



“Thinksoft Global Services Limited Earnings Conference Call”

July 25, 2014



MANAGEMENT:

Dr. Martin Müller, Managing Director, Thinksoft
Mr. René Gawron, Director, Thinksoft (& CFO of SQS)
Mr. N Vaidyanathan, CFO, Thinksoft

MODERATOR:

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

Moderator

Ladies and gentlemen, good day and welcome to the Thinksoft Global Service Limited earnings conference call for the quarter ended June 30th 2014. As a reminder, 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, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle of Christensen. Thank you and over to you sir.

Diwakar Pingle

Thank you Inba. Welcome, good afternoon, good evening, and good morning to all the participants wherever you are logged in from. Welcome to the Q1FY15 earnings conference call of Thinksoft Global Services Limited. I am sure all of you have got the results that we mailed out yesterday. In case you have not got the results, please let me or N Vaidyanathan at Thinksoft know and will be happy to do the needful.

To give a brief overview of the quarter gone past in the general business in general, we have Dr. Martin Müller – CEO & Managing Director, Mr. René Gawron – Director and Mr. N. Vaidyanathan – CFO of Thinksoft here to present to you and then take the question-answer session. Dr. Martin would primarily give a brief overview of the business and then we will go on to some detailed financials from N Vaidyanathan and René would possibly join in the management during the Q&A part of the call. With that said, I will hand over the call to Dr. Martin Müller. Over to you sir.

Dr. Martin Müller

Thank you very much for your introductory words, Diwakar. Good afternoon to everybody attending the call. So we are really proud to present you the quarter’s numbers and give you our business overview. So I will start with this now.

We are happy to report that our net revenues grew in this quarter by 19.2% in terms of rupees; we achieved in this quarter Rs.513 million net revenue compared to Rs.430 million first quarter last year. The comparison, will be year-on-year, as this is the better way to report the results as it will enable to get a view to the business. This was a great quarter for us in terms of revenues and it shows that we are continuing on our growth path. So geographically, it was North America and Europe which were quite strong. Strongest part of that is Europe with almost around 50% of the total business coming from Europe (registering a growth of 33% compared to previous year and more than 20% of the revenue coming from the North Americas; and that we have increased our business in North America by 27%; these have been the main drivers for the growth.

Coming now to the break-up of the revenue between the segments; Banking practice continues to be main driver. This is our main focus area and is followed by Cards and Treasury. There is nearly no change in the percentage terms, but as the business grew, all those 3 sectors which mentioned banking, treasury card were responsible for this secular increase. On the clients

metrics, the number of clients increased by 11. As of June 2013 we had 74 active clients (last 12 months), and as of quarter ended June 2014 we have 85 active clients (LTM). So this shows that the business is growing on new client additions. On the client's concentration between 0.5 and 1 million, 1 million to 3 million and 3 million to 6 million, there is no change which means that the additional 11 clients have to be mined. In our line of business, all business consulting assignment starts small and it then develops, which then sets up a good base for future growth.

Coming to the revenue breakdown in terms of onsite (delivery with landed resources at client side) and offshore (delivery in our test centers in Chennai and Mumbai), the onsite part of the revenue increased from 51% to 55%. As a consequence, the offshore part decreased from 49% to 45%, but as I said all business starts small and also most of our engagement starts onsite that means that we have now broad base for future business offshore. We start business onsite and this will be transitioned in future to offshore business. In terms of our employees count, we added significant number of billable staff that sets us up nicely for future growth. I also want to point out that all non-billed staffs which includes business partners in sales and marketing are still at the same level as last year. We added only billable staff to fulfill future business growth. In summary, I am pleased to report that after the two quarters of SQS overseeing the operations and with this further investment in this billable staff I already mentioned, the company is now well positioned for future growth. So this is the business overview in a few words and I would like to hand over to N Vaidyanathan in order to give some additional finance numbers.

N. Vaidyanathan

Good afternoon to all the participants. Adding on to what Dr. Martin Müller mentioned about the performance of the first quarter, the income has grown by 19% compared to Q1 of last year to Rs. 51.8 crores. The EBITDA stood at Rs. 10.1 crores compared to Rs. 10.7 crores during the corresponding period of the last year. EBITDA margin stood at 19.7% compared to 25%. During the current year first quarter, the exchange gain accounted for Rs.0.57 Crores while the exchange gain during the corresponding quarter of the last year was Rs. 5.23 Crores. This is one of the reasons why the margins have come down. The book debt stands at Rs. 60.8 crores at 110 days. Cash and cash equivalent balances continued to increase to Rs.53.6 Crores as compared to Rs.48.3 Crores for the corresponding period of last year. The total headcount stands at 925 compared to 779 of Q1 of last year with delivery accounting for 851 compared to 706. During the first quarter, there were 45 people added. All of them are on the billable delivery mode. With that, I hand over the floor back to Diwakar to take the call forward. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja

Just wanted to understand your parent essentially has won a whole large number of deals which they announced few weeks back. Just wanted to get a sense on when do we expect the ramp-ups of these deals happening at Thinksoft side and if you could also talk about the medium term margin outlook for Thinksoft?

- Dr. Martin Müller** Just coming to that answer, you referred to the announcement of SQS.
- Manik Taneja** Yes.
- Dr. Martin Müller** Thinksoft was mentioned for two main accounts there. At this moment, we cannot give numbers on what percent of that will be for Thinksoft; but as we said we are preparing for future growth and business pertaining to our domains is to be assigned to our entities which will fulfill those requirements to the customers. We are convinced that Thinksoft will take significant part of that.
- Manik Taneja** And if you could talk about medium term margin outlook for our business and also what are the factors that contributed to the decline in margins in the current quarter on a sequential basis?
- Dr. Martin Müller** We can't and we won't give any future guidance for that numbers. Nevertheless, we are on the growth path and we will strive to improve the margins based on those engagements.
- René Gawron** This is René Gawron. I can also add something to this. I think as Martin mentioned earlier, the key reason why the profit margins or gross margins were little bit down in the first quarter was mainly because there was investment in headcount build up to be prepared for additional business in the quarters ahead of us. So if this additional business comes, the margins goes up because of better utilization and the other point was with the higher share of onsite business with landed resources being deployed outside of India, initially this is always a slightly lower margin business than the pure offshore business, but this is also of temporary nature as many new deals which started at Thinksoft where starting with onsite, and we expect therefore that the margins will increase due to better utilization and again a higher offshore share in the future.
- Manik Taneja** René, if I can chip in more questions since you are also there on the call. There is a plan for a joint go-to-market between Thinksoft and SQS and as far as I understand, SQS essentially started focusing on the US market almost about 18-24 months back. If you could talk about how are clients reacting to the joint Thinksoft plus SQS value proposition in the US market and would you expect growth in the near to medium term to be led by Europe or US in the overall scheme of things.
- René Gawron** I think it is the biggest growth potential in the near term that is in the next 12 months, we expect mainly from the US market as well as from the UK market and selected European countries. On the US market, there is the strongest focus the joint sales teams will have. In fact SQS did not have the dedicated US financial services, banking, sales team so far, but the de facto integration has happened very well with our existing sales organization by helping them. So we do expect that will be the biggest potential for wins and additional business for Thinksoft will be from the US market in the next 12 months. And in the other key market, we are focusing on mainly the UK market plus few countries like in Benelux. The sales team at Thinksoft and SQS on banking financial services now is fully integrated and they operate from

the same office from the City in London to really use much increased firing power. So the UK market mainly is the second kind of priority market where we expect substantial growth by winning new deals in the next 12 months.

Manik Taneja

Sure and if I could ask for some more details on the deal wins that have been announced by SQS and Thinksoft. Since Thinksoft has been identified as the partner who will execute that part of the business. So some of these deal wins on the BFSI side, would these be from the existing customers of SQS alone or Thinksoft would have been doing business with some of these customers in the few things past as well?

René Gawron

Well, in fact the deal wins which SQS announced 3 or 4 weeks ago were all with existing clients, there was one new client in there which was a utility / energy company, which is the new client. All the other ones, there was a big banking client which was the biggest deal win of €30 million and is a long term deal. This is an extension of a longer term deal. This client and others have been particular SQS clients and initially there is no share in there for Thinksoft. But we are working on that. There is no initial share and therefore we are trying to get now to use the domain expertise Thinksoft has, to kind of convince those clients also that we can restructure the delivery of those projects.

But initially, I think Thinksoft's domain competence does play a part in ensuring that we get further extensions which are quite substantial. The extensions amount to more than €60 million which is roughly about \$80 million, so that is a lot of money. But, it does not mean that there is right away additional business for Thinksoft in there.

I always said it will take about a year. I think we do not expect substantial additional business to come to Thinksoft from SQS this year. There will be little bit, but not that it really changes the game. But usually after a year or two which would be 2015 we should see more of that.

Moderator

Thank you. We will take our next question from Amar Moria of IndiaNivesh Securities. Please go ahead.

Amar Moria

Sir, first thing what was the utilization rate during this quarter if I can get?

N Vaidyanathan

Yes, the blended utilization for the quarter has been 62%.

Amar Moria

Sir, I believe in Q4 it was 72%, right?

N. Vaidyanathan

In Q4 it was 64% and for Q1 of last year it has been 62%.

Amar Moria

Sir, any outlook on the utilization because if I am not wrong in the last to last quarter we had alluded that we had a potential to scale up this utilization to 72% levels. So any specifics on that and why the utilization went down during this quarter?

Dr. Martin Müller You mentioned the right points on the margin. Utilization is the key in our business. And as I said that we have added people, we built people domain experts and technical experts to fulfill the future requirements. We are now at a stage where we have scaled up for future growth and this should also have an impact on the utilization. However, it is too early to say what this number would be.

Amar Moria Sir secondly, in terms of your geographic revenue mix what I see here is that North America on a sequential basis as well as Asia on sequential basis has de-grown and this was the same trend which has been seen in the Q1 of 2014. So is there anything seasonal to the business model per se or what was the reason for that?

Dr. Martin Müller We have always some up and down movement in percentage terms if you look at certain months hence it is much better to look at quarters and to compare quarters year-on-year. So if you see, what I mentioned Europe and North America is the key for us as far as growth is concerned; nevertheless all regions are important for us in order to balance our business but those two regions are our focus.

Amar Moria No sir, I agree with that obviously I mean on a year-over-year basis the performance in North America and Europe has been good. But what I see here is if I go historically in Q1 of Financial Year 14 that is March 2013 the growth on the North America and Asia Pacific has shown a de-growth of 20.5% and 9.3%. So I wanted to understand is there anything specific and seasonal to the business model of SQS.

Dr. Martin Müller Of course now as a company with a bigger focus because we are now merged or integrated with the whole SQS group this will have a future impact. So we are fully confident North America will give us future growth.

N. Vaidyanathan And to add to what Martin said in absolute numbers last year Q1 North America contributed \$1.5 million while the current year Q1 it has gone up to \$1.8 million in absolute numbers the revenue numbers have grown and in terms of geographical segmentation, it has gone up from 20% to 21.8%. So the focus is on the potential market in North America.

Moderator Thank you. Our next question is from Rishi Maheshwari of Exide Life. Please go ahead.

Rishi Maheshwari Sir, I want to know what are the broad parameters that encourages you to look at off shoring the work that you would have won on a joint go to market, what encourages you to offshore that work to Thinksoft because I am assuming there will be a couple of reasons. For instance what you would be looking at is whether Thinksoft has a domain expertise within the work that you have won. Whether there is enough cost arbitrage of off shoring it. So as some of these parameters and some more what is your thought process on that?

Dr. Martin Müller There are two parts. When we look for the additional business in the market we do look at new clients and to mine them and as mentioned by René Gawron we also focus on the existing

clients in order to get incremental business. Mining existing clients is more in our focus than before and we are building capacity here in Thinksoft to make use of that. So we are now focused on looking at this from SQS' point of view to offshore the BFSI business to India.

René Gawron

There is another trend. This is René. If I may add to this which we are trying and we will see there is a trend in the market which we are influencing is to also move more testing services business to fixed and output based pricing so kind of away from time and material and especially with respect to off shoring business if it is fixed price it is easier to offshore the business because then the client typically does not care from where you deliver the services. So more fixed pricing for us is the key to also move more business to offshore and the market is taking this up very well.

Rishi Maheshwari

So in the new clientele wins that you have seen off late what proportion of the business usually in the first year comes to Thinksoft and subsequently how does it increase over the years?

René Gawron

Well, for us to say this from an SQS point of view in the current year which is kind of the first year where Thinksoft is part of SQS group we said that there is still only very little business where I could say oh, this is business which was won by SQS and goes to Thinksoft. This is 1% or 2% may be of Thinksoft revenue roughly this year.

We are working on some deals where we expect a higher potential for next year. I always said that it always takes at least 12 months so you have got to kind of wait until 2015 that you will really see and we expect there will be a stronger financial impact visible of such business.

Rishi Maheshwari

Secondly, on the cost items that you have been mentioning you were saying we have been saying that employee expenses have seen higher because you have done a lot of hiring. However, when I see the consolidated results as I see last quarter employee expenses was close to about Rs. 35 crores. This year it has been about Rs. 31 crores. So is this the result of some employee rationalization that would have happened or what could it possibly be?

N Vaidyanathan

See the employee cost would be a resultant of onsite and offshore deployment. The onsite salaries are higher than the offshore. So the mere headcount should not be taken in to account for that. This is an account of the combination of the onsite, offshore mix as well as the number of employees.

Rishi Maheshwari

So I am assuming in this quarter there have been larger proportion of onsite work that would have happened as versus the onsite work that has happened last quarter?

N. Vaidyanathan

Yes, that is right.

Moderator

Thank you. Our next question is from Sonal Kohli of ENR Advisors. Please go ahead.

- Sonal Kohli** I have couple of questions. Firstly, the new deal wins which Thinksoft has got from the existing customers you mentioned that bulk of the business is from the existing customers. Are these for new business or are these old long term deals which have got replenished for you?
- N. Vaidyanathan** It is a combination of both. We have continuing clients and now we have the new clients giving the business but in terms of the proportion of the large clients and 1 to 3 million and 3 to 5 million the proportion is almost the same. I would say the quantum of business distribution has remained fixed.
- Sonal Kohli** Sorry I could not hear you properly. Just to repeat my question what I was interested in knowing was that is this business which you have won from your existing clients or is it the recurring business or some kind of long term deal which you have again got or this is additional business which you have got from the existing clients?
- N. Vaidyanathan** Are you talking about the press release?
- Sonal Kohli** Yes, the SQS deal.
- René Gawron** That is very easy. The SQS press release talks about the majority of the deals including the large banking deal that we won are extensions of already existing deals in the SQS portfolio. There were actually two new deals in that which are outside the financial services which was with a UK based utility / energy company and a telco.
- Sonal Kohli** And is there any clarity on which part of the SQS business will go to Thinksoft and which all verticals and when you go for GOTO market strategy how would you share the margins between SQS and Thinksoft and who will bear the SG&A spends?
- René Gawron** Yes, first of all we are giving new won banking financial services and insurance business predominantly to Thinksoft. So we have a clear distinction that if it is BFSI and if Thinksoft has offshore capabilities or if there is special expertise capability, Thinksoft can cover that. Also it goes to Thinksoft because Thinksoft has the strength in the BFSI field, so that is quite easy. If it is a telecom or an energy deal client it would go to SQS in Pune which is our other India offshore center or would go to other locations. So that is quite an easy one.
- The other one how do we share kind of the margins of the business? Well, first of all the key factor is about who can deliver and who has the expertise and capacity. And the reason why we have invested in to Thinksoft is because they do have a lot of expertise around banking applications and all that. So we will always seek to give the biggest part if possible to Thinksoft and if there needs to be kind of onsite consultancy or other languages that have to be covered we would cover this with existing SQS staff and locations.

And on the sales costs and sales effort we are looking at this deal-by-deal how we share this which is always around what is the expertise somebody can bring to the table for it to win a deal. That will determine how those efforts are shared and the costs are split.

Sonal Kohli But for the business which you will offshore to Thinksoft is there any kind of transfer pricing margins, which you have factored in because SQS is winning the business for Thinksoft then a part of the margin would I guess will be retained by SQS?

René Gawron Well, of course there will be, we will implement the transfer pricing schemes which is currently kind of worked out by a third party auditing firm that will make a proposal but that needs kind of all parties and protects everybody's interest and will be at arm's length principle but we will also keep in mind who is having the sales efforts; who is having the efforts because that needs to be covered by margins which means SQS or Thinksoft as the efforts to do ongoing client engagement and the margins will always be split in the way that, who has the cost also gets the margin and has a sufficient reasonable profit margin.

Participant Sir, what I meant was that for the deals which SQS will win, both the margins' of Thinksoft will be less than what is making today because of the profit share?

René Gawron I do not expect that, because the deals are additional deals and in the first place they would rather improve the utilization. There are two other things which are far more important for margins is if we have better utilization due to better visibility, may be you know this because SQS has about 50% of its business from BFSI, we have those long-term deals, which would run multiple years, where we have multiple years' order backlog that usually improves utilization, and that has a much higher effect on the gross margin and profit margin than any transfer pricing and the other point is we are trying to look at the bigger part of the business to more fixed than offer based pricing which also allows us to apply things like test automation where we know Thinksoft has lot of expertise in that. Also, this is a much more positive effect on profit margins than many of us would probably imagine. So, therefore these are the key metrics we are working on to improve profitability. So, if you require a clear statement, we are not expecting to decrease profit margins in Thinksoft but we actually try to do the other way around.

Moderator Thank you. We will take our next from Sangam Iyer of Subhkam Ventures. Please go ahead.

Sangam Iyer First couple of questions is just clarification, because the line was not clear. Did you mention that onsite revenue went up during this quarter right or was it offshore revenue that went up this quarter?

René Gawron It was clear that onsite revenue grew, it grew by absolute numbers and of course, in relative numbers. So, it grew the onsite revenue from 51% to 55%

- Sangam Iyer** So sir, in that case I mean in terms of the effort mix put in, won't it entail higher deployment of employees onsite resulting at least in a relatively absolute increase in your employee cost.
- Dr. Martin Müller** As we said the employment cost for onsite was higher and it had an impact on the margin as the offshore percentage went down. But nevertheless, it does not mean that this is black or white; we have to find the right balance and you have to just follow the clients. As I said, we added 11 new clients, and we added them last year. So, this is the base to be able to send them from onsite to offshore.
- Sangam Iyer** Thanks sir. On a sequential basis, when we compare the employee expenses, they came down from Rs.34.5 odd crores to Rs.31.3 crores. So, I am just trying to understand because the math does not work here, because if your onsite employee growth has increased sequentially in terms of effort mix, then automatically at least in the absolute terms also your employee costs do tend to go up right on sequential basis, but that has actually come down by 10%, while your effort mix on onsite has gone up by 10%. Was there any one-off in the last quarter in terms of some hikes, etc., which did not recur this quarter and hence the balancing act here.
- N. Vaidyanathan** There is no one-off during last year first quarter. It is a specific composition of the geographies under which we employed offshore. For instance if we deployed resources in Europe and US, the costs will be higher than we have in Middle East so it is the combination of several things, like onsite-offshore mix and then the skills of the employee all put together. There has not been any one-off charge in that.
- Sangam Iyer** And secondly on, again a clarification in terms of the Renewals that we did announce from SQS press release, what percentage of those would actually be BFSI? You said one of the contracts were non-BFSI. What percentages of the others were would that come under BFSI?
- René Gawron** I think you allude to the renewals SQS has announced right? Because, Thinksoft only has BFSI business. Of the Euro 60 million we mentioned, which was mostly renewals, 30 million was BFSI, so actually, almost exactly 1/2 of that and other 20 million were Telecommunications and Energy and Utilities and little bit of other business automotive as well. So 50% was BFSI.
- Sangam Iyer** So this is the targeted business that over a period would actually move to Thinksoft.
- René Gawron** No, actually this is the deal currently where we are working on and hope to get a share in the future to Thinksoft. Right now this is the deal with a large European bank which is in German language and needs to be unfortunately be executed actually onsite in the German-language environment. So, right now we could not put any into Thinksoft, but may be to give you some idea— there is a positive sign even in this field, there will be three resources now from Thinksoft working on it in some other locations. So, we are trying to find opportunities and provide parts of those deals to both Thinksoft going forward. But as I said, the real effects, you should not expect this year and rather wait for next year.

- Sangam Iyer** Sir, with regards to revenue visibility from an investor perspective to understand how the growth in Thinksoft would be - other than the contracts that you would announce on and off from Thinksoft or SQS and Thinksoft put together, is there any order backlog or anything that one should be tracking based on which we get some visibility as to how things are progressing or how thing would progress for Thinksoft going forward for this year and next year. Is there a way to understand the business here?
- Dr. Martin Müller** We do look at this and as you mentioned some of the orders of SQS can flow to Thinksoft over a period of time but for the moment we cannot give you specific numbers.
- Moderator** Thank you. Our next question is from Jigar Valia of OHM group. Please go ahead.
- Jigar Valia** Sir, my question pertains to, as far as SQS is concerned, I understand about say BFSI would be about 45% to 50% of the overall business? But you also have a lot of business which would happen in places like Germany or Nordic countries or non-English speaking countries. So, first question is that what percentage of SQS BFSI business would be coming in from English-speaking geographies or something that is probably potential at some point of time can be outsourced to Thinksoft. And related to that is basically as far as the growth in Thinksoft in the medium-term over the next 12 months, over the next 3 years, would come in mainly from the new business or would be from the existing business of SQS within this English-speaking BFSI?
- René Gawron** If I take the BFSI part, you are right, the total SQS is about 50%, the Banking Financial Services and Insurance business. Of this, most of the business is predominantly from non-English speaking countries like Netherlands and others are involved. I probably say about 75% of the SQS BFSI business is not English, and so it is not easy to outsource really to a player like Thinksoft, but 25% is from English-speaking countries. We expect as we mentioned earlier that there is a key focus on growth in America and in the UK. We also envisage more new business and some cross-selling also from the existing German-speaking deals into the English-speaking subsidiaries of those banks. But actually, we rather expect new business to form the bigger growth potential for more offshore at Thinksoft in the future.
- Jigar Valia** Next question is sir, if you can just briefly highlight in terms of the reason for increase in the debtor days and if you can explain in terms of the differential dynamics between say Europe business versus Asia for Thinksoft Global in terms of the quality of work or in terms of margins. Let me know if the debtor days' increase is also function of that.
- N. Vaidyanathan** The reason is that couple of customers have changed their processing mechanism and the new process is getting implemented, hence the payment cycle has been affected. Subsequent to the close of the quarter, we have collected almost Rs.40 million. It was supposed to have come in June itself, now it has been collected around up to 17th - 18th of July. However, we continue to try and bring down debtors day at manageable level.

- Jigar Valia** Any specific geography or there is a client concentration or this could be the most steady state of number to look at?
- N. Vaidhyanathan** There is no specific concentration on debtors' days.
- Moderator** Our next question is from the line of Manju Bhashini of Sundaram Mutual Fund. Please go ahead.
- Manju Bhashini** What would be the proportion, what would be the offshore mix of the SQS revenues that are likely to come to Thinksoft. You said in earlier part of the call that around 50% of the renewals that can come to Thinksoft, 50% of \$30 odd-million. What is offshorable there, I think you had also mentioned that 75% is from the non-English speaking countries which are not easily offshorable. So, is it right to assume that only 20% to 25% is offshorable and that will also happen in phases over a period of time or how should we read into that?
- René Gawron** Yes, I am happy to take that. As of today, it is that around only 25% of the Banking business SQS is having today is easier to offshore to English-speaking countries or to Thinksoft because it is in English. That is correct. So, therefore we are working on extending those deals. But we are also working on winning new deals and could also be winning new deals with clients we currently work within the German-speaking countries in banking, because they do have subsidiaries and other activities whether it is in private wealth management or investment banking in English-speaking regions in the world, rather it is South East Asia or North America, in order to have a quicker means to bring more offshore business to Thinksoft. Otherwise, it will take a longer while and that is not our intention.
- Manju Bhashani** In that sense, then what is immediately offshorable and from where Thinksoft can derive some benefits as around \$7 to \$8 odd million. Is that right?
- René Gawron** I would not comment today on exact dollar amounts because at the end it always depends on 1 or 2 or 3 specific deal decisions you have got to make and you have got the client to like the decision. So, we are working on that front, but we are not giving any numbers what the effect would be. But we do expect more visible effect next year.
- Manju Bhashani** And on the people front, right now we are on the 880 odd people and if growth has to come through it is just linear-based model, what Thinksoft is doing. So, on the people front what is the kind of confidence we have in recruiting the people needed if the growth comes through or what is the kind of time way you think you need to scale up for the business that may come through?
- Dr. Martin Müller** We will be aligning of course our projects requirements and client requirements with the recruitment. So far, we have been successful to attract people with requisite talents for our business, so this is also visible in the increase in billable staff number. And we will look on how fast we can develop the clients for the engagement, so that is we can add more domain

specialists and technical specialists in future. We are quite close to the hiring market, to the recruitment market, so that we are able to be an attractive company for the people we are looking for.

- Manju Bhashani** Sorry, I might have missed it, what is the current utilization rate in Thinksoft.
- N. Vaidhyathan** Blended utilization for Q1 is 62%.
- Moderator** Thank you. Our next question is from Pranav Mehta of Valuequest Research. Please go ahead.
- Pranav Mehta** I wanted to ask whether there were any salary hikes given out during the quarter or they will come in the subsequent quarters?
- N. Vaidyanathan** No, in Q1, we have not given any salary hike. The company is in the practice of giving salary hike only in July every year. So it is in the second quarter only likely salary increases will be effective.
- Pranav Mehta** Okay and any employee addition target for the full year?
- Dr. Martin Müller** As I said it will be line with our project engagement but as we also said earlier in the call, we have to look at the utilization which is nearly at the same level as last year in the June, but nevertheless our intention is to work on that.
- Moderator** Thank you. Our next question is from Amar Mourya from Indianivesh Securities. Please go ahead.
- Amar Mourya** Sir, I wanted to know the recent deal which we had won primarily in the SQS side. Is there anywhere the Thinksoft capability or Thinksoft acquisition had actually accelerated to win this deal, I mean, if you add something on that?
- René Gawron** Yes, certainly its helpful and we use very much the Thinksoft acquisition because of its expertise in the field of Banking and Financial Services because it makes us SQS in total as a group improving Thinksoft more scalable, deepens our domain expertise, and that is certainly helpful and helps that clients are more willing to commit to longer term deals. Even if it is still in German-speaking right now, they would not use Thinksoft in the first place, but also those clients are looking at a more medium-term plans. So, definitely Thinksoft is helpful in that, although it has always been business on day 1, sometimes you may have to wait for a year or so.
- Moderator** Thank you. Our next question is a follow-up from Sangam Iyer of Subhkam Ventures. Please go ahead.
- Sangam Iyer** Sir, just a small clarification: What percentage of our revenue is currently contributed to fixed price contracts?

- René Gawron** We will come back with that exact number.
- Sangam Iyer** Sir, the second one that I would like to know here is, with regards to your client addition in the presentation that you have given, we see sequentially that the number of active clients have dropped by couple of numbers. So, is it that more of a particular contract coming to an end and hence the number of active clients have come down or is there something else, how should one read into that?
- René Gawron** These clients we work mainly part-time engagements, you always have client with a limited work load and so this is nothing that we lose or lost the clients because they did not want to go on with us, so the client lost is based on those part-time or limited-time engagement.
- Moderator** Thank you. We will take our last question from Rajesh Kothari of AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari** Hello sir. Good Evening. I just wanted to know that you know going by your experience of few months with Thinksoft and your Global Strategy of Integration, do you think the strategies right now on line? Are you happy with performance till now? That is question #1. Question #2 is since you said that you know increase in salary is pending and that probably you will be doing in the month of July, therefore, you see any adverse impact in the operating profit margin in scheduled quarter? That is question #2. And my last question is, in your overall road map, for next 3 years for Thinksoft, would you like to give some kind of a starting practicing of giving some guidance for the Investors community, so it becomes easy for us to little bit analyze the numbers?
- Dr. Martin Müller** First of all, yes the salary increase will have an impact on margin, yes, but it will be in line with the market and also going forward in our future growth, that we are looking for expert domain and technical experts. We are looking for the right mix in the future. So, that means also we want to recruit junior people to balance the pyramid and therefore, it had a balance impact on the cost, if you look at the salary increases. So that was the first question. Can you please help me which was your first one, this was the second one I think.
- Rajesh Kothari** My question was, therefore do you think it will impact your second quarter operating profit margin sequentially compared to first quarter?
- Dr. Martin Müller** As I said, you have a look at our utilization, so, therefore we will add only people we use in the next few months for billable role. So, therefore if you adjust that or we will work on those utilizations, this impact can be covered.
- Rajesh Kothari** So, basically I am still not able to get your answer to my question. Would we see impact in second quarter in terms of operating profit margin compared to first quarter?
- René Gawron** Yes, this will also have an impact on the operating margin, of course.

- Rajesh Kothari** Would you like to give some numbers or you think it can be offset by higher utilization rates?
- René Gawron** I know that you are interested in that numbers, and then of course, as I said, we won't give and we can't give those numbers here now in the call. But as I said, this will happen in the positive direction.
- Rajesh Kothari** The first question was, are you happy with the integration process till now? Is it in line with your expectation?
- Dr. Martin Müller** This answer I think is quite clear. So, as I am heading the integration between SQS and Thinksoft, I am really happy with the progress we made here, so in both directions. So, integration does not mean that we only take over processes and structures and operational structures from SQS, yes it is in both directions. And with the first months predominantly focused on inter-alignment and alignment regarding operational numbers like utilization, like revenues and so on. This is now aligned and we can work on those futures numbers we have talked about. So, we are quite happy with that, but also certain work is never done it is not that you say we have done and it is over, we are still working on that, but we are good way and we are really happy with the success we have on this.
- Rajesh Kothari** So, my third question was since you would not like to give us guidance from quarter-to-quarter. Can you give some numbers over the next 2-3 years or how do you like to see Thinksoft in overall terms, maybe revenue transfer, margins and some numbers on that front, maybe over the longer term if not in the short term.
- Dr. Martin Müller** If you look to the mid-term, so also René Gawron will add some few words what I say right now. We are looking to develop the whole group now and as we said that BFSI is not a main part on that, also Thinksoft will be a main part on that. We are confident that the contribution of Thinksoft will be of great significance in the whole SQS group.
- Rajesh Kothari** Can you please tell us what is the date at which the silent period which was expected to get over, in case if you suppose want to increase your stake, the deadline which was expiring, was it 30th August, if I am not wrong?
- René Gawron** I think you are referring to increasing our stake in Thinksoft, right? We can actually start buying additional shares as far as I know from the mid of September onwards because this when 6 months after the offer had closed, and we will probably use this option but we will look at the market, how the share price is and if we like it, we may do it. If we do not like it, we do it a little bit later.
- Moderator** Thank you. I now hand the floor back to Mr. Diwakar Pingle for closing comments.
- N. Vaidyanathan** Operator, I have a response to query from the participants on the fixed deals versus annuity deal. For the last quarter we did fixed portion of revenue 21%. And a housekeeping

information; one of the participants was asking about salary cost differential, Q1 of last year to Q1 of this year, actually what he meant was the Q4 of last year and current year. Q4 of last year we had a one-time charge of Rs. 50 million which is severance pay, which is a one-time charge. So, that has contributed to lower salary number for this quarter. I would like this information be noted by the participants. Thank you.

Diwakar Pingle

Thank you N Vaidyanathan and thanks all the Investors and Analysts who have joined in this call. I know there are some more people on the queue, but due to the paucity of time of the management we have to close it right now. Should you have any further queries on specific numbers or metrics or general business, please free to write it into either N.V or me here. We will be happy to kind of take you through the queries as much as possible. Thanks again for joining us and see you till next quarter call. Do you want to make any closing comments Martin?

Dr. Martin Müller

I would like to thank you for the interest in our company and we will be happy to meet you here in Chennai. I am quite happy to see the interest shown by several participants on our company. In case you have any follow up questions please write to Diwakar or to me by way of email, so we will come back on that. Thank you very much.

Moderator

Thank you very much sir. Ladies and Gentlemen, on behalf of Thinksoft Global Services Limited. That concludes this conference. Thank you for joining us and now you may now disconnect your lines.