# "SQS India BFSI Limited Q4 and Full Year FY16 Earnings Conference Call"

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**MODERATOR:** **MR. DIWAKAR PINGLE – CHRISTENSEN**

**Moderator** Ladies and Gentlemen, Good day and Welcome to SQS India BFSI Limited Q4 and Full Year FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Thank you and over to you, sir.

**Diwakar Pingle:** Thank you, Zaid. Welcome participants, Good morning, Good evening based on which geography you are in right now and thank you for joining us on the Q4 and Full Year FY16 Earnings Call for SQS India BFSI. Please note that we have mailed the results and the presentations and the same has been uploaded on the website at www.sqs-bfsi.com.

To take us through the results and to answer your questions we have with us today Ms. Aarti Arvind - Managing Director and CEO, SQS India BFSI; Mr. Rene Gawron - Director of SQS India BFSI and CFO of SQS Group and Mr. N. Vaidyanathan - Executive Director and CFO, SQS India BFSI.

We will be starting the call with a brief overview of the quarter given by Aarti which will be followed by detailed financials given by Mr. Vaidyanathan after which we will throw open the floor to Q&A session.

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

With that said, I now turn over the call over to Ms. Aarti Arvind - Managing Director and CEO, SQS India BFSI. Over to you, Aarti.

**Aarti Arvind:** Thanks for the introduction, Diwakar. Good evening everyone and thank you for joining the call today evening. I am just going to give you a bit of a highlight on the quarter and the year and some of the significant metrics or data and information about the organization and after that Mr. Vaidyanathan would give details on the financials for the quarter and for the year.

I think the year and the quarter have been very good for us in terms of certain milestones that we have achieved. If you look at the last quarter, in dollar terms we achieved around $10.7 million in terms of revenue and for the financial year we crossed the $40 million mark which was a significant achievement for us. And during the year we also crossed the 1000 employee mark which is also another milestone in our growth. I think overall quarter wise as well as year wise it has been a good quarter and year for us.

If you look at in terms of revenue, quarter-on-quarter it has increased by around 8% compared to the previous quarter and year-on-year it has increased by a significant 23%. And this increase in revenue has also been in a profitable way where we have ensured that while we grow in terms of revenue we also maintain our profitability or improve the profitability over the quarters and the year. If you look at the quarter, it has gone up to 21.7% in terms of EBIT and if you look on an annual basis on the previous year it is at 18.9% compared to the previous year where it was a little over 17%. So I think there are various mechanisms and ways by which we have worked on this over the year in terms of increasing the revenue as well as the profitability over the quarter as well as the 12-month period.

If you look at utilization over the years, compared to the previous year we were around 66% in the previous year and we are close to 70% in the current year which was one of the variable which also helped us to be more profitable in the year and the last quarter. We also improved our cash flow where the debtor days went down to 62 days overall compared to when we started the year when it was around 100 days. So overall our cash flow situation also improved and this was an important metrics in terms of determining our ability to manage and collect from our customers. So these are some of the metrics which are important in terms of the year.

If you look at other factors, region wise revenue, Europe was a significant contributor during the year around 50% and within this in terms of verticals, banking contributed around 50% of our revenue previously, maybe a little bit less than that but right now it is around 50%. One significant change was in terms of the cards and payments business where earlier we were around 24%, that increased to around 35% and what we are finding is in terms of cards and payments business across the globe there is significant traction over there and because we are experts in that area and have worked in that space for many years we are able to capitalize on that and that is a practice or area which is growing significantly.

In terms of new and existing customers, we have added quite a few new customers during the year and if you look at contribution from new customers it has gone up from the previous year of 9% to 18%. And one of the reasons for the increase in revenue growth is also we have more new business from onsite customers. What happens typically is when you start a engagement with a global customer, they do prefer more people to be onsite because they would like them to be closer to the customer location and closer to the customer so that they can get the confidence in terms of the team. Once they get comfortable with the way we are delivering the teams, the methodology that we follow, the processes that we follow, they are quite open to off-shoring in the subsequent period. In FY16, we had an increase in terms of onsite revenue and this is also because we had a lot of new business coming in compared to the previous year. This resulted in a slightly higher increase in onsite revenue compared to earlier. But this we feel is the foundation for growth because once you have a customer who has worked with you onsite and their capacity to offshore increases, that definitely helps in the subsequent year. I think new business and higher onsite ratio go hand in hand, so we are hoping that in the next financial year, we would have more from the customers where off-shoring would happen.

If you look at number of clients, it is also important to have more clients in the higher revenue category where if you look at clients with more than $0.5 million in revenue, that increased from 15 to 20 clients and over the years what we have tried to actively do is tried to look at clients who can give us more business where we mine the existing clients as that is the most profitable way to grow. The advantage of going back to an existing client is that it is somebody whom you have delivered well to and also the cost of sale is much lower for the existing clients. So that is something we are focused on where we are trying to get higher average revenue from each client rather than looking at adding 100 more clients, so that is not what we are trying to do, but get new business at the same time grow the existing business, so both go hand in hand.

Another trend that we have had over the years which we continue to do is in terms of our domain capability, because that is one of our very strong points where we maintain our domain capability i.e. those who have good understanding of the banking and financial services industry we try to maintain that around 25% and in FY16 it was around 23.5% which is also a good ratio to domain as to testing. And this over years has helped us to ensure that when we test we bring in the domain flavor into it which is what our customers also appreciate, so this is something which we continue to do and continue to focus on and recruit domain experts from the industry. This is on our peoples' side.

I think last time we spoke about our facility where we have added some space in Chennai in the same building that we are currently in on one floor, we have taken up space in another floor. So this space for capacity should be ready by June or July after which we would start moving some of our projects there and also expanding over there. This is also something where we are looking at investing in growth because you need to have your capacity whether it is a space or people available if you are looking at growth, because you cannot do it when an order comes, you need to be well prepared in advance. So we are definitely focusing on growth next year in terms of building capacity and capability to make sure that as we grow we are in a very methodical and systemic way that we do it.

Another important factor is revenue from the group which has increased to 11.6% from the previous year when it was 3%. So a lot of the group entities are able to leverage our capabilities and skills where once the understanding of services that we can offer has happened, so we are also looking at increasing that in the future, but compared to the previous year that has gone up significantly. So this is another important factor because being part of a group helps where you are able to leverage the sales team in the different regions, the market units where you do not have to increase your cost by having sales team members all over, but as the market units in the different regions are able to understand our services and sell it better so it helps us a lot in building the offshore business through the group.

I think these are some of the significant highlights of the quarter as well as the year and with this I will hand over to Mr. Vaidyanathan to take you through some of the important financial information. Thank you.

**N. Vaidyanathan:** Thank you, Aarti. Thanks participants for taking interest and very good evening and good morning to the people who have joined the call from the West. To quickly take you through some of the revenue and profitability numbers, the quarter ended 31st March showed a revenue growth of 7.6% compared to the previous quarter at Rs.722.4 million and in dollar terms there is a growth of 5.3% of $10.6 million compared to the Q3 of current year. Compared to the last year in terms of rupee value 37.4% has been the growth compared to fourth quarter of last year 2015 and in dollar terms there is a growth of 26.3%.

On a year-on-year basis the year ended with net revenue of Rs 2,641 million showing a growth of 23.4% and in dollar terms we had a revenue of $40.17 million, a growth of 14.8%. In terms of the EBITDA margins there is a growth of 24.4% during the quarter and 30.1% for the year compared to the previous year.

The Earnings per share has also grown from Rs.6.9 in the last quarter i.e. quarter ended December to Rs.10 (basic) and Rs.9.9 (diluted). On a year-to-year basis the basic EPS grew from Rs.20.9 to Rs.34.8 and on diluted basis grown from Rs.20.6 to Rs.34.6.

On the receivable front, the quarter as well as the year has been showing very good improvement. The total cash conversion ratio has been pretty good and satisfactory. We had DSO of 62 as compared to 97 during the third quarter ended 31st December March, 2015.

In terms of cash and cash balances we had Rs.688 million last year 31st March, compared to that we have grown to Rs.861 million as on 31st March, 2016. The number of employees as Aarti was mentioning, grew from 907 at the end of last year to 1,076 at the end of the current year.

Blended utilization also has shown an improvement to 69.4% compared to 66% as of the whole of last year. And in terms of regional mix as Aarti was mentioning, for the full year North America was 16%, and Europe 51% and Asia and Rest of the World 33%.

On the revenue by practice, banking continued to be on a stronghold with 51%, with capital markets and treasury is at 8%, cards and payment of 34% and insurance at 7%.

These are the high level financial parameters and we would like to hear from you clarification required, we are here to clarify. Thank you.

Rene, would you like to add something?

**Rene Gawron:** No, not at this point.

**Moderator:** Thank you. We will now begin with the question-and-answer session. Our first question is from the line of Rohan Shah from Kroma LLP. Please go ahead.

**Rohan Shah:** In one Nielsen Hall report it was stated on behalf of SQS that the India headcount would be about 5,000 employees by 2017. This obviously is the combined target for SQS Pune and the Listed BFSI Company. Could you give some insight on where are we now on that roadmap? Thank you.

**Rene Gawron:** I don't know when Nielsen Hall reported that but we will certainly be seeking to increase the headcount in India. Now with the two Indian operations we are at about 2,200 people, this is where we are in India and I would honestly doubt, I think 5000 by 2017 is probably a little bit too high.

**Rohan Shah:** But you are not giving any guidance on where you would be in the next two years?

**Rene Gawron:** No, also we do have generally an increasing share of managed services deal as part of our business where we are also using element of automation and industrialization, so growing the business does not always mean you need to grow the headcount at the same percentage. Of course when the business grows, the headcount goes up but the headcount probably goes up at a lower percentage than the revenue will go up.

**Rohan Shah:** Right, another question I had was in this quarter we had almost the same number of employees that of the preceding quarter but the revenue went up and the profits went up, so what were the reasons for that, was it automation, was it more utilization, could you please throw some light on that?

**Aarti Arvind:** I think it is a combination of factors but one of the important factors is also the onsite offshore mix and regional mix, so that plays an important factor in the revenue that you earn per employee. So that was one of the changes which happened. As I mentioned, Europe had also gone up, so we had a higher revenue from Europe and if its onsite then you need fewer people but that is one of the reasons for the change from the previous quarter or previous year.

**Rohan Shah:** So basically you billed more for the same number of employees, correct?

**Aarti Arvind:** Correct.

**Moderator:** Thank you. Our next question is from the line of Dhruv Bhatia from AUM Advisors. Please proceed.

**Saurabh Shah:** Hi, this is Saurabh Shah. I had a question on automation. I think it was mentioned earlier that you are seeing higher automation. My question is, do you see as part of your solution, the revenues from engagements going down because of higher automation now? And what implication does that have on margins?

**Aarti Arvind:** I think the revenue does not go down, when you engage with any customer overtime you have to provide more value and also have to automate repetitive task because otherwise cost would go up linearly, so that is not something any customer would expect. So, automation has two components, one is where the customer says in terms of automating certain repeatable task and the other component is where we are able to internally automate and enhance productivity or enhance the overall ability to have less people but have the same outcome. So, I think automation is an important role, it does not necessarily mean you will have less revenue because there is more business which you will increase but it helps you in terms of adding value to the clients as well as improving overall profitability within the organization.

**Saurabh Shah:** Could you give us some indication of few impacts out of that play out, you said higher profitability, I am assuming that also means lower headcount. So what percentage over the period of time do you see automation in terms of increased productivity or margins?

**Aarti Arvind:** I think it is difficult to give a percentage because it depends upon the region applying, there are various factors which affect it, so difficult to give a single percentage which would encompass all that. And it also depends on the client's appetite for automation and certain tasks which can be automated and cannot be. So, I think it is difficult to give exact percentage, but overall it benefits both client as well as the organization in terms of improvement and doing more with the same money or for the increased value delivering once more.

**Saurabh Shah:** My second question was, you mentioned revenue from the Group has gone up significantly, is there a change in the engagement sort of model with the Group or is it, how do you expect that to play out over the next couple of years?

**Aarti Arvind:** I think in terms of revenue from the group, it has increased over the year. It is also a matter of any customer at the group level as I mentioned, when you add new customers whether direct customers or through the group, any customer looks at a little bit more onsite initially and once they get comfortable then they start looking at off-shore after understanding the capabilities, so it is not very different. But we are definitely looking at more from the Group because once you start with an engagement with a particular client at the Group level that is sure to grow. So, that is something which we are definitely looking at in the future and expect that to improve.

**Moderator:** Thank you. Our next question is from the line of Rahul Jain from Systematix Shares. Please proceed.

**Rahul Jain:** Firstly, my question is, what is the share of the Group revenue, you said 11.6%, was it for the year or for this particular quarter?

**Aarti Arvind:** The Group revenue is 11.6 for the year, I had mentioned that previous year it was 4% whereas it was 11.6% for the current year.

**Rahul Jain:** So 11.6% for the full year?

**Aarti Arvind:** Correct.

**Rahul Jain:** So, if I do that mathematics than the core growth, the growth outside SQS looks less than 5% for the full year. So, it could help if you could share an overview of business group as well as direct.

**Aarti Arvind:** I think one is, the group revenue which we just talked about, in terms of direct revenues if you look at some of our larger clients they have grown and we have added new direct clients in multiple regions also. So, you will grow both with direct clients as well as with group clients. It is a mix which varies based on the geography and the quarter because it depends on where you are adding, which region and also the kind of revenue that you are getting onsite of off-shore. There is no standard in terms of what would be direct or what would be group, but I think we are looking at more in terms of end business that we are getting overall, whether within the group or outside the group, it is overall the end business that we as an entity are looking at. So that is what is more important than looking at where the business came from. But the potential from the group is high because as a group we are present in many countries, so that is why without the investment in sales which you can do in a couple of countries but not all you get the benefits of that sales capacity which is there in different countries which is what we feel can be leveraged a lot more.

**Rahul Jain:** So definitely we understand the possible potential of the leverage that could come from the group entity, but just to understand, I meant the revenue from the non-group is sort of flat three quarters or rather down if I have to say from the Q2 run rate. So how is the sales strategy on that part of the business?

**Aarti Arvind:** See, I think it is more of a changing mix in terms of customers and regions, because you will have consistent growth across regions as well as customers but the mix does change across the quarter and across the year. It is more at a point of time what you see could be very different from what it is after quarter. I think it is too early to say that the direct revenue is flat whereas the growth is with the group, growth definitely will be there in both areas but it could have happened that in that particular quarter or six months' period it is more in terms of group than direct.

**Rahul Jain:** So Rene, if you could give some more overview on the group strategy in terms of incremental input which the clients might be sharing in terms of their comfort towards outsourcing?

**Rene Gawron:** Yes, within the group we have a very strong focus of growing outsourcing which we call mostly managed services deals and what we have is we implement and half of which is implemented and continue to do so. Specific client development plans, how we can grow our business, our share of wallet, our market share in growth clients, especially in the BFSI field. We have a strong focus there on the US region but also on selected European clients and with those growth plans which we are continuing to execute, this is bringing also more business to SQS India BFSI but it is very client specific and very targeted. So, most of the growth we have as a group is coming from the growth of existing clients because usually new clients start with the smaller volume and very often not with off-shoring and outsourcing right away. The focus is very much on building out existing clients.

**Rahul Jain:** Sir, my point was more in terms of what is the comfort level of the client, if we have to get the view of the client in terms of incremental offshore into geography like India or are there completely open and under the managed services anyways it would not be much of a decision of a client?

**Rene Gawron:** Well, we are in the client development plans we are executing, we are focusing on those clients and those client opportunities which give us a global delivery that is offshoring delivery potential. And to be honest, if we were to win a client where you can only do onsite delivery without a visible end we probably would not engage with that client because at the same time the clients want attractive prices but attractive prices do not match good margins if it is only onsite. So we are focusing on clients that do have at least a mid-term high offshore potential.

**Moderator:** Thank you. Our next question is from the line of HR Gala from Panav Advisors. Please proceed.

**HR Gala:** I just wanted to know what is the current offshoring and onsite mix of revenue?

**Aarti Arvind:** It is 62% onsite currently for the FY16.

**HR Gala:** And 38% is the offshore?

**Aarti Arvind:** Correct.

**HR Gala:** So going ahead where do you see this ratio going?

**Aarti Arvind:** I think as an organization we are definitely looking at more offshoring, at the same time if you look at the current year we added quite a few new clients and our percentage of revenue from new clients was much higher at 18%. As I mentioned when you start out an engagement quite often, there are workers onsite and over a period of six to 12 months once the customer gets comfortable and they settle in and things go as planned is when you start increasing your offshore component, that hold true for direct as well as group revenue. So as we see it, during the year we had higher onsite also because we had a higher proportion of new business which is good because that business is the one that will translate into more business in next year. But we are consciously looking at how much to increase in terms of offshore because profitability was offshore is definitely better.

**HR Gala:** My second question will be, we still have a lot of business coming from Europe and we have been discussing that our focus is now going to be on the US market especially with some acquisitions which our parent has done. So going ahead how do you see that percentage contribution to revenue changing between Europe and USA?

**Aarti Arvind:** See, I think focus wise definitely from the US where we have ramped up our sales capacity as well as the acquisition at a group level which will be contributing and the effort that we spent is primarily channelized in the US. We had a setback where the revenue from the US went down compared to the previous year in the last year whereas we are looking at it increasing because if you look at typical IT organization US is close to 50% whereas our mix is very different. So, we are definitely looking at that increasing and most of the effort is focused in terms of ramping up the US both from the sales front as well as the solution as well as industry trend front, that is what we are focusing on and we are definitely expecting that to go up in the six to 12 months period.

**HR Gala:** My last question is on DSO we are currently at 62 days, do you see if there is further scope to reduce it?

**N. Vaidyanathan:** The year ended and quarter ended we have seen good collections, I would say 62 days is a very good DSO and we do not see any further improvement on that. The average we feel would be in the region of about 60 to 90 days, in that range.

**Moderator:** Thank you. Our next question is from the line of Prashant Agarwal from Irevna Capital. Please proceed.

**Prashant Agarwal:** So, I am positively surprised by the onsite-offshore mix of 62% and 38% for the quarter and still we recorded an EBIT margin of 22.8%. So with this improving going ahead say offshore increases to higher number, do we see the margins improving from here on?

**Aarti Arvind:** I think margins are a mix of factors, one is the regional mix also plays the role and the onsite-offshore mix and your need to grow. So this year we are also investing in space and capacity so that is an investment we are making, this will start adding to our cost. And the regional mix could also could change which in this quarter was good. You are right, as you increase the offshore, margins will go up but adding the multiple factors it is not possible to say that sheer onsite-offshore mix changing will result in the increased margin, it is also the regional mix and investment that we are making in the year. So we are not seeing a significant change or increase in terms of profitability that we are looking at, because we need to make investments which we are looking at in this year.

**Prashant Agarwal:** So are these margins sustainable say in the range of 22% to 23% EBIT?

**Rene Gawron:** We do not give any future guidance Prashant.

**Prashant Agarwal:** Sir, another question, we have increased our employee count from 830 to around 1000 this year which is an increase of 25% in a year, are we looking at a similar jump for this year?

**Aarti Arvind:** I think what we look at is to plan our capacity, we do plan for a base increase in employees but it is also linked to the revenue projections that we see. So, we do a forward planning of looking at the next three to six months number of employees. But as NV said the number of employees that we add is dependent upon the revenue that we see coming in the subsequent period so that we try to optimize it. So at this point I cannot give a forward forecast in terms of how many people exactly we will be adding, but based on the need we would be adding in different groups to manage our overall delivery and cost structure.

**Moderator:** Thank you. Our next question is from the line of Zaki Abbas from Nasser Investment. Please proceed.

**Zaki Abbas:** Two questions from my side, one is, you have planned an addition of 200 seats in around May-June, so are these employees already on the roles or you would be taking them going forward? That is question number one. Question number two is, the efficiencies of the current quarter as Ms Aarti put in, would they continue over the next quarters? And the revenues from the group, during the year do you think they will increase further a couple of points?

**Aarti Arvind:** First question I will take up, in terms of the capacity that we are building, see the capacity that we are building is for future growth because that is something that you need to plan for and we also have quite a few certifications and compliances that we need to adhere to and get the certifications in place before we can start to work on these projects. So, typically you will definitely plan the capacity much earlier than you are planning the business and that is why we have gone ahead with investing in the space in the same building on higher floor. We would be using a certain portion of that, but it is also when you increase your capacity you will do it by a certain number not what will help you today, tomorrow or the next three months but more in terms of future planning. We are investing in that currently. So, it is not that we have all the employees to fill that capacity right now, we would do it based on need and based on how our revenue projections look and when we need to add more. There is no definite plan in terms of when they are going to add those employees, at present we do not have them in place for us to fill that capacity.

**Zaki Abbas:** Efficiency of the quarter ma'am, would it continue?

**N. Vaidyanathan:** See, your second question on efficiency, Aarti has already addressed that with one of the earlier participants, I think that the profitability and efficiency, efficiency of course in terms of the utilization; yes we would always try to improve but in terms of profitability it is a mix of various factors starting with the geographical mix and the onsite-offshore mix and also the investment what we are making. And to your last question on the group, revenue contribution as we had mentioned earlier, last year we had a 3% of total revenue coming from the group and the current year, i.e., 2015-16 was 11%. So just to take cue on that but right now we may not be able to give the projected number for that but then it would be growing.

**Moderator:** Thank you. Our next question is from the line of Pranav Mehta from Value Quest Investments. Please proceed.

**Pranav Mehta:** Just a follow-up question on this headcount, so for this quarter our headcount is broadly flat QoQ and this comes after two quarters of very strong addition, so should we read this like are you seeing some sort of near term slowdown in revenue growth and how should we interpret this? And just to add on it, whether there is any scope to increase the utilization further?

**Aarti Arvind:** I think in terms of headcount as mentioned we add the headcount as and when we need to and also try to optimize and it depends upon various factors, for example, if you have more offshore you will need more headcount whereas if you have more onsite you will need less, if you different regions you will have different requirements in terms of headcounts. So headcount is not always reflective of the revenue for the quarter or the growth plans, it is more of an internal indicator for us to know and optimize on how many we need based on region wise and onsite-offshore mix wise revenues. So, we optimize it after considering all these factors, it is not a linear kind of a thing in terms of revenue.

**N. Vaidyanathan:** To add on to what Aarti has mentioned, in terms of the new recruits we normally take them at entry level and then they have to undergo a training for four to six weeks. It is not necessary that the headcount is added and they become productive immediately; so that must be an addition in a particular quarter but those people become productive in the subsequent quarter.

**Pranav Mehta:** On the utilization?

**Aarti Arvind:** In terms of utilization I think there are two parts, one part is what NV said where when you add people you need them to be trained for a certain period of time before we deploy them on projects because a lot of our engagements are managed services. That being the case the team has to have a good understanding of domain, processes and methodology that we follow and then we put into projects so that they can have on the job training. So in terms of utilization it varies depending on do you have the people who are trained and available and in this case the utilization could be higher. But it depends upon the quarter it varies, so at this point I do not think we would be looking at committing on a higher utilization because you also need to be able to have people so that you can deliver well to the customer, meeting the SLAs that are set by the customer when you do managed services. Whereas if it is more of staff augmentation then you could have a high utilization because you can just get people in time and place them. So, the business model that we have and the kind of services that we do would involve having a certain amount of people who are after curve before they deliver, that is one. And two is, even in terms of ability to grow you need to have a certain number of people available to service new opportunities. We keep all this in mind in determining what is going to be our utilization or what do we want to maintain it at.

**Pranav Mehta:** And if you can just elaborate on North America geography, so the revenue this year has actually declined whereas this is a focused geography for the group as a whole. So can you just elaborate what are the specific problems you are facing and what is the strategy on that?

**Aarti Arvind:** I think in terms of strategy, strategy that we have for North America we are very clear that as mentioned earlier that is our focused geography that has been and will continue to be. At the same time we have had some challenges in the geography in terms of some customer changes over the year, so that has also resulted in decrease in the revenue. At the same time, any sales cycle in a new region particularly there is a certain period for which you need to invest in that market for you to get the return. And I think as BFSI as well as at group level we are clear that is where our investment is going. So that would yield result in the coming years and I think our focus is definitely there.

**Moderator:** Thank you. Our next question is from the line of Bhaumik Bhatia from Girik Capital. Please proceed.

**Bhaumik Bhatia:** Most of my questions have been answered, just a few data points. One, you mentioned that the contribution from group for FY16 has been 11.6, would you be able to give a number for Q4? And second would be the share of managed services in the overall revenue in Q4 and FY16 and what are the comparable YoY numbers?

**N. Vaidyanathan:** On your first question, the contribution from the group in Q4 is around 13%. What is your second question?

**Bhaumik Bhatia:** The share of managed services in the overall revenue for Q4 and FY16 and the comparable YoY number.

**Aarti Arvind:** I think the share of managed services is around 67% and this has grown from the previous period and we are also very focused in terms of managed services because both in terms of client value we are finding more clients now a days are clear that they do not want somebody who is looking at just delivering certain services but they want them to take the ownership which is where our strength comes in. So this is a model that we are focusing on both at the group level as well as BFSI level.

**Bhaumik Bhatia:** So this is 6-7, 67, right?

**Aarti Arvind:** Right.

**Bhaumik Bhatia:** And this is for FY16?

**Aarti Arvind:** Correct.

**Bhaumik Bhatia:** And would you have a YoY number for FY15?

**N. Vaidyanathan:** We will get back to you Mr. Bhatia.

**Moderator:** Thank you. Our next question is from the line of Krunal Shah from Amideep Investment. Please proceed.

**Krunal Shah:** My question is regarding the dividend policy, you have always maintained that we have a 33% - 30% pure dividend payout policy and this time it is around 66%, so does that mean there has been change in the policy?

**N. Vaidyanathan:** Mr. Pranav, we do not have a stated dividend policy. We had mentioned earlier that the practice which we normally follow is to share 35% to 40% of the PAT with the shareholders, what the Board of Directors also have looked at is the surplus that is available in term of cash balances after meeting the operational, expansion expenses and the normal capital expenditure in view of being high cash conversion ratio after meeting with these and also resulting for the working capital requirements for the future as we wanted to share that with the shareholders. And this is not a repetitive thing, this is one-off thing. So the current year after taking into consideration all these factors the Board has recommended an additional dividend of Rs.20.

**Krunal Shah:** So that means next year it could be change depending on the requirement?

**N. Vaidyanathan:** Yes.

**Krunal Shah:** Would it not be better to have a consistent dividend policy from the investors' perspective?

**N. Vaidyanathan:** Generally it would be a ratio but when we are able to have the resources to meet our expansion projects and the working capital utilization we thought it will be better to share it with the shareholders.

**Krunal Shah:** And my next question is, one question I have regarding difference between consol P&L and the standalone P&L, if I look at both numbers the sales number are the same but the profit number varies, so what exactly happens, could you just elaborate in brief if possible?

**N. Vaidyanathan:** Yes. The revenue numbers would be the same for standalone and consolidated EBITDA, the parent company which is SQS India BFSI Limited is a holding company of the subsidiaries spread across five different countries and we generally do the invoicing for all the client revenue, so the entire revenue would be accounted in the parent company. For the subsidiary revenues by way of back to back mechanism this will get adjusted. So, the revenue line would remain the same while the profitability would be reflected in the respective countries in terms of local transfer price into parents.

**Moderator:** Thank you. Our next question is from the line of Akhand Pratap Singh from Axis Securities. Please proceed.

**Akhand Pratap Singh:** I have one book keeping question, I wanted to know average realization per hour for onshore and offshore business and what is utilization in offshore and onshore segment?

**N. Vaidyanathan:** We normally give only the blended realization, the blended realization for the period is $31.2 per hour.

**Akhand Pratap Singh:** $31.5 per hour?

**N. Vaidyanathan:** $31.21 per hour.

**Akhand Pratap Singh:** And utilization onshore and offshore segment both and individual employees at onshore and offshore?

**N. Vaidyanathan:** The blended utilization as we mentioned in the beginning of the call improved from 66% of last year to 69.4% for year ended 31st March, 2016.

**Akhand Pratap Singh:** Can I get the breakup in terms of onshore and offshore?

**N. Vaidyanathan:** We do not give that but it is computed in line with the industry practices.

**Moderator:** Thank you. Our next question is from the line of Abhishek Kumar from JM Financial. Please proceed.

**Abhishek Kumar:** I have a slightly broader question, just wanted to understand, I mean we hear from other larger IT services players that they are facing a lot of vendor consolidation especially in the BFSI clients, in that scenario just wanted to understand how we are fairing given that we are a very specific…

**Moderator:** Mr. Kumar, can we request you to speak a bit loud as your voice is not audible.

**Abhishek Kumar:** So my question was on vendor consolidation, just wanted to understand how a small niche player like SQS BFSI or for that matter even the group SQS facing vendor consolidation situation, I can understand in continental Europe or in Germany where SQS has deep relationship with clients, they might be able to hold on to their territory. But when we go to US where the Indian IT offshore players are much more interested in the client, do we foresee breaking into the US clients much more difficult as compared to what we are seeing in the European region?

**Rene Gawron:** Maybe I see it as a general trend, yes vendor consolidation is very often a topic but I see generally, and this is also true for the US that because we are the only large quality assurance services company that is among the top 10 providers worldwide and all the other competitors we have in quality assurance and testing services are only system integrators. So we are the 8th largest player in that field globally and that is why we are usually taking it in a very positive way as a challenger because we can provide kind of extra efficiency because our focus is only on quality assurance while many system integrators have other focus areas but very often not that they really focus that much on the efficiency thing. So I am seeing with many clients we are talking to and are in contact with that vendor consolidation, yes it is happening but at the same time they also like to take a player of our size as a challenger. So it is not really in fact for us.

**Abhishek Kumar:** My next question is, just want to understand how the relationship moves, we have won quite a few new clients this year, so typically since these are managed service contracts do we have like three to four years' visibility into these newer clients where we have signed an MSA or is there any order book that we have signed and we have some sort of revenue visibility going into the next year?

**Aarti Arvind:** I think definitely when you sign the new clients it starts off slow because any client typically first half will have a smaller order and then once they see the delivery capability and how we deliver and when they get more comfortable and look at long-term, so adding new business could be project which are time bomb at the same time can be small engagements that we start off with clients in the hope that they will get large. Now most of the clients when you mentioned we look at clients who have the potential to give us a certain quantum of revenue and also the interest in looking at managed services and offshore. So, when we look at client as such, any client whether we would like to pitch over there, we keep these factors in mind. Most of the clients that we have added, we are definitely looking at over the year increase in potential revenue from these and looking at more offshore after initial period of onsite looking at more offshore. So these are definitely nuances that we look at for future revenue growth. At the same time, they could start off small and grow larger and any customer looks at a certain period of engagement. There could be clients who sign up with you saying yes per say and signing up an MSA for three years, but the volume of business for year also depends upon the client releases for the year, the client plans for the year which quite often gets finalized annually. So, that is a process that we have with more clients, small or large, to determine for the year what are their plans and what could be the potential revenue, though you would know that typically certain clients have certain plans for the year but that gets kind of firmed up towards the beginning of the year, and certain cases quarter wise also.

**Abhishek Kumar:** I have one last question if I may, we keep hearing a lot about DevOps where the live environment and operations team work together and development and testing all work together, so just wanted to understand does that entail a lot more onsite component over the time because it is a managed services contract, we can manage the onsite-offshore ratio?

**Aarti Arvind:** I think DevOps definitely compared to earlier years is going up and expectations from the clients also we do things in a material way or we are able to demonstrate that capability in projects, but it is mix. You are right, to some extent where customers would like the testing team also to be onsite closer to the development team and also have technical capability so that certain amount of fixes can be done by the testing team, at the same time when you have large engagements where clients also understand the cost efficiencies of offshore and they have secured connectivity where they know that the facility that you have are secure and we have audited them and we are fine with them. They are flexible in terms of having larger offshore teams also, but certain projects could call for more onsite presence depending upon the kind of engagement or kind of deliverable that is there. So, it varies across projects and clients but a lot of our existing larger clients are open to the offshore teams also doing the projects in an agile manner from our centers.

**Moderator:** Thank you. Ladies and Gentlemen, we will take our last question now which is from the line of Abhishek Anand from Centrum Broking. Please proceed.

**Abhishek Anand:** Just wanted to understand, since our pie from our parent is increasing every year, is the pricing that we get from the parent, is there any change over there, does the parent expect us, since they are providing us a big chunk of revenues is there some discounting that we give to the parent?

**Aarti Arvind:** I think we have a transfer pricing study which has been done which is in line with the requirements of the industry as well as the regulatory authority and we are going completely by the studies we implemented in April 2015 and would annually relook at the rates that we have with the parent and group entities on an annual basis to see what has increased or what has decreased. So, we are completely going by the transfer pricing study that we have done with a large consulting firm.

**N. Vaidyanathan:** And all transactions are done at arm's length.

**Abhishek Kumar:** And also since we are expanding in the US geography also now, so from a margin perspective is there any difference between the business that we get from say Europe or say from US?

**Aarti Arvind:** If you look at Europe and US, both are higher margin regions compared to Asia, so margin wise it would not be significantly different but it also depends upon the country and the currency, for example in Europe you have multiple countries so certainly it could vary, but margin wise typically US tends to also offshore more, so there your margins are higher. But overall margins between the two regions at a broad level are not significantly different, but as I said it also depend upon the country in Europe that you are doing the business with. It varies according to that. So it is difficult to say that they are exactly the same but approximately yes they would be the same.

**Abhishek Kumar:** And just one last bit, on the managed services just wanted to understand, when we engage with a client are we the sole service provider or are we working with some large player or some other player when we are providing services to a client? And in managed services itself what you explained earlier, is it possible that our revenues from a given client be lumpy during the year basis what development is happening over there or is there a steady stream of revenues which comes in from a client once we have signed up business for managed services, so some understanding will help.

**Aarti Arvind:** Managed services is more in terms of how you deliver the engagement where you are not charging them per person and saying that they need to manage the entire project, we manage the project and also charge them certain cases based on outcomes. It is not that managed services means you will get an even revenue, it depends every client has different plans for the quarter, they could be more in a quarter, less in a quarter, in certain cases it is even throughout the year. It is not necessary that it will be lumpy but it depends upon the client and their overall plans for the year.

**Moderator:** Ladies and Gentlemen, that was our last question. I now hand the conference over to management of SQS India BFSI Limited for closing remarks. Over to you.

**Aarti Arvind:** Thank you all for joining and participating in this conference. Have a great weekend. Thank you.

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