



**“SQS India BFSI Limited Q1 FY19 Earnings
Conference Call”**

July 27, 2018



**MANAGEMENT: Ms. AARTI ARVIND – MANAGING DIRECTOR AND
CEO, SQS INDIA BFSI LIMITED
Mr. K. RAMASESHAN – CHIEF FINANCIAL
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MODERATOR: Mr. DIWAKAR PINGLE – CHRISTENSEN IR



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Moderator: Ladies and gentlemen, good day and welcome to the SQS India BFSI Limited Q1 FY19 Earnings Conference Call. 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir.

Diwakar Pingle: Thanks Ali. Good afternoon to all the participants on this call. Welcome to the Q1 FY19 Results Earnings Call of SQS India BFSI Limited. Please note that we have mailed the results, presentation and the same are also available in the Company's website. In case any of you are not in the mailing list or you have not received the same, you can write to us and we will be happy to send the same over to you.

Now to take us through the results today and to answer your questions, we have with us the top Management of SQS India BFSI represented by Ms. Aarti Arvind – Managing Director and CEO and Mr. K. Ramaseshan – Chief Financial Officer, also on the call is Mr. Balaji Viswanathan, who will be taking over as MD and CEO from Aarti. Ms. Aarti will start the call with a brief overview of the quarter gone past, which will be followed by Mr. Ramaseshan who will go into the details of financials of the Company. We will then take a Q&A session as usual.

I would like to remind you that anything that is said on this call or which gives any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the risk and uncertainties that we face. These risks are included and not limited to what we have mentioned in prospectus filed with SEBI and in subsequent annual reports, which you can find in our website.

With that said, I now hand over the call to Aarti. Over to you, Aarti.

Aarti Arvind: Thanks Diwakar. Good afternoon and thank you all for joining. I would take you through our performance for the last quarter and then would request Mr. Ramaseshan – our CFO to cover some of the key financial areas.

Few of the highlights on the quarter:

On the revenue front for Q1 FY19 we were Rs. 731 million which was decrease of 3.3% in rupee term from the previous quarter. The revenue includes the small amount from scrip sales of Rs. 7.2 million. A larger project with one of our regular customers in Europe had a planned ramp down, hence the marginal decrease in revenue. On a year-on-year comparison we grew by over 20%, since over the last 15 months or so we have grown quite well on the revenue front. At an EBITDA level our profitability was at 17.7% over 16.5% from the previous quarter. Though we were slightly lower in terms of revenue in the quarter, the absolute as well as percentage of



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EBITDA was higher. Improved profitability was due to improved offshore revenue, if you see the percentage, it was higher and also improved operational efficiency. Offshore revenue increased to 40% of total revenue from around 38.5% contributed to overall improvement in profitability. The ramp down that I talked about of the European client was the reason for decrease in the onsite revenue, while offshore revenue as a percentage as well as an absolute number increased during the quarter.

Region wise, there were no significant changes in revenue but UK and Asia specific were marginally higher while Europe and Middle East were marginally lower. Practice wise, we saw an increase in banking and are seeing opportunities increase over there and decrease in cards and payments. The cards and payments decrease was due to an Europe customer where we had ramp down. But this is more of regular customer where we do multiple project and we do expect that as these projects pick up then cards and payments revenue will also go back to its earlier level. Group wise revenue remained at around 19% and the rest was from direct customers. We had good traction in UK and Ireland with us adding new customers as well as increase in revenue from existing group clients.

During the quarter on the people front, we had slightly higher attrition than the previous quarter. But over the years, we found that typically attrition is higher in this quarter and decreases subsequently. We have our compensation revision exercise rolling out and we will be rolling out revisions in July that is when we do it every year. So, typically after that thing settle, we do expect attrition to decrease after that. During the quarter, we added little bit more of laterals more than freshers, but some freshers also overtaken in and we expect us to continue into the subsequent quarters as well.

Overall, if you look at the quarter is very similar to the previous one in terms of the revenue composition as well as the practice, region wise split, it is not very different. This is just a bit of an overview on our performance and some of the key parameters which we thought were relevant.

On the call today, as Diwakar mentioned, we have Mr. Balaji Viswanathan, who joined us yesterday. He has been appointed by the Board as our MD and CEO effective from 1st September 2018. Balaji comes with excellent experience in the BFSI industry and will be leading the organization in our future growth.

Before I hand over to Ram, I would request Balaji to introduce himself and get familiar with the team.

Balaji Viswanathan:

Thanks Aarti. Good afternoon everyone. This is Balaji, I joined in yesterday. I come from both Banking and Financial Services and in the IT industry over the last 24-odd years. I spent around 16 years in the banking industry and around 8 years in the outsourcing and offshoring industry



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likes of IBM and Serco. I am looking forward to the exciting journey here in SQS BFSI. Over to you, Ram.

K. Ramaseshan:

Thank you, Balaji and thank you Aarti. In terms of our financial performance for the quarter as Aarti mentioned the total revenue was down by 3% sequentially. However, it is up 21% year-on-year. We ended up with the profit before tax excluding forex gain or loss of 16.9%, up 1.7 points quarter-on-quarter. The increase in other income is mainly from the interest income reflects the better usage of cash. During the quarter, we added Rs. 54 million to our cash and ended up with Rs. 904 million as on 30th June, 2018.

Before I end the financial performance, I want to update everyone that I have resigned from SQS India BFSI as ED and CFO and I really enjoyed every moment during my stay in this Company for the last 13 months. Thank you

Over to the operator for the Q&A session.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Zakiabbas Nasser, individual investor. Please go ahead.

Zakiabbas Nasser:

This question is for Aarti. Ma'am there was a change in management recently. So, when would the new management put its people in place or put the new systems in place because there is not much clarity on this new Group and what their plan to do with SQS India, thank you.

Aarti Arvind:

I think if you look at the acquisition it happened late December and when you look at Assystem Technology one of the reasons for the acquisition or may be some time you can call it a merger because it is two large group coming together was also the fact that BFSI revenue if you look at SQS Group 50% of the revenue from BFSI. So, this also offered an avenue for Assystem to diversify into a vertical which they are not present in currently. They have been more into manufacturing, automotive, aerospace, aeronautical, so this gave them a way to diversifying into BFSI, which was definitely a plus point and also in terms of offshore, SQS Group offers considerable offshore capacity in India both through BFSI as well as the entity that we have in Pune. So, from the logic of the acquisition there were multiple reasons where the fit was there where we could offer wider range of services between Assystem and SQS. With respect to SQS BFSI, I think we have one of the core, where at the heart of BFSI for the SQS Group and a lot of the capability as well as thought leadership comes from this entity. So, Assystem also looks at us somebody who will help to build and grow the BFSI business overall for the combined entity in the future. If you look at immediate steps, it is more towards figuring out on how we would operate or how is the combined entity we would operate in the future and as we go long that will be communicated. But if you look at us as an entity there are not many changes which are happening because though at an SQS Group level the acquisition would be complete, and



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the delisting process is happening whereas, at an SQS BFSI entity level there are no plans to change the composition of the organization, how we are structured. We continue our business as we have done it. I think the advantage here is we have an organization which can support us we get scaled, we get access to more markets in Europe which is definite plus and acquisition is also been funded by a PE firm called Ardian and Ardian is very well connected in Europe. So, we see many advantages that we could leverage out of this merger. So, in terms of changes immediate there are no changes over here. We continue our business as we do and recently Mr. Diederik (Dik) Vos, the CEO of SQS Group took over as our Chairman and yesterday during the Board meeting and the AGM this was formalized. So, I think that also significant to say that somebody who is one of the key management people even in the combined entity would be our Chairman and would be helping us to leverage the business that we can from across the group.

Zakiabbas Nasser: And ma'am would SQS on the global level be delisted as you were just mentioning?

K. Ramaseshan: The delisting has already happened in the London Stock Exchange and Assystem Technology has acquired approximately 99.2% as of yesterday.

Zakiabbas Nasser: Assystem Technologies again is a listed firm, if I am not mistaken, right?

K. Ramaseshan: Assystem Technology Group has multiple entities but the entity which is getting merged with SQS AG is not yet listed.

Zakiabbas Nasser: And would there be any broad guidance, see right now we have on roll I think around 900 or odd people 940-950. Would you be able to give a broad picture on what that number will be somewhere one year down the line kind of stuff?

Aarti Arvind: I think if you look at the people side there around like you said between 950 and 1,000 that is been our range. When you follow our strategy in terms of people it is always a matter of as you get the business as you get closer to it when we add people and in the last couple of years it is always not a linear equation in terms of the more people that you add the more that you deliver because the more automation that you do and the kind of projects that you do. If you do our high-end projects which is more a performance engineering you will have higher rates and you will have higher revenue for less number of people, so it is not a linear kind of a progression where your revenue goes up, you automatically have more people and at the same time we are also careful about adding a mix of people freshers, laterals, different groups domain experts, technically competent people to make sure that as we grow we have the right mix. I do not think we will be able to commit in terms of the future on how many we would have a year down the line, but it is more dependent on the kind of business, the kind of skill set that we need and the kind of regions that we service. So, it is difficult to say how many because it depends upon how exactly we have a business mix.



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Moderator: Thank you. The next question is from the line of Dipanjan Basuthakur from Stewart & Mackertich. Please go ahead.

Dipanjan Basuthakur: I have 3 questions. The first one is that, Assystem taking over the SQS Group. So, if you could share their vision of the future growth path for SQS India BFSI and with Assystem taking over we also have access to their clients in Europe. So, what are the cross-selling prospects there and finally if you could share revenue growth and margin guidance for the current fiscal in light of the acquisition being implemented, thanks.

Aarti Arvind: If you look at Assystem it is more of an organization which is an engineering organization which has high-end engineering skills and capabilities and they cater to multiple industries, aerospace, aeronautical, then manufacturing automotive is also big. Whereas, if you look at the BFSI side, Assystem Technology does not have much business with BFSI. So, that is one of the reasons with the acquisition also so that they can diversify into another vertical in which they do not have much business. So, when you come to clients and the synergies that could be there from the BFSI are entity point of view they would not be direct clients whom we can approach who are direct BFSI client. But if you look a little deeper, if you take a large customer of Assystem the revenue that they have and the funds that they have within themselves is an organization could be huge. So, they could even have a treasury department whom we can approach and see whether we can work with them in that space and they would have application which involves testing. So, if you look at from vertical point of view they may not have BFSI customers but if you look at the larger customers they may have in terms of BFSI though not our direct BFSI financial institution. So, I think that we would be able to leverage and other way as I mentioned earlier you have the PE firm Ardian, so I think that is another way for us to leverage primarily in some of the European markets to access to direct BFSI client not there but access to other clients who could have financial transactions where we can get involve. So, this is definitely a positive for us in the future.

Dipanjan Basuthakur: And regarding the guidance ma'am?

Aarti Arvind: Typically, we do not give guidance either in terms of people or revenue, so sorry cannot really comment on that.

Dipanjan Basuthakur: And one last question. So, post August when your turn ends as the MD and CEO, so are you going to continuing with the company in some other role?

Aarti Arvind: No, I am actually taking a break. So, I would not be continuing with the company in any other role.

Moderator: Thank you. The next question is from the line of Deepan Shankar from TrustLine Portfolio Management. Please go ahead.



Deepan Shankar: This BFSI revenue by practice, so if we see overall year-on-year it is grown very well. But QoQ if we see mostly the contribution has increased only because of drop in cards and payments. So how do you see this segment in the coming years?

Aarti Arvind: See if we look quarter-on-quarter you will have ups and downs in revenue because as I mentioned the cards and payments if you go back the last 4 quarters, we had a good increase in terms of cards and payments, revenue across most geographies. But if you go to one quarter to another you will have certain projects where you have planned ramp down where a large project in card and payments for example. We had a large project which came through not on end but more in terms of taper down a bit in the last quarter whereas in the previous quarter it is much higher and that is one of the reasons why cards and payments was slightly lower and hence Europe also slightly lower. But it is not as the business is not there, the opportunities are there, and even existing client have future plans in projects. But you will have couple of quarters or even one quarter where a particular client finishes a project and they would not immediately have the ramp up for the next larger project starting will have smaller one. But you will not have the scale of the previous one. So, I would not attach too much weightage to quarter-on-quarter changes within the practices. Overall, we are seeing cards and payments is being doing well and will continue to do well. Insurance if you see the growth that also went pretty well and banking we have had little bit more traction on the banking side. Earlier banking used to be close to 50% of our business but now it close to 38% - 39% and we do expect that banking also do better in the future.

Deepan Shankar: So, generally we have seen last one or two quarters BFSI as a segment has been growing well for the top Tier IT companies. So, what is the time lag you see generally the growth coming in the Top tier IT companies and then for testing companies? So, what is the general time lag we see and in the past cycle also how it has happened?

Aarti Arvind: See, industry is changing where the way the projects are structured is slightly different now, where earlier it was waterfall method, and everything would be done sequentially, and you would have the investment in the development done now and then the QA subsequently. Whereas, now in some customers continue in the waterfall method where what you will find is the revenue that comes in terms of development or the roll out would happen for the QA part a couple of quarters down the line. Whereas, other customers are more Agile where the team from development and QA involved upfront, so, then it is more upfront itself some of the revenues start, yes BFSI overall globally in the last quarter or so has been doing well and the industry wise it has been growing. But, we would expect as there is no set time lag that in 3 months or 6 months or 9 months immediately the QA part picks up because some of it could have been engaged for projects even now. But, if you look at the deals which have been happening in terms of the BFSI industry also, it is not all about services it is also about products and it is about implementations which are happening. So, from the services side it yet to be seen how much that has picked up and how well that is going to do.



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Moderator: Thank you. The next question is from the line of Chetan Dua, individual investor. Please go ahead.

Chetan Dua: So, I have couple of questions for you. The first question also regarding QA and continued focus on QA are there any plans to diversify into other areas in services space apart from QA?

Aarti Arvind: There is no plan to diversify in the sense, I have said this before couple of times also. What is QA now is very different for what we did as QA 3-4 years back. So, QA and development the kind of boundaries are getting more blurred where you will find the some of the team members working. They are involved in the QA part of it, but they also are involved in the defect analysis as well as certain cases even defect fixing. So, what is QA is slightly different and some of the customers and some of the work that they are moving into is not pure development, but it is for example you have RPA. It is not exactly QA, but it is not exactly the development that we are doing, it is more of helping in the process automation which is also something which is not neither category, but it is not exactly QA. So, I would say that we do not have plans of getting into pure development at the same time this services that we are offering to our clients and new clients is more generalized and it is more technical in terms of solution and more along the lines of what they need. So, if not diversification it is more of expansion of services that we offer, and we are already doing that. And I would say that good amount of revenue has started coming in from these services also.

Chetan Dua: So, in that context again I had a question that what you are hearing from other services players across the industry is move into Agile in a significant manner with all the clients, right. And because of that lot of the annuity business is getting impacted. Because traditionally waterfall used to have a lot of maintenance work but with lot of this new work in Agile and close-knit teams' development, the confirmed annuity business of last years is now not continuing as earlier, mostly it is project related work. So, how is that panning out for us and how do you see that going forward?

Aarti Arvind: I think you are absolutely right where customers are breaking things down further where they do not look at I am going to have a 5-year engagement, and this is what your job is going to be 6 months, and this is the revenue you are going to get 9 months down the line. Customers are also breaking things down a lot more and what we find is lot of customers also look at if this is my budget for the year and let me be clear about what I am going to spend and how much every quarter I am going to spend though they do not want to commit it upfront. So, you will have smaller pockets of business that you get I think this is true for lot of organizations in the IT industry where you do not get a firm this is the multimillion that you are going to get over the next few years. It is more of quarter-on-quarter what you are going to do. So, rather than look at long-term commitment what I think we find its working, it is you engage with the customer to be the preferred vendor of choice and by being the preferred vendor of choice, it is not that you have the visibility saying this year is 500,000 next year is 2 million and the year after is 5 million.



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It is more of you are the vendor or you are the supplier of choice they go to when they have the need and as and when they have it. So, it is more of a commitment when they have their roll out, when they have their projects coming up it is an automatic thing that they come to you. So, this is what is working more to be the preferred vendor of choice for a customer and that is what I think most organizations are moving towards where commitments from multi-years is decreasing. But you know the business is there banks do not stop their operations, they do roll out, they do transformations, they do migrations. So, that is not going to change but just a commitment for subsequent quarters, subsequent years goes down, closer to the quarter what they are planning in terms of projects.

Chetan Dua:

Ok. One last question. Last question is again related to agile team. So, most of the customers I guess would have development partners as well apart from QA partners, so, is there any danger of some of these development partners getting involved in QA, because of these agile tribes and taking off some of the revenues. Do you see any impact of that?

Aarti Arvind:

See, if you look at development organizations most SIs have QA, development and even the size of the QA team has always been larger than us and they would have people moving between these 2 large groups also. So, it is not that because now it is everything is moving towards Agile you have the larger SIs competing they have always competed and whatever we have won is against the SIs. So, that really does not change our competitor landscape it is always with larger organizations and local players. So, that is not change much and the situation continues to be the same where when you get into Agile project you will have the development organization is also picking for it but what you will find is within the Agile or tribe which are there in Agile project you would have different role being played by different individuals and the maker-checker concept is not that it goes away just because you have Agile teams or tribe as you call them, so, it does not change. It is good to have a mix of people from different organization, so that people are able to keep each other in check. It is just a matter of they have to work much more closely and all of them have a single goal or single objective that they need to go to is not just saying, yeah this is the problem we have to find a solution together. So, larger BFSI client to find value in having different organizations involve so that there is somebody who is working on there they have to ensure that whatever is done by another part of their team is also validated and checked and they are sure about before they roll out. So, that is not changing because everything is moving to Agile.

Moderator:

Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain:

I have 2 questions. Firstly, on the book keeping side, if you could tell us what is the revenue that has come from the group in this quarter and what was the same number last quarter?



K. Ramaseshan: Rahul there is no major change in terms of the percentage of revenue that we get from the group. In the last quarter it was around 18.2%-18.3% and this quarter is around 18.7%

Rahul Jain: 18.2% and this time it is 18.7%.

K. Ramaseshan: Yes, that is right.

Rahul Jain: And sir, as Aarti was alluding in terms of the way QA scenario has changed. So, in that light if you could say that what is the benchmark growth that we are seeing in a market which ideally should be a number to look at because if we look at overall testing growth in the market from an outsourcing perspective versus the growth that we are delivering, I think that number is ahead of what we have been delivering. So, what is the right number to look at, how big is that market? And how it should eventually be aligned in case of SQS BFSI?

Aarti Arvind: I think different organizations have different competencies, capabilities and what you can deliver, and QA is a very niche area you have some who are larger SIs who have development, QA everything on board where you sometimes bundle these services and quite often the QA part is a bundle service along with development. Whereas, if you look at standalone QA players in the market there are couple of larger ones which are there, but I think the growth rate of a different organizations vary because it also depends on the vertical that you are in and if you are in multiple vertical you may have one which is higher, one which is lower the changes. Whereas, when you are in one particular vertical it depends upon how that industry is doing today and how investments happen tomorrow. So, I do not think we have, we would be able to say that yes, ideally BFSI and QA should grow at this rate whereas, vis-à-vis that we are here. And if you look at the last, I mean, I think Rahul you have been following us quite some time, we have had multiple discussions, so, if you look at the last 15 months or so, it is also matter at a point of time where an organization is and how you move up and how you grow over the period of time. So, last year was a good year from where we started to where we closed the year. This year quarter is being relatively flat, but I think growth wise it is there, the market is there, potential is there, opportunities are there. So, I think we are there.

Rahul Jain: So, also in terms of the way the scenario is changing in terms of the kind of product that are getting deployed on the software side. Many of these segments are seeing more traction towards the SaaS based solution versus the on-premise. So, do our prospect change because of this trend in favor of the cloud solution or does it make no difference to us?

Aarti Arvind: Honestly it does not really make a difference how it is deployed because if you look at the, I mean the way you do it might slightly change but if you look at the core it is a matter of making sure that the base product is validated, and it is fit for roll out. So, I do not think the fact that some customer offer is on a SaaS model or otherwise makes any difference or will decrease the need for the service. I do not think that would make a difference.



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Rahul Jain: No. So, this was not in terms of the way of engagement but more to do in terms of are you seeing that more cloud only kind of players seeing more traction versus the pure on-premises vendor and that is the reason the demand is shifting possibly towards product which we possibly we are not be doing at the moment versus the large one's which we have been doing it historically.

Aarti Arvind: We have not seen that much till now because if you look at the kind of applications that we talk about. These are ones at banks and financial institutions use as their core for all their transaction and we still find that lot of them do want it terms of the application to be not on SaaS model but more in terms of they do the licensing part and take the application because sometimes customizations all that do come into the picture. And too if you have a large project product which is globally sold. You will have country wise customizations, you will have changes which are there and lot of times the banks for security reasons because this is one industry which is extremely conscious of security and information security controls in place. So, we are not finding anything dramatic yet in terms of the change to SaaS and lots of them do go in for a licensing model.

Rahul Jain: But my point was more coming from the fact that if I saw the recent IBS sales league table and I saw that many of the new upcoming products which are more like a digital offering are got sold more than the conventional product on their on-premise side. So, I thought are you seeing a similar trend in your client profile as well.

Aarti Arvind: See, it is not a correlation of digital offering and whether it is SaaS because you can have a digital offering which is not on a SaaS model also. So, there is no direct correlation between those two, but we have not found that most customers switching into SaaS right away in at least BFSI, I mean it is a mix.

Rahul Jain: And lastly, if you could share what is the absolute dollar revenue for us in this quarter and what was the same number last quarter?

Aarti Arvind: If you look at it in dollar term, we would be at \$10.82 million this quarter and it was \$11.7 million last quarter. So, if we look at it dollar revenue because rupee depreciated against the dollar, so, you will find that the percentage change in dollar revenues much higher than the percentage change across rupee or other currencies.

Moderator: The next question is from the line of Zakiabbas Nasser, individual investor. Please go ahead.

Zakiabbas Nasser: See, we just close our buy back. Would there be any reason or any chance that will be extended that is question number? And number two is, you indicated that the cash on books is Rs 904 million. Would this be pre-dividend pay-out or post that? Thank you.



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K. Ramaseshan: I think when you mentioned buy back it is more to do with the open offer and the shares which was offered in the open offer and got acquired by Assystem & SQS AG. This is more of the regulatory stuff that got done and it is over. There is no further buy back of shares or buying additional shares at this point of time. Secondly, with respect to the cash of Rs 904 million which I mentioned it is pre-dividend. The dividend will get accounted in the month of August, 2018 when the pay-out happens.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: I was just bit taken aback by the suddenness of CFO's resignation, I mean, he was just made Executive Director, I think in that last AGM and the resignation has been very sudden, the letter was given on July 17th and everything. So, is there anything wrong, I mean this creates an apprehension, if all is well as far as accounts other things are concerned?

K. Ramaseshan: No, it is absolutely nothing wrong with the Company. It is purely a personal decision. In fact, if you remember probably a year back when we had the SEBI issue, I mentioned the kind of process and systems and the kind of rigorous internal audit, external audit and the group audit that we have. There is absolutely nothing wrong in this company., You take personal decisions at any point of time. So, it is a coincidence that I had to take this personal decision after the AGM notice was issued.

Jay Daniel: Ok. As regarding cash, I mean you said these Rs 90 crores is of end June. How much of this is in India and how much is abroad?

K. Ramaseshan: See, around 70%-75% of this money is in India. The balance 20% or 25% is outside India.

Jay Daniel: 75% is in India?

K. Ramaseshan: Yes.

Jay Daniel: Now coming to your forex gains and losses, I just want a little more clarity on this, the Company if I am right maintained that these are non-cash charges. Now, if I look at your Annual Report page 159 it mentions as large unexposed unhedged exposures are in trade receivables and cash. A Forex loss of gain on this is in actual loss. So, I just wanted little more clarity on this.

K. Ramaseshan: No, these unrealized losses or gain that you are seeing at any point of time is all related to the translation losses, which we account when we convert foreign currency into Indian Rupees using closing rates. Even when you transfer this money into India it does not mean you convert them into rupees. It may be lying in our Indian account in the foreign currency account. I was explaining the dynamics during my initial conversation that even in the current quarter if we



look at it, the average rate which is used for our revenue calculation where rupee has depreciated. However, if we look at the closing rate which is on the 30th of June, rupee has appreciated against pound and the euro even though it is depreciated against dollar. So, all these dynamics should come into play in terms of accounting the forex gain or loss at the particular point of time.

Jay Daniel: But this is anyway an operational aspect, right? So, we have to look at EBITDA after these losses or gains?

K. Ramaseshan: In terms of your PAT and EPS you always look at it after exchange rate gain or loss. But in terms of the operational efficiencies organizations always look at profit before tax and excluding exchange gain or loss.

Jay Daniel: But otherwise your revenue takes the benefit in the revenue otherwise.

K. Ramaseshan: You have the revenue benefit and at the same time your cost impact because we have a huge onsite cost. But normally when you look at the forex gain or loss different organizations use different methodology. And in fact, if you look at the IFRS when we consolidate our accounts to the group they do not look at the unrealized gain or loss.

Jay Daniel: So, would it be right for you to then take it in the other comprehensive income?

K. Ramaseshan: No, the other comprehensive income is clearly defined in the accounting standard and it is used only for the purpose of valuation of gratuity so and on. So, they are predefined. I just wanted to make a point to tell you that there are certain items even at an IFRS standard level will not be considered for the operational performance of the Company. But you are right, the EPS will always be calculated after the exchange gain or loss.

Jay Daniel: And scrip sales in March 2018 quarter is Rs 1.5 crores, in this quarter it is Rs 72,00,000, right?

K. Ramaseshan: Correct. See, the reason for this quarter is basically we have accrued for the scrip sale on a quarterly basis from this quarter and it is only for one quarter whereas in March if you look at it, it is for the whole year of last year.

Jay Daniel: Whole year was I think Rs 5 crores, right?

K. Ramaseshan: That is for previous year, I mean if you look at it what we have accounted in one quarter of the last year it is 30th June or something we have accounted for 3 years. Now, we are going to accrue it every quarter starting this quarter. So, the Rs 16 million that you see in March is not an apple-to-apple comparison. This is for one quarter and that is why you see a reduction in the number.

Jay Daniel: So, this Rs 1.6 crores is on receipt basis in March 2018 quarter?



- K. Ramaseshan:** No, that is also an accrual basis. That is for a higher period, for a 3-quarter period. Whereas, this Rs 7 million or 70 lakhs which you see here is for only one quarter and it also shows because of increase in our offshore revenue during the quarter.
- Jay Daniel:** And what was scrip sale in June 2017, quarter?
- K. Ramaseshan:** In June 2017, in April, May, June as I said we accrued a Rs 19.7 mn
- Jay Daniel:** Rs 1.97 crores?
- Management:** Yes, Rs 1.97 crores.
- Jay Daniel:** And this amount I have drops completely to the bottom line, there is no expense.
- K. Ramaseshan:** No. In fact, whatever the discount that is applied on this is get adjusted in the income. So, it flows through the profit 100%.
- Jay Daniel:** So, if I were to summarize Rs 0.72 crores in this quarter, Rs 1.5 crores in March and Rs 1.97 crores in the corresponding quarter?
- K. Ramaseshan:** Absolutely.
- Jay Daniel:** And the method of accounting has changed to accrual methods.
- K. Ramaseshan:** Exactly.
- Jay Daniel:** And your DSO have been moving up? Is this the cause for concern because 2018 annual report mentions that the single major customer accounted for 34% of the receivables? has this Rs 23 crores outstanding in March from this customer commenced?
- K. Ramaseshan:** Yes, from the March customer we have received it. The DSO has increased is nothing operationally wrong. It is specifically for one customer where there was a process change. In fact, in the month of July we have got substantial amount from that customer
- Jay Daniel:** And the last question last year you added 25 clients and you mentioned that this is going to provide a good starting base for growing revenues in the current year. But first quarter has been flat, so how do you, when do these 25 clients start kicking in?
- Aarti Arvind:** I think, if you look at the 25 clients that we have added even mentioned earlier some will add to revenue some will be clients that you do one-off, some will go to be your largest customers also. So, it is also a period of time over which this happen. And compared to the last quarter the Q4 of last year and Q1 of this year, yes it has been relatively flat, and we did have higher revenue



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as I mentioned from a customer in Europe where we had a large program going and that we had a plan ramped down in the last quarter. So, you will have revenues in Euros and there is a ramp down that too onsite then it will have a higher impact in terms of that quarter's revenue. But the same customer has engaged us for multiple years and that is going to continue as and when they start the project that would come to us. So, it is not a matter of that customer is not there, it is just a matter of certain quarters you have it. I think even in the past we have had some quarter where there is a ramp down and then you have a slightly lower revenue and then the regular projects kick in. So, the customers that we added last year definitely there are some who will be growing and some who would become larger customers and we continue to add new customers who add revenue to the quarter, but we will have more to the future.

Moderator: Thank you. The next question is from the line of Zakiabbas Nasser, individual investor. Please go ahead.

Zakiabbas Nasser: Someone just asked that there is a concern that the CFO has resigned. I think there is also a certain kind of concern that Ms. Aarti is not in the Company any longer because as far as we remember, we always look to interact with her and she has been the face of SQS. Now, who would be handling the role which Aarti used to handle right now? Is it Mr. Balaji?

Aarti Arvind: Yes, Balaji is joined to take over the role and he would be taking off for me. So, Balaji would be the one who would be taking over as our Managing Director and CEO from 1st September onwards.

Zakiabbas Nasser: And you got online another CFO also Ma'am to replace Mr. Ram?

Aarti Arvind: Not yet.

Zakiabbas Nasser: But that will happen I guess in the course of time in next couple of months, right?

Aarti Arvind: That would happen.

Moderator: Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.

Aarti Arvind: Again, thank you for this. As I mentioned earlier the quarter was relatively flat in terms of revenue. But profitability wise, I think we did quite well and we also engaged in more technical engagements which we have mentioned earlier also for the future. So, I think overall the kind of projects that we are doing, the kind of customers we are adding, we are quite comfortable with that opportunity pipelines. So, we are quite comfortable overall. I would be leaving the organization by the end of August and Mr. Balaji Viswanathan would be taking over as the MD



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and CEO from 1st September. Thank you all for your support over the last couple of years and I wish the organization and Balaji the very best for the future. Thanks a lot. Have a great weekend.

Moderator:

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