



**SQS India BFSI Limited**  
**Q3 FY19 Earnings Conference Call**

**January 31, 2019**



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**MODERATOR: MR. DIWAKAR PINGLE, CHRISTENSEN IR**



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**Moderator:** Good day, ladies and gentlemen and a very warm welcome to the SQS India BFSI Limited Q3 FY '19 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 the 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:** Good evening to all participants on the call. Welcome to the Q3 FY '19 Earnings Call of SQS India BFSI Limited. To take us through the results today and to answer your questions we have with us the top management of the company represented by Mr. Balaji Viswanathan – Managing Director and CEO and Mr. Desikan Narayanan – Chief Financial Officer. Balaji will start the call with a brief update about the quarter which should be followed by Desikan who will brief about the financials and after that, we will open the floor for Q&A session.

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

With that said, I now hand over the floor to Balaji Viswanathan to make his opening remarks.

**Balaji Viswanathan:** Thanks Diwakar. Good evening everybody and thank you for joining the call. We had reasonably good quarter, it was in line with the expectation considering the Q3 is normally slightly weaker quarter considering the number of holidays that you would typically see in the international market and there has been some adverse impact due to foreign exchange fluctuation as well. While our revenue was impacted negatively, we did very well from a cost management perspective so the proportionate impact on the margin and PAT is quite minimal and much lesser than what revenue drop is. And if you compare current year YTD numbers to the last year, we are in a much better space than where we were which shows that we are moving forward. Apart from that, we are also having a very strong focus on specific regions like Europe and APAC which has actually shown good traction in the last six months with many changes that is actually happening in the market. We are also focusing at other areas beyond Quality Assurance (QA) as well. So, we have expanded our footprint in Robotics process automation, some amount of Data Management and Compliant Support, Security Testing is another area and with our largest customer, we have also moved on to setup a DEVOPS environment for them as well. Looking at some amount of development, design and QA along with just the QA function which will certainly auger well for us in the coming quarter and there has been one more exciting part for this quarter with the Assystem and SQS integration, the new brand is going to be unveil next week. So, we will have a brand change now and then over the next four to six months depending



on the regulatory framework and statutory framework allows change in name as well. So, that is something which we were looking forward in 2019 and beyond that there are some other updates from our board meeting as well that is an approval of doing a buyback rather than doing a dividend distribution which has also been one of the points our investors actually mentioned in our last conversation after the last presentation. So, overall it is a very positive progress even though the numbers are not all that great for this particular quarter, but for the current 9 months of 2019 financial year we are looking good. I will now hand over to Desikan Narayanan to go through the numbers and then we can open up for questions.

**Desikan Narayanan:**

Thank you everyone. Just to start with, I will give the consolidated 9 months performance of this quarter on the year-to-year basis. Our total operating revenue was around Rs. 2,194 million as against the same 9 months for the last year of Rs. 2,008 million, a growth of 9.3% and our EBITDA stood at Rs. 441 million versus Rs. 333 million, a growth of 32.2%. Our EBITDA margin ended at a 20.1% for the 9-month FY19 as against 16.6% for the last year 9 months. Our PAT was at Rs. 269 million versus Rs 216 million in the 9 months of previous year. Our PAT margin ended at 12.1% in 9MFY19 as against 10.7% in the 9 months of previous year. Our EPS is at Rs. 25.08 as against the 9 months ended last year is Rs. 20.25 and our net cash position was at Rs. 879 million as against last 9 months of around Rs. 863 million.

Going on to quarter-on-quarter, we ended up with the operating revenue of Rs. 705 million as against the last quarter Rs. 758 million, there is a drop of around 7%. Our EBITDA was at Rs. 139 million as against Rs. 172 million, it is down by around 19% and our EBITDA margin was at 19.8% compared to the previous quarter of 22.7%. Our profit after tax margin was at 6.7% against 17.6% last quarter the major impact is from the FOREX. We had a FOREX loss during the quarter Rs. 55 million as against gain in the last quarter Rs. 44 million there was a swing of around Rs. 99 million. Majorly it is unrealized FOREX. That's about year-on-year and the quarter-on-quarter. Now, we can open up for the question and answer.

**Moderator:**

Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

**Rohit Balakrishnan:**

So, sir just wanted to understand two, three things. So, first was in terms of your outlook on growth. So, we have grown at about 8%, 9% in the first 9 months. Do you think that this is something that you would want to continue or is there something that you would want to, given a small size and given that there is a shift towards specialized testers so I just wanted to understand that first?

**Balaji Viswanathan:**

We normally do not make a forward looking statement, but given the trend and the investment that we are making in the right spaces we do not see a reason why there should be any lesser growth, there is really no estimation that we would be able to share at this particular point of time, but based on what the analyst say in the market, based on what we hear from our customers



we are making the right moves in terms of moving into Agile and DevOps even though not on SI's kind of a mode to some extent in the software development space or engineering space.

**Rohit Balakrishnan:** I got what you said, but in terms of slightly generic I mean I will ask my second question and maybe come back as a follow up on this one in a bit I think when SQS acquired Thinksoft, they had mentioned that a large part of the revenue from the parent would sort of flow to SQS India BFSI given BFSI was anyway a big part of SQS's focus as well and then I think somewhere in 2016 it was captured about 18%, 20% of the overall revenue, so I just wanted to understand what is the thought process around that will that be similar now or is there any thought process to increase it or decrease it?

**Balaji Viswanathan:** If I understand your question correctly, what you are saying is that the group revenue, what is the trend of the group revenue and how is it likely to be is that the right interpretation of your question.

**Rohit Balakrishnan:** Right so just to understand that when Thinksoft was acquired it was assumed that a large part of SQS's global revenue would be offshore to India because BFSI is a big part and cost in India as you all know are lower than it was capped I think around somewhere in 2016 at 20% of the SQS India BFSI revenue if I am not wrong I think that is still the status quo so I just wanted to understand what is the thought process there if they are going to increase this?

**Balaji Viswanathan:** So, just to get back upon how we are structured while there is a group revenue there is also something called an indirect revenue which is the deals that we have signed with some of the European customer before the acquisition as well while the sales and the account management piece has moved to the group the contracts are still with us that is the reason it is called indirect. So, between the groups and indirect, the business contribution is around 60% of the total business between the two. While the deals that are signed by SQS and managed in those respective geographies but only doing it as an outsourcing to us is around 18% to 20% and the expectation is that this would probably be the optimal mix that we are looking at the direct market that we manage who probably contribute to one-fourth of the business and the group and indirect which was the sales and management of the account in the respective geographies will be managed by the group but the contract are signed directly by us will be 75% and that is what we are expecting it will move in a next 9 to 12 months.

**Rohit Balakrishnan:** So, just as a follow up 75% that you said would be the direct push which is around 18%, 20% will that be also increasing, or will the indirect portion will be increasing?

**Balaji Viswanathan:** Both will increase, just to tell you the reason why the sales of indirect business because many of these are with our top clients and to change the vendor name and supplier partner name and go through the entire empaneling process and other stuff is too cumbersome, but for all practical purpose is managed while the group sales team in those respective geographies. So, we do not



have the sales team sitting out of UK or Ireland or any of these places from where some of these businesses were coming in from which used to be the case earlier. So, for all practical purpose that is also group but technically it is different.

**Rohit Balakrishnan:** But you are basically saying that which is 60% right now will go to 75%.

**Balaji Viswanathan:** Yeah that is our expectation.

**Rohit Balakrishnan:** Just two more questions in terms of number so, this quarter we had anything around Rs 5.5 crore of FOREX losses right.

**Balaji Viswanathan:** Yes.

**Rohit Balakrishnan:** So, these are like mark-to-market losses or cashflow process I missed that?

**Balaji Viswanathan:** These are only mark-to-market, only notional and not realized losses. It is all unrealized loss and it is more on the restating.

**Rohit Balakrishnan:** So, these are captured in other expenses so they are basically coming.

**Balaji Viswanathan:** Correct.

**Rohit Balakrishnan:** Just to understand last quarter when we had about Rs. 4.5 crores of profit that was captured in the other income?

**Desikan Narayanan:** Correct, any FOREX income is captured in the other income and any other FOREX loss will be captured in other expenditure.

**Rohit Balakrishnan:** And if you could just also provide the dollar revenues for this quarter and the last quarter?

**Desikan Narayanan:** The dollar revenues is \$ 9.8 MN for this quarter.

**Rohit Balakrishnan:** So, there has been a degrowth in dollar revenue on a YoY basis?

**Desikan Narayanan:** On a constant currency, there will be a little degrowth in that and overall also, if you look at last quarter vs this quarter, exchange rate plus and also because of the number of days the revenues has dropped.

**Rohit Balakrishnan:** And if you can just help me with the cash in hand right now and the receivable days?

**Desikan Narayanan:** The cash in hand is around Rs. 879 million and the current receivables is at 70 days.



- Rohit Balakrishnan:** And is the promoter taking part in the buyback I missed that part I have not written so just wanted to ask?
- Balaji Viswanathan:** They are not going to participate in the buyback.
- Moderator:** The next question is from the line of Pranav Mehta from Valuequest. Please go ahead.
- Pranav Mehta:** Sir, I had a question on the revenue decline that we have seen during this quarter, can you explain the factors behind it so are we like facing some challenges in some of our top customer or some specific geographies so basically what has led to this whole?
- Balaji Viswanathan:** There is no systematic challenge per se, as you know most of these are dependent on primarily how many days in a year we would be able to bill for your work and the challenge that we had in Q3 is that we had extraordinarily higher number of holiday and breaks. Many other customers actually do some suspension clauses and stuff. So, we had almost two to three weeks' worth of billing which got impacted because of various things like this and there is really no other reason. In terms of utilization, we were at around 109% to 110% for the last quarter and we were at around 106% for this quarter. So, that impact of 3%, 4% is what have a cascading effect and you cannot really reduce your direct cost to that extent because these are resources who are committed for longer term project resource for me.
- Desikan Narayanan:** And this is generally a trend of December.
- Balaji Viswanathan:** Normally our Q3 is always like this.
- Pranav Mehta:** The seasonal impact I get it but even if I compare the YoY number, the dollar revenue has still declined on the Q3 of last year as well so that is why I was wondering if there is any problem is there specific project or a customer.
- Desikan Narayanan:** Dollar revenue was at 9.8 Mn. Dollar rate of last quarter was at 63.93 and dollar rate for the quarter is 69.79.
- Pranav Mehta:** Constant currency growth number YoY that would be helpful.
- Desikan Narayanan:** So, from a constant currency number between last year Q3 of 2017 to this year we are getting around 5.6%.
- Pranav Mehta:** Second question is now after the takeover by Assystem or this company SQS India BFSI would we look to like expand our scope of services beyond the testing part of the business or will this company remain quality assurance in testing company?



**Balaji Viswanathan:** We are already moving in that direction like what I mentioned when I started off while we may not become we will not get into a full-fledged SI kind of a role because there is enough and more competition in the market and at least on an ongoing BAU basis there is really no need for another SI to come into the market, but we are getting into DevOps mode which is to do a continuous testing, continuous engagement on design, development and testing so whatever fixes to be done. So, that is something which we have already started with a few of our customers we are getting into RPA and we are also getting into the software design element as well. We will not become another development shop but we are not going to be remaining only as a quality assurance business. So, this quarter the business outside of quality assurance was 9% and we are expecting that DevOps, RPA and data management as a service which we have done which we have started off reasonably well that should contribute to much more and we are expecting it to double over the course of this year. Of course, quality assurance will still remain our bread and butter so it is not that just going to move out but the mix will be right now it is 9% it will probably be around 20%.

**Moderator:** The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

**VP Rajesh:** So, in terms of doing non QC work what is the target for taking that as an overall portion of the revenue for the next year or two?

**Desikan Narayanan:** See generally we do not give guidance and do not tell about anything forward looking kind of a thing. As far as a business growth is concerned, we are positive that things will be in place so we are seeing a positive growth coming in.

**Balaji Viswanathan:** So, the current trend in terms of what we are looking at, we do not expect any significant change from getting closer to that, that is what we have done now. So, this year we have done a little over 9% in terms of so far in the calendar year. There is really which indicates that it is going to be different going forward if at all it is only be better than that, but as a policy we do not quote a number.

**VP Rajesh:** But I think in the last call you mentioned that you are looking at the overall business then you will give us some color on as how the thinking is evolving so I was just trying to understand should we assume that we are moving a little away from just doing QC and getting into the regular, digital and other IT services that is really what I was trying to understand if there is a major shift in the strategy.

**Balaji Viswanathan:** So, like what I mentioned we still be quality assurance and QA will still be the bread and butter, but we are getting into the related areas of the adjacent areas. So, for want of better work the way we are trying to do it internally is to say shifts right and shift left. So, what we are trying to do right now is more of shifting towards the left to get into some amount of configuration management, data management, environment management and getting into the DevOps mode



and towards the right as to get into some of the business process automation like RPA and other elements as well conserving that we have a good handle of the process, we have understanding of the customer business, we understand the customers process that is what we have tested so we know where to automate. So, we are just branching out into related areas but not making a significant shift but the route will still be with the quality assurance as we bedrock.

**VP Rajesh:**

In terms of the group, what percentage of their revenue is non-QC related?

**Balaji Viswanathan:**

The group level is much more, the group actually has three major business line one is management consulting, the other one is QA/QC business and the third one with the Assystem with the engineering business. So, out of close to \$1.2 billion, the group has done the QA/QC business would probably be in the range of around \$200, \$ 250 million. So, engineering services is the largest one which is what the Assystem team does across aerospace, automotive and other business and management consulting is something which was part of the SQS business earlier business which was also primarily Europe based so far.

**VP Rajesh:**

So, when you say that you will get 75% of the revenue from either directly or indirectly from the group, should we assume it is predominantly going to be just QC or could it be that the other billion dollar revenues which is coming from engineering and management consulting, could be contracted out to you guys.

**Balaji Viswanathan:**

So, the engineering business is only in the aerospace and automotive at this particular point of time so there is not really much of overlap between what we do and what the group does. Management consulting that requires a significant amount of investing and brand building as well which we do not have at this particular point of time in our market, but we will be opportunistic because we have had some customers in the Asia region who have asked us to do evaluation of ERP system and now recommending that and be part of an RFP and procurement process. So, we are doing in bits and pieces which are more opportunities, but apart from these two, even in the group level there is a shift towards doing DevOps and RPA initiative as well. So, it will not be only the QA and QC whatever we are saying is our other digital automation area initiative that also will come from the same set of accounts so when we are saying that 75-25 will also have both these elements. It is not that the new areas will be only within the direct account.

**Moderator:**

The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

**Kashyap Jhaveri:**

So, first question is just a clarification you mentioned about this revenue from the group something about 75% including indirect I just missed out on those comments because of those disturbances could you repeat those quickly?





- Balaji Viswanathan:** What I said is the way our business is structured right now was we have a direct region where we have our own sales team which are now in the market which is between India, APAC, Middle East and US and we have the indirect regions which has been sourced by the SQS BFSI sales team earlier but now is part of the group and we also have direct deals which are signed by the group but outsourced to us. So, the direct deal signed by the group and outsourced to us is around 18% of the business. The indirect business which are signed by us as a legal entity but it has still been managed in the respective which is primarily in UK and Ireland is close to 40% of the business and the second part which is the indirect part which is also technically managed by the group because the sales team and account management team in the respective countries are done by the group. We do not want to change many of these contracts because of logistical reasons and having been part of those contracts for a fairly long time. So, the combination of this should ideally move from the current close to 60% to maybe 70% to 75% over the next few quarters.
- Kashyap Jhaveri:** The last question is on your cash balance which you mentioned is about Rs. 88 odd crores or so. So, that is pretty much earning us very minimal in terms of other income even after this Rs. 25 crore buyback which we have announced and probably dividend payout of equal number probably we will end even this year with similar kind of balance, so do we intent to do anything else or we will keep this for any future needs if anytime they may arise?
- Desikan Narayanan:** Currently, we are not looking anything else now since we have announced the buyback. Upon completion of buy back we will re-look at it again.
- Kashyap Jhaveri:** And this cash balances are outside India because it is earning very minimal income that is why I am asking.
- Desikan Narayanan:** It is around 85% is in the foreign currency and the balance in Indian rupees.
- Kashyap Jhaveri:** This is largely sort of check in account or probably current account anything like that?
- Desikan Narayanan:** In India it is more of EEFC but majorly it is outside India.
- Moderator:** The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** You mentioned that you have taken certain steps which will help improve the growth profile of the company and you mentioned that obviously the growth growing forward should be definitely better than the current 9% that you have done in the first 9 months when do we start actually seeing this translating into numbers maybe from Q4 onwards or it will take at least two, three quarter before we start to see the growth trajectory improve a little?



**Balaji Viswanathan:** What I was saying is that we should not certainly be lesser than where we are at this point of time which is around 9%, 9.5% and whatever initiatives that we are taking right now. Many of these are in the investment phase because these are new services, we need to establish ourselves, we need to prove ourselves as well. I would say give it at least by end of this year Q3 of 2019 if we will be able to see some impact starting to show in the number?

**Sachin Kasera:** So, essentially next two to three quarters at least things will be more or less the way they are right now and maybe from Q3 of calendar year '19 we will start to see some improvement in growth is that a way to summarize?

**Balaji Viswanathan:** Yes.

**Sachin Kasera:** Secondly, you mentioned that large part of our business will continue to come from QA and QC which essentially is the \$200 million of business for the parent, but within that itself is there a scope for SQS India to increase its share of the \$200 million pie or that is a set number and more or less the QA/QC SQS India will move in line with the way parent QA/QC business goes up.

**Balaji Viswanathan:** What is \$200 million?

**Sachin Kasera:** I am saying that you mentioned that for us a significant part of the business revenue will continue to come from QA and QC which essentially the \$200 million business for the parent entity, so my question is that is there a scope for the Indian arm to increase its pie in this \$200 million business of the parent of QA/QC or is it that this business will more or less grow in line with the way the parent QA/QC business grows next two, three years.

**Balaji Viswanathan:** It would be a combination of both so one of the pieces if you were to look at the trend of how the testing market or at least a quality assurance market has been in the last two, three years. The traditional waterfall method of doing centralized QA/QC is becoming slowly phased out and people are moving into more of those agile and small distributed model and which is still the guys in Europe are also testing that particular model or rather now they are reaching where we have distributed agile where we could actually do even though part of the same agile team you could do work sitting in other shores as well that is only now starting off in that particular direction. The centralized QA/QC model is when we could have tried to move everything from onshore to offshore which changed two years back when people started moving into the agile mode. Now the distributed agile and working on part of the same agile group can be done from multiple shores which is only started maturing now. We are expecting that there will be some portion of the existing business also which will come to us apart from that of course the new business since we are trying to complete the cycle with additional services as well.

**Sachin Kasera:** And sir we finally see some rationalization on the manpower side in terms of the cost that you have reported so can you comment on that exactly?



- Desikan Narayanan:** On the manpower cost we did see a drop from what we had in last quarter. If you see couple of quarter we were focusing on reducing subcontractor or the third party consultant. There has been a conscious effort to reduce the third party consultant. We generally hire then for onsite deployment in the client's place. The focus has given some savings in the last couple of quarters and last quarter it has reduced contributing to the drop in the overall employee cost.
- Sachin Kasera:** Just one final question sir with the way the new opportunities are new structured do we see any upside in terms of the type of billing rate you are able to charge to the clients or that more or less remain the way it was earlier.
- Balaji Viswanathan:** For the same set of services there is not really going to be any big change in the commercial model, but what I mentioned as we try and move more towards left whether it is development skills or DevOps skills those will attract, but it is all in line with what would be the prevailing rates for those profile. So, it would be dependent on the skills along with what the rates will be, but the kind of work that we traditionally do there is not going to be a significant shift in any commercial rates.
- Sachin Kasera:** And sir just one final question clarifying you said that as far as the engineering business is concerned there is not much scope for the Indian arm to participate right?
- Balaji Viswanathan:** Not for us to participate but there is other subsidiary of the group in India as well.
- Sachin Kasera:** But I am talking of the listed entities the one that we are participating.
- Balaji Viswanathan:** Not for the aerospace and automotive.
- Sachin Kasera:** And that essentially is the main part of the business as far as engineering design for the parent is concerned?
- Balaji Viswanathan:** Assystem's business has been primarily in the automotive and aerospace.
- Moderator:** The next question is from the line of Kunal Mashruwala from Mash Capital. Please go ahead.
- Kunal Mashruwala:** Just wanted to follow up I think about a year back when the company was going through these transitions, I did pose a question on the US growth opportunity and I think the first function was more QA/QC core work that we do and the geography was US and we were just putting in a sales team there, could you shed more light on us could you give me a little bit of more color on how that is progressing?
- Balaji Viswanathan:** US has been quite an elusive geography for us for the last couple of years and that is the reason why we had change in the sale team and investing in resources in the US to get more business from that particular geography. I would say we have had a mixed bag of success so far, we have



had some changes in those teams as well because we are constantly reviewing the ROI in terms of what we were doing as well. So, now we have one of our senior guys who used to be in India, but had a significant amount of experience in the US and US passport holder as well, who has recently moved to the US and we are seeing some bit of traction so the top of the pipeline looks quite healthy but I would like to be little more cautious in saying in terms of where this is likely to go. So, we are optimistic with the size of the pipeline that we have with this at particular point of time, but it will probably take another couple of quarters before we can say for sure what is the kind of potential that we need to get. So, our objective is to get closer to a way I would say that US will be successful one way we see closer to a \$10 million kind of number, but we are still quite far away from that.

**Kunal Mashruwala:** Can you give me a little bit of idea I am happy to take this offline if that is more easier, but like can you give an idea what sort of change have you made in the sales team that is number one and number two is what sort of higher point of sale are you aiming for because the concern I have is every time if people come here to go to the US and start part of a pitching team or our business development team is we end up doing an equal or lower point of sale with usages of pricing pressure.

**Balaji Viswanathan:** It will be a very long answer we can certainly take it offline.

**Kunal Mashruwala:** So how do I get in touch with you offline?

**Balaji Viswanathan:** You could do through Christensen, Diwakar is there on the line you can help us in getting connected.

**Kunal Mashruwala:** I will do that because I want to understand this in detail. I sat down the management last time to understand what is going on I understand it is a hard thing to scale up new sales team first of all it is a new geography but the good part it is the same function that you guys are doing. It is not like a shift left or shift right kind of a new service thing. It is just a different geography extension and it is hard but still I want to understand more detail. I will touch base with you off line on that one.

**Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investments Managers. Please go ahead.

**Pritesh Chheda:** Sir, in the last three years for the no growth that we see in your business ideally there were two drivers one was the sourcing from the parent or let say the offshoring from the parent and second was the QE industry growth rate which was supposed to be fairly strong as well as lot of research reports. So, just wanted to understand what deviations have come in these two drivers and what the rectification incremental possible in these two growth drivers or is company building on any incremental growth driver?



**Balaji Viswanathan:**

The growth drivers like what I mentioned when we started off there is that beyond the QA and QC considering that the customer is changing and there is significant difference in the way the customer are approaching quality assurance or testing as a service. We are repositioning ourselves and one of the areas of how repositioning ourselves is to get into to more of Agile and DevOp mode and to get into RPA and data management and an environment management and we have signed up with some of the partners to help us in doing that to get some DevOp tools and data management tools. We have built some amount of development capability within the team for primarily data management as a service as well. That means it is not the growth drivers will keep changing in line with the market, but it is not a significant shift so we will still have QA/QC as our primary business because that is our bread and butter. It will take a while to get to a change where the other businesses contribute significantly that is what I mentioned. So, currently it is around 9% it will probably go to around 20% or so over the next four quarters. Your other point on growth I did not understand your comment on growth so you are saying no growth.

**Pritesh Cheeda:**

So, QA/QC as per all the research report about two couple of years back was supposed to be one of the fastest growing vertical but there have been delivery changes, there have been business changes there which has or let us say actually the delivery changes the tech changes there which has probably not transpired into growth. So, just wanted to understand are those changes out of the way and the new delivery systems or the new needs of clients started setting in and what kind of growth should one look at in this industry verticals?

**Balaji Viswanathan:**

So, if you look at some of these another report in our Nelson Hall meanwhile people who were publishing some part of the testing market or the QA/QC market sort of it earlier it used to be close to 22% to 24% of the total IT budget used to be a part of a QA/QC which is around close to around 15%, but overall the profile is growing because beyond the banks you also have multiple other Fintech and other entities which are coming in. If you have to look at the addressable market is not shrunk but the way it is getting delivered with agile mode and trying and creating interest lesser implementation cycle unlike a centralized QA/QC which used to be the norm earlier is what is impacting the delivery model and what I mentioned that also has an lag in terms of when it will get offshore per se. So everybody is in the cost pressure as we all know so you cannot start off on agile mode with an offshore model so that is why it is taking a little time, but I am quite confident that with the distributed agile model being proven now and with there are more and more examples of how agile could be done remotely as well with some part of the team being sitting remotely as well that is likely to change over the next few quarters and it will get back a significant double digit growth. So, in the last 7, 8 quarters I think if you look at the E&Y or the Nelson Hall report this particular market has grown closer to the single digit number, but it will get to a double digit numbers.

**Pritesh Chheda:**

It used to provide plus 20% sometime back.



- Balaji Viswanathan:** It is around 9%, 8% was what if I remember right the E&Y report was but it will get back to the projection from Gartner and Nelson Hall is that it will get to 15% to 16% kind of stage once people mature on the DevOps mode people mature on the agile segment as well.
- Moderator:** The next question is from the line of Lalith Dua from Rajasthan Global Securities. Please go ahead.
- Lalith Dua:** It has not been mentioned whether the promoters are participating or not I hope the promoters are not participating in this buyback?
- Balaji Viswanathan:** Yeah promoters are not participating Lalith and we are doing 25% so that is the maximum allowed and that is what we are doing here.
- Lalith Dua:** You led for these Rs 120 crores so I think it is up to Rs 25 crores only.
- Desikan Narayanan:** As per the requirement your equity plus your fee Reserve that is around Rs 103 crore so only Rs 25 crores.
- Lalith Dua:** And the promoters are not participating.
- Balaji Viswanathan:** Yeah promoters are not participating.
- Lalith Dua:** I joined in late so I do not know whether this question has been asked or not I am sure it would have been asked there has been a sharp decline in the profits for the last quarter. I do not think it is a seasonal industry so though it looks almost in line with the previous December quarter 2017 but it is sharp decline as compared to the latest quarter of September, 2018. I think part of this could be because of the FOREX loss but still if I had the FOREX loss or still it is lower so any reason for that?
- Desikan Narayanan:** See basically one of the reasons compared to last quarter to this quarter December is a small month with working days being less and also we have the vacations and other things happening plus there is a FOREX impact also in that if you look at last quarter to current quarter. Last quarter we had a FOREX gain of around Rs 44 million this quarter we had a Rs 55 million of FOREX loss so there is a swing of around Rs 99 million so that has majorly impacted. Other than that December being a small month and also some of the projects getting into a closure and new projects will be starting later so this is a kind of an expected number what we have achieved.
- Lalith Dua:** As far as the last quarter is concerned that is 31<sup>st</sup> March, 2018 so it would be in line with what you achieve for quarter September, 2018 or it would be in line with what you achieved in the latest December quarter?
- Desikan Narayanan:** Last quarter what I mean is September, 2018.



**Lalith Dua:** No, I am now asking the quarter that is 31<sup>st</sup> March, 2019 what can we hope it would be in line what is it at 31<sup>st</sup> December, 2018 or what we can hope or what we wishfully hope something next September 2018?

**Desikan Narayanan:** See it is more like a forward looking statement which we would not be able to tell and it is more depends on the business dynamics and currently we are looking at into various services what we are trying to offer. So, hopefully we will be better off.

**Balaji Viswanathan:** The way we look at it is that it should not be very different from even if you look at a year-to-year comparison. Even now in this quarter also if you want to compare it with the calendar year of Q4 of 2017 or Q3 of 2018 so we had our marginal growth around 0.8% or 0.7%. The way we look at it we cannot give you a number it should be a significant difference from year-to-year comparison for sure certainly not in the negative.

**Lalith Dua:** So, I think you are in the right track as far as the deployment is concerned it is a very nice move on the part of the management because it will not only increase your promoters stake so it is in line with your parent's policy also at the global level where they happen buying back the shares. So, to that extent, I think it is the right move.

**Moderator:** The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

**Rohit Balakrishnan:** So, just want to understand a growth part a bit, you mentioned that whatever initiative you are trying to do those will start affecting in the next four quarters, so if I understood it correctly so you are saying that the direct revenue which is about 60% that should grow to 75% so that in itself should be a significant growth driver for you, is that the right understanding I think you mentioned that should happen in the next two, three quarter so I just wanted to understand if I got that correct?

**Balaji Viswanathan:** So, the indirect business plus the group business put together which is currently between 58% to 68% should get a 75% but it will happen in the next two quarter or will it happen in the next four quarter is something which I cannot comment on that right now and I cannot say with certainty right now, but that is the direction in which it is moving right now and the other one which is our direct business which is where we have our own sales team that is also showing a significantly strong pipeline at this particular point of time. We have some good news of signing customers, completely new logos in this quarter beginning of 2019. So, it should all move into right direction.

**Rohit Balakrishnan:** Last question you mentioned to response to previous participant that you expect that once that this agile distributed model becomes more established you expect the offshore business sort of offshore share would grow, so what is the current share of offshore and what is the share of offshore in the group revenue we will report that number so just wanted to understand that?



- Balaji Viswanathan:** So, our current share of group revenue is 18%, but total offshore revenue is around 48% at this particular time.
- Rohit Balakrishnan:** So, this 48% is the overall share of Rs 240 crores that we do.
- Balaji Viswanathan:** So, if I were to look at for us that is for BFSI as a unit, 52% of our revenue comes from offshore and 48% come from onsite.
- Rohit Balakrishnan:** And this was if you can compare it with last year what was this number?
- Balaji Viswanathan:** We have improved our offshore foot print consistently in the last three quarters for at least a point or two so it used to be a 60-40 around year back and now it is 52-48 and the optimal mix will probably be the other way round of 40% onsite and 60% offshore.
- Moderator:** We will take the last question from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** I believe there was a major expansion than in Chennai few years back, so I was just wondering what is the kind of utilization you are seeing out of the seat capacity that is there now?
- Balaji Viswanathan:** We opened another floor in the same premises where we are right now in OMR. We added a little over 300 odd seats to that and almost 70% of it is full right now.
- VP Rajesh:** So this 300 is additional done in the last 12 months?
- Balaji Viswanathan:** No. It is in the last 2 years and 4 months.
- Moderator:** That was the last question. I now hand the conference over to the management for their closing comments.
- Balaji Viswanathan:** Thank you so much. It was very interesting questions and we hope that we actually were to clarify most of the questions people had and for others who actually had to go back to queue because of paucity of time please feel free to write an email through Diwakar Pingle at Christensen and we will be able to answer out of the best of what we could say at this particular point of time. Once again thanks so much for all your support and engagement on this and the interest shown in getting clarity on how we are doing and looking forward to more of your support.
- Moderator:** 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.