



“Thinksoft Global Services Limited Q4 and full year FY13 Earnings Conference Call”

April 26, 2013

{Earnings Call Coordinated by M/s. Christensen and Transcript prepared by Chorus Call}



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Moderator

Ladies and gentlemen, Good Evening and Welcome to the Thinksoft Global Q4-FY13 Earnings Conference Call. Joining us on the call today from Thinksoft Global are Mr. AV Asvini Kumar – Chairman and Managing Director, Ms. Vanaja Arvind – Executive Director, Mr. Mohan Parvatikar – Whole-time Director, and Mr. N. Vaidyanathan – CFO. As a reminder all participants' line will be in listen-only mode and there would be an opportunity for you to ask questions at the end of presentation. Should you need an assistance, please signal the operator pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference to Mr. AV Asvini Kumar. Thank you and over to you sir.

Asvini Kumar

Welcome to all of you. It is a pleasure to be speaking to you on this Earnings Call at the end of the Financial Year 2012-13. We have sent you an information pack and it gives me pleasure to repeat some of the key points of that. When you look at the consolidated results of Thinksoft Global Services Limited and its companies, we have grown revenues from 121 crores in FY12 to 161 crores in FY13. We focused on margin during the year and that is what I would like to highlight as an opening statement.

So it was very clearly reflected in the fact that we have grown our EBITDA from 12.9 crores to 30.2 crores in absolute numbers, which is an increase of almost 17 crores and the margins itself have grown from 10.6% to 18.7% i.e., EBITDA margins as a % of sales over the year. This has been mainly achieved by combination of factors like slightly better price realizations and doing more work without increasing workforce significantly and also by managing SG&A cost mainly Sales & Marketing costs. As a result, the profit after tax also increased from 11.4 crores to 19.4 crores which is an increase of 71% and consequently our EPS is also now Rs. 19.3 per share which is also an increase of 71%.

So with that let me hand over the session to Vanaja, my colleague, here to reflect on the business situation and allied factors.

Vanaja Arvind

I am very happy to share the details with you on this analyst call. Overall the business climate in US and Europe is definitely improving though the decision cycles still continue to be long between 4 to 6 months but there is a good response, and good pipeline building up. Clients are looking more for solution & strategy, metrics, and success criteria instead of just resources which is an improvement and which is right up Thinksoft's alley and clients are also looking for more fixed price projects. We get more requests for fixed price projects with existing clients as well as new business. In US the offshore ratio will continue to increase because of the uncertainty of the visa regulations and other things, and that request is also coming from existing client shifting more people to offshore, so risk on onsite and H1 visa is addressed. This will result in existing business certain dips in revenue initially but with new projects launches and cost restructuring, the clients will also be happy and we hope that the existing business will also grow in spite of the offshore movement.

Pipeline is fairly improving in Europe, Asia and Australia. We see a good traction for business. We hope to grow these regions. US grew last year and it will continue to grow. We also hope to grow Europe, Asia and Australia this year. Existing Business from clients that is about Repeat business is about 93 % which will be consistent and it will continue to grow and that is the summary of the business climate which we are facing in the market. Now I pass it out for some question & answers.

Moderator Thank you very much. We will now begin the question and answer session. The first question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal If we analyze the numbers of your company, I have been noticing that there is a lot of volatility in the margin over the years and similarly in this quarter itself we have seen a dip in the margins, so what are the reasons behind such kind of volatility?

Asvini Kumar Let me answer this in two parts. I just want to make a statement saying that as a company we focus on yearly goals and year-to-year improvements and year-to-year focus. But if you want to analyze any specific quarter then my colleague, Vanaja, can throw some light on that.

Vanaja Arvind Over a period of time we have increased the business as usual projects which are ongoing billing for the year but as part of testing experts we also undertake transformation projects which are more in the project mode. So transformation projects when they are large they contribute higher number in billing and then in the end there is a different revenue but overall in a year that get adjusted and our growth happens and our profit margins also improve whereas during the year there could be ups and downs and when we are closing an order in US or Europe. Initially we will send more people onsite to take care of client coordination and once the client is comfortable we shift people to offshore and once the offshore shift happens there will be a dip in the revenue, that also contributes to the quarterly volatility of numbers sometimes. But overall the year performance where we focus on as Asvini said and we make sure the year growth happens and the profits also are protected.

Ayush Mittal If we look at the net profit of the Company over the years like in 2008, it was about 10% and then it went to 15% and it dipped to 8% then 2% and then again it went up to 12% and we are doing very well this year. So still there is a lot of volatility in the earnings over the years.

Asvini Kumar It is a combination of two things, what is the size of the company and what is the business we are in and how the climate has also been changing in the market for BFSI and what kind of regional mix do we have and what kind of client mix do we have. So all this goes into what we can do in a particular year. So I think it is a complex combination of all these things.

Vanaja Arvind I think earlier we were focusing more on US and Europe and that contributes to decent revenue and profits in the earlier years. So in last two years we have started widening our sales market engines to Asia and Australia so now we are sort of engaged in a global scenario so

that kind of volatility will not happen as you would have seen in the last two years, there will be a steady growth.

- Ayush Mittal** In this quarter itself the margins have dipped, any particular reasons behind the same?
- Asvini Kumar** Yes, it is the consequence of having a dip in revenue, so obviously the utilization will be lower and also I think the FOREX moved the other way during the quarter so these two should explain the dip.
- Ayush Mittal** No the FOREX was pretty favorable as the rupee was at 54, 55 during this quarter.
- N. Vaidyanathan** It is not just the rupee dollar, we do business in Pound, Euro, etc. I think there was a cross currency fluctuation that has resulted in about 1.1 crore negative in FOREX mark-to-market.
- Ayush Mittal** Similarly if you look at the balance sheet your company has been sitting on a decent amount of cash since over the years, there has not been a significant effort of deploying the same? What are the thoughts going forward?
- Vanaja Arvind** I think in last two years we had announced an acquisition and we are still on the lookout, and two prospects after months of work has not produced good results and we have to walk away from that and this year we are more aggressive and we are hoping to do that, and that is the reason for the cash. Also we have brought our own premises for which we have spent some of the money. We have gone to debts for that but not significant amount, most of it came from our own cash.
- Asvini Kumar** In fact we had enough cash to buy premises but we balanced it out with a little bit of debt to keep the cash ready so that if we find our target we can deploy it.
- Ayush Mittal** So this borrowing of 11-12 crore on the balance sheet is for?
- Asvini Kumar** Yes for the acquisition of our own premises in OMR in Chennai. So we don't have any rented premises now in Chennai.
- Ayush Mittal** We did not utilize the cash we had in the balance sheet for the same?
- Asvini Kumar** We did not because still ongoing efforts are there to deploy the cash to make right sized acquisitions for us to grow the business.
- Ayush Mittal** Any thought of doing a buyback or something? As the company fortunes are improving and yet you have cash in balance sheet may be it will help in increasing the promoter holding too?
- Mohan Parvatikar** We do not have any plans of buy back as of now.

- Ayush Mittal** One more thing, in the FY12 annual report, if you look at the numbers there is a consultancy charge of 20 crore which was not so high over the last years, it was a very small amount. All of a sudden it has increased significantly to 20 crore as a consultancy charge. What is that charge?
- N. Vaidyanathan** Yes, but which page if you could tell me. Or if you could send a mail to us, I will respond to you.
- Moderator** Thank You. The next question is from the line of Gaurav Sood from Kanav Capital. Please go ahead.
- Gaurav Sood** One of the things is the numbers from the last quarter was a little bit of disappointment so one thing we wanted to understand was as I heard earlier was that the utilization level has gone down so going forward for the coming quarters and for the year you still see that trend or this was just one-off blip?
- Asvini Kumar** I think the general feeling for the year is that we will be bettering the NASSCOM projected industry growth rate in dollars.
- Gaurav Sood** So the NASSCOM projection is 12 to 14% in dollar terms so you are hoping to beat that?
- Asvini Kumar** Yes.
- Gaurav Sood** What you are pointing out if heard you correctly that's the overall goal for the year but quarter-to-quarter it can go up and down?
- Asvini Kumar** While there is an effort to smoothen out things, I was just mentioning that all the factors like company size, market mix, our offering mix, and our customer mix – it's very difficult to control all these variables on a quarterly basis. But we have a business model and methodology which we are able to do that on yearly basis.
- Gaurav Sood** So the other thing is that the trade receivables if you see on a year-on-year basis they have gone from 23 crore to 41 crore. So that is a big jump, any specific reason for the same?
- Vanaja Arvind** One is the increase in revenue over the period of years and of course receivables also increased, and also market conditions all clients are asking for 90 days. We have accommodated that and since the company has sufficient cash balance we are not too worried about 90 days because the clients we go to are marquee clients and we do not have bad debts.
- Asvini Kumar** Actually the previous year of 71 days was an exception rather. The norm is 90 to 100 days.
- Gaurav Sood** So normal trend would be 90 to 100 days, last year was exceptional?
- Vanaja Arvind** Yes.

- Gaurav Sood** Another small number that I came across was that the promoter shareholding was reduced from 54.09% to 53.82 % - so any reason for the same?
- N. Vaidyanathan** In the last quarter in January, 72100 shares have been allotted to employees by the virtue of exercising their options. So the total number of shares issued went up so the promoters' shareholding absolute numbers remain the same. The percentage has come down because the 72100 new shares have been issued.
- Gaurav Sood** So you have an active ESOP vesting scheme currently.
- N. Vaidyanathan** We already had the ESOP scheme since 2011 and the vesting is over the period of three years.
- Asvini Kumar** In fact the promoters' absolute numbers have gone up. But the ratio has come down because the new shares were issued.
- Gaurav Sood** Last year a big let up in the margins was driven by the rupee depreciation that happened against the dollar. Given what the scenario is considering dollar terms you are also hoping for an improvement in annualized margins year-on-year in a same currency basis?
- Mohan Parvatikar** Last year the increase in margin was not only because of dollar-rupee rate. We have grown utilizing more people and controlling cost and things like that and this year as Asvini said we are hoping to get a NASSCOM growth rate and the margin would really depend upon how the rupee-dollar moves.
- Gaurav Sood** I am assuming if we extrapolate everything in dollar terms, do you hope to improve on our utilization rate which I assume would be currently close to 70% or so.
- Mohan Parvatikar** Looking at it from this point of time our aspiration is definitely to increase the utilization rate but with the project exigencies, we should make it either way. I do not see any reason why we should not repeat the utilization that we have done in the past.
- Gaurav Sood** I was looking at your earnings report and the number of clients that are in the \$0.5 to \$1 million they have gone down. So any specific reason for the same?
- Mohan Parvatikar** I think you are looking at quarter-on-quarter.
- Gaurav Sood** Yes on quarter-on-quarter.
- Asvini Kumar** If you look at year-on-year you will get more consistent picture. Quarter-on-quarter will be subject to too many dynamics.
- Gaurav Sood** Asvini even on a year-on-year basis given the fact that the company has grown by almost 35%+ so those numbers should have logically would have gone up.

- Vanaja Arvind** 93% is the repeat business.
- Mohan Parvatikar** 3-6 million clients we have added one which has gone up from 2 to 3.
- Gaurav Sood** If 93% is repeat business then going forward do we see that similar trends will apply because then that puts a challenge in terms of the growth of the company, do you see any new segments or customers contributing significantly to your revenues?
- Vanaja Arvind** We work only in the BFSI area and it is repeat customers who are giving us business and that business is also growing.
- Mohan Parvatikar** The potential is huge in each one of our clients. So there is no limitation for growth.
- Gaurav Sood** So currently if I assume correct there is no hedging policy that the company is following. So the currency fluctuations do impact the reported numbers.
- N. Vaidyanathan** Yes, that is right.
- Gaurav Sood** Has the company formulated any dividend policy or again it is just driven by the cash flows that are coming through?
- Asvini Kumar** Last year we gave 50% and this year we gave 60%.
- Gaurav Sood** So if we should read it as on a consistent basis you would aim to increase the dividend or at least maintain it?
- Mohan Parvatikar** There is no stated dividend policy but looking at the opportunities that we have for deploying cash, we need to keep cash because this is an important strategic initiative to have enough cash so that we don't run out of it. Keeping these two requirements in mind we will definitely try and declare dividends accordingly.
- Asvini Kumar** What we have done in last two years, very few people have documented the dividend policy which will state in the directors report, you can count them, two or three companies in IT sector. But if you take payout norms, I think last two years we are there.
- Gaurav Sood** The payout terms for last year was high because it was on a 5 crore dividend on an 11 crore profit and this year payout gets reduced because it is on 19 crore profit, it is 6 crores. So one way of thinking about it that the dividend will be paid consistently as long as the cash flows allow it, it will at least be maintained. And the other way is that some company says that a certain percentage of the profits will be paid out as dividend.
- Vanaja Arvind** It is also based on the expenses planned and other things. One initiative which we are taking is creating IT based offering so we need to reserve some funds for that. Second one strategic

initiative acquisition for which we have reserved some funds so we want to focus on that hence the cash is required.

Asvini Kumar I think your question is reasonable if we go in a different direction there will be very strong business case, demonstrable benefits to shareholders as to why it should not follow the norms.

Gaurav Sood So last year there was not a big jump in the employee base but this year do you anticipate increasing your employee base or still you are aiming to keep....

Vanaja Arvind The employee base will not grow much mainly because if there is some hiring to be done it has to be done in US or whichever country we have to work because there is a lot of resistance for people moving from here to there or there to here, sort of visa restrictions and cost is also increasing, so we expect offshore to grow between 50 to 100 in the coming year depending on the orders closed.

Gaurav Sood I did not get Vanaja, you are saying that you are not going to hire in US but in India you are aiming to hire between 50-100 people?

Vanaja Arvind 50 to 100, the offshore base might increase.

Gaurav Sood Your offshore base might increase so people are moving from onshore sites to offshore and the overall....

Vanaja Arvind Not because of that. Net addition will be 50-100 over a period of year not in the first quarter. We will have a close monitoring on the utilization because there is a desire to improve utilization so based on which the hiring will be done as we close the orders.

Gaurav Sood So any serious impact on the migration bill that is happening and how it will impact the H1 and H1B visas to Indian companies.

Vanaja Arvind As I covered in my initial introduction statement, the clients have also becoming sensitive to that and they were trying to increase the offshore ratio and reduce the onsite components so that risk of having too many people onsite will not happen to them or us. That has been happening and that is one of the reasons why in the fourth quarter there was a dip because some people from onsite moved to off-shore. We have not lost any business and nor is there any ramp down but the mix has changed. So our offshore component will significantly increase and that would help us in more stable business so there is a slightly dip in the quarterly revenues up and down.

Gaurav Sood You have talked about your two initiatives, one was about going to new geographies and the other initiative was around selling these compliance services to help CTOs and CXOs certify, any progress on the two initiatives?

- Vanaja Arvind** AML offering, we have offered it to four-five banks in US and these are small AML pack, the total project is about two-three months where the compliance offering is tested and reported, and those are the kind of offerings which shows you increase number of clients of 0.5-1 million and then there is a dip because the project gets closed.
- Gaurav Sood** So are you trying to get the repeat business out of these one-off mandates?
- Asvini Kumar** No, it will be periodic because when they have to upgrade and when they have to re-certify they have to do the same thing again.
- Gaurav Sood** And wins in new geographies, last year you have got some traction in US so what the status in US and may be other regions?
- Vanaja Arvind** US has grown from 17% of our revenue to 24%. We expect a similar growth this year but we also expect growth in Europe and Australia.
- Moderator** Thank you, the next questions is from Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal** Similarly another thing balance sheet item which I wanted to understand is - if we look at the balance sheet of your company the fixed assets were pretty low at hardly 4 to 5 crore, so was the company not having its own property and those things till 2011?
- Vanaja Arvind** We had, MEPZ was done after the IPO and we opened it in 2011 and the other asset was bought this year. we started operation from January 2013 from the new premises which is our own asset, till then we were in the rented premises.
- Ayush Mittal** So even in the fixed asset schedule majority of the part of the SA was intangible asset of some software of majority amount.
- Vanaja Arvind** Yes, HP tool we acquired for business.
- Ayush Mittal** Can you give little more details on that?
- Vanaja Arvind** It is a test automation tool, which we got perpetual license from HP. So it is a global license so all test automations for our clients in any part of the world we can do it without any infringement of IT violations. So we got ownership for the perpetual tool from HP and we paid for it. We are utilizing it now in all our automation projects.
- Asvini Kumar** It is an enterprise license agreement with HP.
- Moderator** Thank you. Since there are no more questions, I would now like to hand over the floor back to Mr. A. V. Asvini Kumar, over to you Sir.

Asvini Kumar

We thank you all for participating in the earnings call. If you have any further question which is not covered you can write to Mr. N. Vaidyanathan – the CFO, at our registered office and we will be glad to get back to you with our answers and clarifications. We will respond to that earlier question which was on the consultancy charges. A detail reply for that we will send it by email. So with that once again we thank you and call the proceedings to a close. Thank you all again.

Moderator

Thank you. On behalf of Thinksoft Global that concludes this conference. Thank you for joining us.