

Chetan Vora: Okay. And right now what is the utilization rate?

Dr. Martin Müller: Utilization rate, if you talk in blended rate we are 68.9% for Q4 2015 and for Q4 2014 it was 64.4%, but it is an interesting point when you look at those utilization numbers. If you compare other companies, several in the IT who also do also testing work or even to tier one or tier two players, you have to look at how they measure that. There are a of lot different methods on how to measure that. So you can also have other parameters on how you measure this, so I would like to ask you to compare it on a like-to-like basis because I have also seen comparisons where they compare us to a tier one player who uses possibly different parameters to arrive at their utilization rate.

Chetan Vora: Right. And sir what is the utilization rate for the full year?

N. Vaidyanathan: The utilization for the full year blended is 66%.

Chetan Vora: And what would be the number, the target what we are looking, the utilization improved at what level?

Dr. Martin Müller: I have already said that in previous call and also would like to repeat that, we are looking at numbers around 70% in our measurement. This is a blended rate between off shore and onsite.

Chetan Vora: And sir finally the debtor's right now has come down to 97 days, but what would be the target what we are looking out for?

Dr. Martin Müller: Which target?

Chetan Vora: Debtors day.

Dr. Martin Müller: See, anywhere between 85 to 95 days, that would be the target.

Chetan Vora: And that is the industry standard, 85 to 95 days?

Dr. Martin Müller: Yes, industry standard is, what is being reported is somewhere in the region of 75 days but then we include the billing, work in progress also into the debtors and then we count the debtor days. That way it will be comparable with the industry standards that's what we believe.

Moderator: We have the next question from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Sir, I just wanted to broadly understand this particular software testing industry in which we are. At what rate do you expect it to grow as compared to say NASSCOM has given the projection overall for the software to grow at say about 13%, 14%, 15% in the constant US dollar terms.

Dr. Martin Müller: We give no future numbers, but this should not be the full answer to you. I would like to draw your attention to what I stated to region wide view, so as you see when you compare to other players in the testing market also in the overall IT market, on different levels they drive the business with around 50% in US, 25% in Europe and the rest in the other region. So there also most of them have also those two focused region. If you look at our numbers, it is the other way around, we have more or less 50% our revenues coming from Europe and only 20%-22% coming from US. And we do not want to turn it around but we are doing the other way around in that region, but here you can see we want to go on in Europe with sustainable growth, we have there good footprint in that market but we want to come to that 50% also in US, this would not be done or cannot be done within one year but we have mid-term view on that so that we can come also to that number. And if you know I have assumptions on certain growth rates, you will see that our biggest growth and also in relative numbers would be in US.

HR Gala: Okay. So US will be your market which will give you rapid growth to go ahead?

Dr. Martin Müller: Yes. I think we have good experience in US in terms of experiencing the market there in terms of executing an onsite-offshore model etc. So it remains an important market for us in the future.

HR Gala: Okay, that's great. My second question is that after we acquired Thinksoft, I think we have got into some of the practices and areas which in SQS was not present. So do you think that that strength of the earlier erstwhile company will lead to a higher revenue growth going ahead?

Dr. Martin Müller: Yes, this was also the intention and also I can underline that that has happened, one plus one in this case is more than two. We have overlap in what we are doing, but we have only a part of that as an overlap in how we are doing that. And when we talk about integration it also means that we have one framework for services. But given that we were two organizations, we have done a lot of work done in order to get the best out of that integration. For example, when we talk about automation framework we have taken the best of both worlds and created a common version of that. We have to continuously keep doing that in order to grow within the whole group and to be really capable for a global delivery model.

HR Gala: Okay. Just related question about this, integration, we see that in this particular year we have dropped as many as 34 clients and added 35. Now do you see the process of the client rationalization is more or less over and we have the client base which fulfils the overall target that the SQS parent will have?

Dr. Martin Müller: If you look back for the last year that we were at US$ 35 million in revenue and we had close to 80 existing clients**.** So this base of clients was too high for that revenue run rate and hence we had to rationalize the number of clients that we work with which is also in line with our group strategy. The idea was to enhance the per-client revenue to higher levels because of two main reasons. First, the sales efforts and also the administrational effort to have larger number of smaller clients is not efficient compared to the revenue and the margin you achieve. And the other one is, we see a lot of vendor consolidations around the world in our clients and we will continue to be relevant to the client only if we are of some respectable size for their account. So if you have too small a footprint, we will be easily replaced and therefore the efforts are on to be at clients where we have multi-million dollar level contracts. But it takes time to do that, we do not immediately start a client at a multi-million dollar level but we have to see if this is a client which has the possibility or the capability to bring you as a vendor to that level you are looking for.

HR Gala: Okay. Sir just last question from my side, you did mention that you are not giving any revenue growth guidance or the margin guidance but you have indirectly hinted that certain levers are already been put in place so that the margin will go up at say constant currency if we have to consider, what level you would be happy with or you would like to aspire it? May not be next year, may be over period of say next 2 to 3 years.

Dr. Martin Müller: We mentioned that we are not giving those numbers, so we do not want to raise speculations here. We are working on that numbers and also if you heard my introductory words, we are trying to improve those numbers but we do not give those target numbers, we have them in our mind and also in our internal communication but we do not give them to the audience outside, sorry for that.

HR Gala: Okay sir, no problem. Can you let me know any major capital expenditure we are planning?

N. Vaidyanathan: For the current financial year i.e. 2015-16, there is no major capital expenditure that's been planned, it will be only upgradation and replacement. But in line with the requirement, we always follow a just-in-time approach where over the period of time we have developed a skill to have fit outs done in a very short span of time. At the appropriate time when the offshore facility will have to be expanded we will take it up.

HR Gala: In FY15 how much did we incur on capital expenditure?

N. Vaidyanathan: Give me some time, I will get back to you.

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

Manju Bhashini: Sorry if this is a repetition of a question, as a policy do you have an open position on the FOREX or do you have any specific hedging policies? And is the European revenues, currency is on Euro or do you have a dollar rate for those clients?

N. Vaidyanathan: There are two questions, one is on the hedging policy. Thinksoft as such and now SQS BFSI we don't do any forward cover or hedging and this is also in line with the SQS Group policy. We just take it as it is. In terms of the Euro revenue, the proportion of the revenue average is somewhere in the region of 18% to 20% over the financial year and there has not been any significant change compared to previous year.

Manju Bhashini: Sure. And in terms of manpower addition plans on the offshore side, could you give us some sense on addition to your manpower over the next two years? I think we have about 836 billable employees, so what's the plan for the current year?

Dr. Martin Müller: As I said we want to look at the utilization levels which is more or less at Q4 levels, so around 70%. So our strategy is not to build up a bench and then look for a project and it is also not the other way around that you have a project and then look who can deliver that. This will be hand-in-hand and your question is leading to that point what I already stated, we are giving no future numbers also on revenue. But as you can see we want to grow in a very profitable way.

Manju Bhashini: Sure. And the reason I was asking is that, what is the kind of, you don't have to give a number on the employee addition but what's the employee pyramid of those 836, so if you could just throw some color in terms of how many project managers and how many probably employees with 1 to 3 years of experience and above 5 years, if you could just give us some color. Want to understand how long it takes for a fresher to kind of get on to the job after training.

Dr. Martin Müller: We have a very healthy pyramid there, that's quite important if you want to grow, it's an interesting question from your side, it does not make sense only to add fresher's because it is an investment at the cost side. And we are also looking to continue with that pyramid we already have right now in place. Of course it also has to do with a customer's requirement and this is more yearly or mid-term recruitment plan we are setting up in order to find the right skills or also to re-skill. We see situations that we need more expert resources for special consulting testing and performance management for instance, which are specialists work and cannot be done by freshers. I cannot give you now an exact portion on how we set up that pyramid, but it is quite important that we follow that pyramid we already have in place, it is healthy, and it also allows freshers to come quite quickly on board.

And your question, how long does it take for somebody coming from a university, having IT background and starting here to be billable. While we can start billing employees from about 6 months, we believe that specialized testing people can takes almost 1-1.5 year to develop in a manner that they can run their own business.

But as far as SQS BFSI is concerned, we believe that our employees like the company because of our global delivery approach that we are following here. So they like the work atmosphere and have the opportunity to go onsite, to go to US, to go to Asia Pacific or to whichever region is quite necessary for us to deliver the business.

Manju Bhashini: Sure. Last question. I didn't get the employee pyramid you talked about, the current pyramid if you were to just break it up between 0 to 5 years and five years plus experience, if you could just help us with that, it would be very helpful.

Dr. Martin Müller: We don't have the information yet available, but I would like to ask you, write us a mail, we will see how much detail we can give here and we'll look at that. We also want to look at a very healthy mix between experienced people and freshers and would like to have a system in place that a fresher can move up the pyramid in 8-10 years time.

N. Vaidyanathan: Just one point, Mr. Gala had asked for an information, I would like to share them. Capital expenditure for the last financial year, it is Rs 2.10 crores.

Moderator: Thank you sir. Our next question is from the line of Samrat Dasgupta from Esquire Capital Advisors. Please go ahead.

Samrat Dasgupta: I had a couple of questions. The first is, I got an idea of how you are doing your sales force integration. Just one doubt I had is, SQS India subcontracting from your parent in Germany or are all SQS India's clients' direct clients who SQS India sales force is harnessing?

Dr. Martin Müller: This question cannot be answered easily. It depends on various parameters, while we are looking for new clients, where this client will be located this is only SQS Group entity side of that country or is it here in India business. There are several parameters to be regarded before this decision is taken. But this is quite important to face a client, the client is not affected by our decision primarily so that means we will take that decision based on several parameters following arms length principles very-very quickly. So we are here, such guidelines in place which we are following and for us it is important to look at this all for the sales, it is important to look for outside revenue. The next step where this is allocated or where the client is been placed, this is something which we decide then on different levels internally.

Samrat Dasgupta: Okay sir, I guess it's complicated.

Dr. Martin Müller: It sounds complicated, it is not easy. It is not complicated but it is a complex process we have to follow there.

Samrat Dasgupta: The second question I had was, companies like TCS, Wipro and Infosys, they have very large testing teams, so what do you bring to the table as a standalone testing provider compared to a full service provider like TCS, Wipro or Infosys?

Dr. Martin Müller: Good question. If you look at the whole testing market and you divide it into special service providers as we are, so we're the biggest, if you regard revenue in pure play testing area. But if you mentioned those system integrators, IBM, Accenture, Wipro, Infosys, and all those big companies, they are also doing testing work. As a first principle we are focused on the testing and quality management of software which is in our genes and this is our first focus. We do not do any other development work.

Second, more important aspect is that we are focusing on a specific domain - Banking Financial Services and Insurance. The SQS Group on the whole has a lot of experience in testing that we have had clients who have stayed with us in the last 30 years. But in order to convince a client, you need capabilities in the domain to speak the customer's language, to understand his processes. The nature of work has also changed more and more if you look at user acceptance testing, you have a strong relation there in those projects to the business side. They really appreciate the fact that our employees or our testers and consultants are skilled with those subjects in their special domain. For instance they ask for specific skill sets like Health Insurance specialist because the Health Insurance part of an insurance is different from a car insurance and they want to have those specialists. And this divides or this separates us from the system integrators who are doing everything, they are big, they have the partners for testing but we are really focused on specific niches and this is a really good differentiator which we bring on the table to our clients.

Moderator: Thank you sir. Our next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: I just wanted to take this previous question ahead. In terms of global industry trend, how is the shift happening from integrators to independent testers like the clients preference moving and if you can share some numbers or percentages as to how the industry is moving towards independent testers?

Dr. Martin Müller: I cannot give you exact numbers, but our main competitor is the system integrators. Our main differentiator is what I pointed out, it is focusing on only testing and quality management and focusing on domain knowledge. We have repositories for instance for test cases, that means if we go to a new client we bring so much enormous test cases from our previous project that we do not have to start from scratch if you are starting in the new client environment. These are advantages that SQS brings to the table.

Ravi Mehta: Okay. So do you have any clue on what percentage of the testing industry would be handled by integrators and what is done by the independent testers? And just a broad mix to understand how the industry is moving towards independent testers?

Dr. Martin Müller: If you compare the revenues and there is a good chart also what SQS Group always report on, you can have a look at that. There is a chart where it is shown how much revenue is got in the testing market by system integrators and how much in the testing market is gained by pure play testers. If I have a look at the comparison done by NelsonHall, IBM's testing revenue is about €1 billion. Accenture and Cognizant are almost at the same size. If you compare us as a group, SQS Group, last year we did with €268. So we are 1/4th of IBMs or Accenture or Cognizant's revenue in testing and if you do some math you can really come to such a number you are looking for. You can look at the website of SQS Group and the result presentation for the last 12 months there, page 13 gives you the indication.

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

Krunal Shah: My first question is regarding the constant currency growth that we would have seen, if the euro had not depreciated, can you just give a number on that?

N. Vaidyanathan: See, the depreciation in euro is approximately 18% to 20% in the last quarter itself and 20% of the revenue is coming from there, so approximately 4% to 4.5% maybe the drop.

Krunal Shah: Okay. And one more question I had regarding the dividend policy, we had been stating that we have a 30% payout policy, but if I consider the Rs.9 regular dividend for this year it comes to 43%. So is there a mark shift in the dividend policy that we will see going forward?

N. Vaidyanathan: See, the current year dividend has been Rs.5 normal dividend plus a Rs.15 special one-off dividend, so it is totally Rs 20. This is with the view to share the accumulated cash balance which has just been there in the system and taking in to account the future use of cash over a period of now 1-1.5 years then we will come back to the same level. So the Board thought that would be a special dividend of Rs.15 in addition to the normal. But that does not mean that this should be repeated again.

Krunal Shah: No, what I meant was the Rs.4 interim dividend plus the Rs.5 final dividend, so total Rs.9, right?

N. Vaidyanathan: Yes.

Krunal Shah: That is the percentage of Rs.20.5 EPS gives me 43% payout.

N. Vaidyanathan: Okay.

Krunal Shah: So we had a policy of 30% payout as per the previous conference calls.

N. Vaidyanathan: Yes, that’s what I am saying, the Board took note of the accumulated cash balance in the system and thought that we will share with the shareholders as a one-time interim dividend, final dividend proposed of Rs 5 normal and Rs 15 special dividend.

Dr. Martin Müller: It is no indication for future, so we will go on with that what you already mentioned of the 30% payout there and this is only a onetime payout at a special moment here after that integration. We looked at our cash we have and we thought it would be good not to hold so much cash in the books and also to give something back to the shareholders.

Krunal Shah: Okay. One last question, when is the next wage revision cycle?

N. Vaidyanathan: Normally for software industry in this part of the country, the salary revision happens in July. So we will be following the same principle.

Moderator: Thank you. Our next question is from the line of Parhana Lambe from Envious Brokerage. Please go ahead.

Parhana Lambe: Hello sir, my question is about the other expenditure. The numbers stated on the presentation are very much different as compared to the numbers stated on the BSE site about the other expenditure, please tell me about that for this quarter and for the last quarter’s Y-o-Y and also for this FY15. My second question is about the billable utilization, I want to know the utilization rate blended for FY14 and Q3 FY15.

N. Vaidyanathan: On the first question on the other expenditure, what has been given in the presentation is the combination of various expenses; you have got a breakup of expenditure whereas in the statutory statement, other than the employee related expenses everything else goes as a part of other expenditure. So if you want the breakup of that we can, write to us offline and we will try to provide you whatever details that are required in that regard.

We had mentioned that last year utilization rate for Q4 was 64% and current year utilization rate for blended for Q4 is 69% and for the financial year 2014-15 it is 66%.

Parhana Lambe: Okay. And for the last year, financial year 2014?

N. Vaidyanathan: 65%.

Parhana Lambe: And for December quarter Q3 FY15?

N. Vaidyanathan: 65%.

Parhana Lambe: Okay, alright. Sir my other question is about, currently we are catering to the Banking, Finance and insurance for software testing, I want to know are there any plans in the near future to even accommodate other sectors like Pharma, etc.?

Dr. Martin Müller: No. We go on, this is what I said, it is quite important to focus, this market is big enough for us. If you look, 50% of the testing market is in US but more importantly 50% of all testing is BFSI. So to give you an example, if you look at a car manufacturer, it is normally manufacturing, but if you look closer, they are turning their business in direction of giving financial services, doing financial services to lease cars or to have insurances for cars. That means we also take into consideration those companies which are predominantly doing or producing something else, but we are focusing on the BFSI part of their businesses. We are not at that stage where we address all possible clients and markets in that area, so it really makes sense to focus and go on with that.

Moderator: Thank you. Our next question is from the line of Abhay Moghe from IL&FS. Please go ahead.

Abhay Moghe: I had one question on the hedging part because you are not having any forward cover other than the loss that is reported of around Rs 5 crores. What does it pertain to – is it a translation loss and how much of it is non-cash versus cash? That is one. Second, I wanted to know how much lead time would you have in knowing that okay from next quarter, after next two quarters you would have a revenue growth of something like more than 5% and my sense is that sense you would get the idea because of the deal wins or something, so how would you be sharing that with your investors? These are the two questions, thanks.

N. Vaidyanathan: In terms of the exchange loss it pertains to translation loss because transaction differences would get adjusted in the current month itself if there is a change from period-to-period, month-on-month that does not reflect in the exchange loss. That's what it is and most of it will be in terms of translation losses.

Abhay Moghe: Okay. So it would be non-cash, should I suppose that?

N. Vaidyanathan: Part of it would be realized, and a part would be pertaining to unrealized loss.

Abhay Moghe: And my next question on the, so basically I wanted to know that you would get a sense like okay by your deal wins or something else that okay say from next quarter or say from two quarters away your revenue growth would be something like more than 5% quarter-on-quarter growth or maybe more than 10% or whatever the number, the higher number. Now that may be because of deal wins or some other data. So whatever that data is, would you be sharing that with the investors or no?

N. Vaidyanathan: We don't give future guidance nor the orders on hand or future orders on hand, we are sorry about it.

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

Amar Maurya: Most of my questions have been answered. Now first on the utilization front, what is the size of bench today? You can tell me what is the employee base on the bench?

Dr. Martin Müller: If you look at the utilization what Mr. Vaidyanathan already reported it's right now at 69% and then you can see our number of employees and if you multiply this….

Amar Maurya: So that is what, I am getting something around 257 employees on the bench based on the 69% closing rate of utilization level. So just I wanted to know, now considering that we are already pitching for a large size deal wins in US and I think US is the key focus area and that is for what we had acquired Thinksoft. So like this current bench is comfortable for you?

Dr. Martin Müller: As I said, we have to look at the blended rates at around 70%, you have to take into account, if you measure the utilization as we do it here and you look at 247 days.

Amar Maurya: Yes, that is the way I am comparing sir.

Dr. Martin Müller: 70% is a level which is good utilization, it can always be better but this is a good utilization in a grown company.

Amar Maurya: Sir, let me frame my question in a different way. What I am trying to sense here is, say the current bench we are looking, I mean whatever is the current bench and considering that because as you had said that you know based on the deal wins we will not be adding the employee because that will not be our approach, we would not be going for just-in-time kind of approach. So we will be actually prepared for our kind of order wins we will be getting. So what I am trying to sense here is that the current bench which we are having and currency utilization level, are we comfortable if in case suddenly we win some large deal form US, we'll be able to execute that?

N. Vaidyanathan: Yes, any new project gets ramped up from a small size to a large size and typically what happens at the time of the negotiations and finalization of the specification we get to know about it. And the just-in-time recruitment would be in two ways, there will be a lateral recruitment and there will also be freshers and when we recruit freshers they take anywhere between 3 to 4 months to get trained under our methodologies and then ready for getting into the client's projects in a matter of about four to five months' time. That's the thing which is being followed. So we would say that the current bench levels are comfortable with the current operations. And if the client requirement goes up the employee base also will go up and correspondingly the bench will go up.

Amar Maurya: Okay. And secondly sir about US, we heard that Dr. Martin talking about few overlaps which are happening into US and Europe, can you give some color on that? And secondly, what are the key developments we did in US which is going to foster a growth over a period of time in US? Like what are the negatives and positives we are seeing in US primarily from the integration part and what we are hearing from our clients in terms of the deals?

Dr. Martin Müller: When I talk about overlap, I want to point out that before the marriage of those two companies happened, they were focused totally on different domains, SQS group in US was more focused on manufacturing and for retail. But as I said, again an example of the car manufacturing area so there is no black or white that you can see, for instance Ford America is only a manufacturing client, it depends on which special area you are there in it. And we will try to make use of that experience in those companies where our manufacturing and retail part from the SQS Group is already in and try to find out and then work if there are possibilities in the BFSI area within those companies. This is what I mean by overlap and specifically where SQS BFSI India is looking for such opportunities.

Amar Maurya: Okay. I think the second question was, what is the development we did in US from the marriage date till today and what are the positives and negatives which we are seeing in US?

Dr. Martin Müller: What we are seeing here is we grew in that particular market. If you compare America with the Q4 of previous year, you see that in relative terms we have the same portion or same ratio, which means America grew in the last year within the same 10% as we see for the whole group. We already grew there, but nevertheless we are looking there for much more growth and we have sales and pre-sales team there in place which has been augmented in the second half of 2014 and we are looking at growth rates higher than average for the whole India BFSI company. I hope it gives you an indication that we want to be above the average growth in US in the next quarters and years.

Moderator: Thank you. I now hand the floor back to Mr. Diwakar Pingle for any closing comments. Thank you and over to you sir.

Diwakar Pingle: Thanks everyone for joining on the call. I think there are still a couple of people waiting on the queue for asking question, but I think the management has got another appointment hence we have to close the call. So the people who are on the queue I would appreciate if you can just drop online to me at dpingle@chistensenir.com or N.V and we will try to kind of get back to you with the answers. And in case there are any further questions we can take it offline and the management will also possibly try to set up some meetings in Bombay shortly and we will let you know that. Thanks a lot for this. Martin, any closing comments?

Dr. Martin Müller: Yes. Thank you very much all who attended the call. We always appreciate your questions and I hope you do not feel bad when we at a certain point say we do not give future numbers. But we are really happy to talk to you and for me it's always interesting to note your interest in our company and your comfort with the numbers at a very detailed level, we really appreciate those discussions at a very professional level. Thank you very much to all. Have a great weekend and hope to hear you or to see you at next possible situation and meet in person. Thank you very much and now back to Diwakar.

Diwakar Pingle: Thank you. Bye-bye. Good evening. Good night.

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