"SQS India BFSI Limited Q4 and Full Year FY18 Earnings Conference Call"

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MODERATOR: **ASHA GUPTA – CHRISTENSEN IR**

Moderator: Ladies and Gentlemen, Good Day and Welcome to SQS India BFSI Limited Q4 and Full Year FY18 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen Investor Relations. Thank you and over to you, Madam.

Asha Gupta: Thanks, Ali. Good Afternoon to all the participants on this call. Welcome to the Q4 and full year FY18 results earnings call of SQS India BFSI Limited. Please note that we have mailed the results presentation and same is also available on the Company's website. In case any of you are not on 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.

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 – Executive Director and CFO. Ms. Aarti will start the call with a brief overview of the quarter and year gone past, which will be followed by Mr. Ramaseshan who will go into the details of financials of the Company. We will then take the Q&A session.

I would like to remind you that anything that is said on this call or give any outlook for the future or 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 Ms. Aarti. Over to you, Madam.

Aarti Arvind: Good Afternoon everybody, I am glad you could join for the call. I would provide an overview of our performance for the last quarter as well as the last financial year and Ramaseshan – our CFO and Executive Director, would provide an overview of our key financial aspects.

The last 12 months have been good with us growing in revenue across all quarters. We began the year with Q1 at US $9.41 million and our last quarter closed at $10.7 million, which is a good growth over the 12-month period. There have been of course macroeconomic changes in the global market, but nothing compared to the previous financial year where we had various things coming in. Digital offerings continue to gain importance and a significant amount of evolution happened to what we offered our customers. Some of the highlights for the year are - one, from the revenue aspect, we closed our year at $42.8 million compare to $38.8 million in the previous financial year; our growth in US dollars over the previous year is around 10% while in INR terms it is 6%, this includes the scrip sales revenue that we received during the year. At an EBITDA level, we had lower profitability at 16.5%, but overall when you look at PBT, it is higher at 17% or so. The depreciation of the rupee against major currencies especially the Pound and the Euro also helped in overall profitability during the financial year. On region wise, revenue has some changes with revenues from Europe increasing significantly. This was primarily due to increase in revenue from couple of our larger accounts which are based in Europe. Our revenue from some group accounts also increased during the year, these are also primarily from Europe. Revenue from Cards & Payments and Insurance increased while saw decrease in Banking due to the completion of certain larger projects in the previous financial year. Group revenue increased from 17.3% to 19%. The number of group clients also increased from 24 to 26 and our offshore ratio from group clients is much higher than earlier and some have evolved into annuity account. We now work with customers across most major regions including UK, Ireland, US, Germany, Austria and South Africa. We added close to 25 clients during the year and expect that some of these become annuity accounts over the coming years. It is quite spread out in terms of regions and we have added across most of the larger regions that we work with. We did not have the growth in the US which we had hoped for, but at the same time had an upside in other regions which helped us to grow as an organization.

A significant event in the last financial year was acquisition of SQS Group by Assystem Services Deutschland GmbH, Germany. This merger has helped us become part of a group which has a combined annual revenue of over €1 billion and in the future, this will definitely help us to grow and scale.

Now, I am going to cover some of the significant parameters relating to Q4FY18. So, the quarter wise, we closed at US $10.7 million, 7% increase over the previous quarter. This included scrip sales to the tune of US $246K. We added six new clients in the quarter. Profitability wise, we had an improvement in EBITDA of 16.5% compared to the earlier 14.9% from the previous quarter. We had higher revenue across more regions, but significant increase was there in Europe, UK and India. Revenue from the US decreased and this was due to short closure of an account, because the customer got acquired during the course of the quarter. Practice wise most showed an improvement, but significant change was in Insurance which went back to around 17% of our overall revenue. It had decreased in Q3 since some of our UK accounts which where Insurance base had a lower revenue due to ramp down, but this has picked up the pace as we had expected earlier. Group revenue grew in quantum as well as overall percentage of revenue and is currently at 19%. We have slightly higher offshore revenue in the quarter, utilization was higher at close to 72%. We added staff during the quarter and had a net increase in headcount of 50 and odd people. We added quite a few at the entry level during the quarter, but one thing that we also had this time slightly differently is to add more technically qualified entry-level people so that over the years they could evolve and become more of technical staff as part of the QA stream. We continue to recruit lateral with specific skills as well as people in Mumbai. Our Mumbai tech team strength has increased over the year and we also started an engagement for one of our key India customers out of our office which is quite large for us. Attrition as a percentage was slightly higher than earlier, but we find it is more seasonal and nothing unusual or out of the way. We had our annual planning exercise called Odyssey in January and also had our group level kick-off in February as well as the combined leadership meeting between Assystem leadership team and the SQS leadership team in Paris, these are all very effective ways by which we work together and understand the business across different countries and integrate well with the different teams. The quarter was better than expected from the revenue perspective as well as improvement in profitability. Overall, I think a good close to the year, with this will hand over to Ram to take us through some of the key financial highlights.

K. Ramaseshan: Thank you, Aarti. On the financial for Q4, we ended up with a revenue of Rs. 756 million, which is up 7.4% sequentially and up 32% year-to-year. EBITDA margins stood at Rs. 125 million for the quarter, which is up 19% sequentially and up 6% year-to-year. The profit after tax was Rs. 104 million versus Rs 55 million in the previous quarter, again up 89% and also up 133% year-to-year. The earnings per share almost doubled at Rs. 9.66 per share against Rs. 4.96 last quarter. We ended up with a cash of Rs. 850 million as on March 31, 2018. For the full year FY18, our revenue grew by 6.7% to Rs. 2784.6 million and the profit after tax was Rs. 319 million, which was up by 38% year-on-year. The earnings per share was up 34% to end at Rs. 29.90 per share. This concludes the financials and then we can take up the questions.

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 Sanjay Laddha from Perfect Research. Please go ahead.

Sanjay Laddha: Good Afternoon, Sir and Congratulations for a good set of numbers. My first question will be under the new parent, what vision and growth strategies do they get for us and what benefits can be accrued to us given that Assystem is also into the same space and Ardian, a PE, which is also very active into the BFSI space?

Aarti Arvind: Thanks for the question. If you look at though the acquisition happened was announced in December, the plans and discussions on the future as well as how we would integrate and what we would do, discussions are still on and I think it is a little early also for us to have the full plan. But at the same time if you look at it, Assystem in terms of BFSI revenue is almost nothing because they have not focused on BFSI till now and that was also one of the reasons for acquisition is for them to diversify in terms of having BFSI as a portfolio which SQS Group and us could bring in, so I think that was one of the reasons for the acquisition as well, so they do not have any BFSI client whom we can immediately leverage, but Ardian who have funded Assystem, they have quite a few BFSI connects then being a PE firm, so I think that is something which will help us in the long run and I would say even as of day has helped us to connect some of the existing customers at a very senior level, so they are very well connected at the Board level and that should help us in the long run. So, if you are talking about an immediate plan in terms of customer cross leverage that might not be there because they have been focused more in terms of Aerospace, Manufacturing, Automotive areas, but in long-term the benefits would be there.

Sanjay Laddha: My second question will be what percentage of our current revenue is annuity or sticky for a period of 5 to 10 years?

Aarti Arvind: Quite a bit of our business is existing customers and business which is from customers who have worked with us for many years, but if you look at it quite often customers do not give you a three to five years plan or commitment at least in the QA side of things and they do commit quarterly sometimes even six monthly, but quite often it is quarterly. So, it is not that the customers do not have the business, so they do not give you commitment for multi-years. We have worked with customers, couple of our customers whom we are working for the last seven to eight years, they still give us quarterly predictions, they have always done that but does not mean the business is not there. So, most of them are customers who quite a few are long-term customers, but having a three- to five-year view does not always happen.

Sanjay Laddha: Third question will be what is addressable price of opportunity in testing market and how are we placed better in terms of competitors?

Aarti Arvind: If you look at the QA market I think the one thing which is common whether you take QA or development or any area is in some of the changes which are happening in industry. You can talk about the movement to agile or you can talk about the mode of automation or you can talk about Robotic Process Automation which is one part of it, but these are all common trends in the market, even in terms of data and data analytics that is the big area where every organization is focusing on, so, I would say the trend as well as the challenges and the opportunities are not significantly different. It is just that, I think I even mentioned earlier in some of the calls, what we do as QA is changing. It is not your typical only functional testing, but it is a lot more that we offer where functional testing might decrease in terms of quantum of work that you get, but the overall quantum of work that you do could increase, so, there are lot of changes happening and our industry is no different. If you look even within India, most banks are becoming more digital, the offerings that they give are very different, so, the trends that our customers follow typically are the ones that we need to evolve, which is not very different from what even the SIs or the development organizations would do.

Moderator: Thank you. The next question is from the line of Sukanya Sarkar from Stewart and Mackertich. Please go ahead.

Sukanya Sarkar: I have one question, can you please explain little bit about the sale of SEIS Scrips during this year and whether this income will be sustained quarter on quarter?

K. Ramaseshan: The SEIS scheme is a benefit which is given to the software exporter for the foreign exchange currency income that the software exporters generate. This is the kind of an export benefit extended to the software companies, so, for this year FY17-18, we have included the revenue pertaining to FY15-16, FY16-17, FY17-18 as well. As of now, for FY18-19 which is effective from April 1, 2018, we have not got the notification from the government, so the way it works is the government notifies every year and during the year, it may not happen in the month of April, during the year the government notifies a percentage of the exports earning as a benefit, so, we have to wait for the notification from the government, so, as of now for FY18-19, we have not got the notification. As and when we get the notification, we will come to know how much will be the income against this scrip.

Moderator: Thank you. The next question is from the line of Pranav Mehta from ValueQuest Capital. Please go ahead.

Pranav Mehta: I just want to know what is the status on the new CEO that we are going to appoint, just want to know the date is very close by and we have not yet announced a new CEO?

Aarti Arvind: We have identified somebody, so once the date of joining and all that is confirmed and the person joins, we would definitely intimate everybody, but at this point I do not think it is possible for us to share more details about the individual or the existing thing, but we are very aware of the fact that we would need to have somebody joining and I think we will plan that out, that is something we have under control.

Pranav Mehta: Also, I know the timeline regarding Assystem's acquisition is not yet over, but if you can just throw some light as to what is likely to happen because minority shareholders over here seem to be too small in the context of the whole thing and there is no priority being attached to keeping them informed or on the plans or what is going to happen, so it would be really helpful if there can be a call arranged or something to throw some light?

K. Ramaseshan: One thing Pranav is as you correctly said whatever is the information that we think that will go to the shareholder it is all in the public domain. On top of that, during Aarti's initial comments, she mentioned about the leadership meeting between SQS and Assystem which happened on April 9th. As far as the BFSI is concerned, there is no major change that is happening because of the points which Aarti mentioned to the previous question in terms of looking at their business profile and offering, Assystem is totally right now is on the engineering space, so as of now whatever information that we know it is already there in the public domain, but as and when they think or we come to know anything which is important to be shared to the investors, we will definitely communicate.

Pranav Mehta: Just one more last question from my end, earlier, I believe we are not planning to have a marketing team in US then we had changed our plans later on and we were going to have our own marketing team in US, just like to know that if this new strategy is it working out because we do not really see the percentage of business coming in from US increasing dramatically as of now and what are the thoughts on that going forward?

Aarti Arvind: If you look at our US numbers we have not done well in the US in the last year I think that is very clear. We have made investments in the US because whether you talk about sales people or lead generation agencies all that we have done everything, but we have not had the results. We have got couple of new customers, but in terms of scale and ability to scale those will take a little bit more time. At the same time, I think we investing in that was essential during that period and there are some expenses which we will continue to incur, so we have not had the traction that we would like. Honestly, if you look at our numbers, our US revenue percentage and quantum has also decreased because we had a customer whom we had an acquisition loss, so it has not worked well for us so we made up in terms of revenue and other regions and I think we kind of did more with our larger customers which is also good, but yes, it has not worked in the last year, but we continue to look at what more we do in the US and how do we get more business out of that region.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Aarti Madam, I just would like to know whatever volume increases this quarter, it comes from existing customer or new one?

Aarti Arvind: I think it is a mix of customers because if you are seeing we also had new customers whom we added during the quarter and during the year. Over the years, it was close to 25 customers or so and in the quarter also, we had 6 to 7 customers so it is a mix of existing and new, but what you will find the every quarter the quantum of revenue will be lower because it is only subsequently you start increasing and adding more revenue from them, so, the ones we added in the early part of the year could give more, but I think it is always a mix of existing and new that we get from, but in the last one month, we have had good traction from existing also.

Ravi Naredi: How is the pipeline currently of the company orders?

Aarti Arvind: If you look at the pipeline we have, last year we added 25 customers so you will have a certain quantum of revenue coming from these as well as our existing customers. At the same time, you always have certain quarters where you do extremely well also because you would have had certain larger projects and engagements at certain points, same thing happened last year, we had different points where we had slightly lower revenue in certain quarters because the size came to an end and then you have a gap and then it picks up, even insurance if you take Q3, we had lower in insurance from UK, so our revenue went down over there, but subsequently in the last Jan to March quarter Q4 has picked up, so I would say we do not give typically forward-looking forecast, but you will have certain quarters where you do extremely well, you will have certain quarters where the revenue would not be as well as that.

Moderator: Thank you. The next question is from the line of Mohit Balakrishnan, an Individual Investor. Please go ahead.

Mohit Balakrishnan: I just wanted to know just on this context of this I think you mentioned that you have added about 25 clients in the last one year, so, Madam, I was checking your historical data on this, so I think you have added some 80 to 85 clients in the last three to four years, but around 65 to 70 clients have also left us, so I mean can you just explain this data is it that net addition is only 10-15 and last two to three years the growth has not been there, so, would you attribute that for the growth to be a bit tepid?

Aarti Arvind: If you look at the data, the data that we have is if we do not bill the customer in a particular quarter then we take them out of it whereas if you look at the additions that we made in terms of the 25 that I am talking about, it is new customers whom we have not worked with before whom we have added during the last one year, so, I do not know whether that and this will be an exactly comparable data, but you are right over different points of time we do have certain customers whom we do not work with and we do lose. At the same time, last year I think the number of customers that we added will help us in a long run. It is not all of them who will continue to be customers, long-term customers will be billed quarter on quarter but there are definitely some of them whom we have had good traction in this and is more of a continuing relationship that we have, so, I think it is a mix of customers that we have out of this group.

Mohit Balakrishnan: Madam, if I sort of compare you with let us say an IT services business, your businesses is slightly more lumpy than a typical IT services would be, so first question is this understanding correct, and second would be is there any way to sort of smoothen out this lumpiness in terms of any like long-term contracts or any other way in which you can manage this sort of lumpiness because your quarterly margins are also quite lumpy because of this project nature of the business, which is not bad but just wanted to understand?

Aarti Arvind: If you have an answer for how to exactly smoothen it out, we will be very happy.

Mohit Balakrishnan: What I wanted to understand is, for example, in terms of the nature of contracts so are they sort of long-term nature of contracts or these short term work contract, let us say executable in three months, six months, whereas, in IT services typically the nature of contract is slightly longer because this then used to stickiness, so that is what I was trying to understand?

Aarti Arvind: It is kind of mixed, you have both where we do have long-term ones which are BAU where in a quarter after quarter you typically may be different smaller projects, but the customer has multiple small projects so you have larger projects, so you bill the same, you have those. At the same time, we also have certain projects which are larger ones where you will have peak billing for either two quarters or three quarters and then the project will run down and then it could get into a BAU, but with much smaller numbers, so you are right, we do have a certain amount of lumpy business because of the project part. It is also if you look at the mix of business that we have around 25% to 30% of our business is from India, Middle East, and Asia, and if you look at India as well as Middle East, lot of them are project based or based on the customers going ahead with certain projects and one of our large customers in Spain also it is more of two years they had large projects, now it is more of a BAU, so we do have certain customers where the revenue can be lumpy and certain customers where it is more spread out, so, I would say it is the mix where in the development space you might not have such a one quarter much higher one quarter lower and another thing which also makes a difference to us is when you have an engagement, if it is agile then you have QA involved testing from the beginning whereas it is more waterfall model then you will have it towards the end, so, if a project gets delayed than the SI or the development organization would have it from delayed by a month whereas for us the delay could be little bit more and the end date really gets extended much, so, what has happened is everything gets crunched and we do more there, whereas the previous quarter we may have done less because the project was delayed, so you are right it does have ups and downs, but I think the more long-term customers that we add the more even it becomes.

Mohit Balakrishnan: Madam, just on this part like as you mentioned in the previous calls also and also in the annual reports that there is a transition from let us say a waterfall to an agile model, so would that mean that, I mean this lumpiness should reduce going forward or do you think that should continue, I am just trying to understand the business?

Aarti Arvind: I think it could reduce in the future because even the involvement of QA is continuous, so that is where the lumpiness will decrease because you test in smaller pockets, but you test more frequently, so that way the involvement of the team you may have fewer people throughout but your effort wise it could be the same as having more people at a particular point of time, so you are right over time as more customers move to agile, it could happen but honestly when you look at it not all customers have moved to agile, there are some larger ones who have moved, but lot of the smaller ones are still in the waterfall model or their version of agile, so it is not quite there yet but long-term yes, what you are saying completely makes sense.

Mohit Balakrishnan: Madam, what percentage of either your clients or your revenues would you say have sort of moved towards agile, just a broad number, I do not need a specific number just trying to understand that, so if you could just help with that?

Aarti Arvind: If you look at our customer I would say around 40% or so.

Mohit Balakrishnan: Okay, would have moved to agile?

Aarti Arvind: Yes, not numbers of customers but more in terms of quantum of revenue which would have moved to agile projects where the customers have moved to agile.

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

V P Rajesh: Just couple of quick questions, one, what was the employee utilization in the current quarter?

Aarti Arvind: 72%.

V P Rajesh: Could you also share the number on the attrition side for the financial year?

Aarti Arvind: I think it is around 19% to 20%.

V P Rajesh: What is the current headcount, you finished the quarter at 945, has there been more hiring after that?

Aarti Arvind: Last quarter we finished at around 1,015 or so.

V P Rajesh: Currently, you are at 1,015?

Aarti Arvind: Right.

V P Rajesh: Next question is just trying to understand if there is a differential in the margin that you make on the cards and payments assignments versus what you make on the banking projects?

Aarti Arvind: I think more than the practice the region makes a difference in terms of which region the revenue is from and also whether it is on-site or offshore, so, I would say practice does not make much of a difference and these two parameters make a bigger difference to the margins that we make.

V P Rajesh: Are you saying that the European business, was there a major shift in the on-site versus off-site in the current quarter compared to last quarter?

K. Ramaseshan: There is no major change except that the offshore is improved by a percentage point vis-a-vis what we saw in the last quarter.

V P Rajesh: Ram, couple of quick questions on the numbers front, one is the account receivables show a dramatic jump, so could you comment on that?

K. Ramaseshan: There is no operational issues in terms of accounts receivables, what happened during March end there is couple of significant customers have changed their systems and some of their internal procurement processes, which actually delayed the connection, but having said that most of the collection that we were expecting in the month of March we have already received in April.

V P Rajesh: You are saying you are back to your normalized typical business as far as the receivables are concerned?

K. Ramaseshan: Right, one is of course the increase in revenue and increase in the billing which happened in the last month would be sitting in the AR so which obviously increases your accounts receivable by March end, but on top of that a couple of customers whom we thought we would get the money in March have paid little later in April because of the change in their internal processes.

V P Rajesh: Last question is you were discussing this scrip revenue earlier, so what was the number for the full year this financial year versus last year's financials?

K. Ramaseshan: In FY16-17, we did not book any scrip sale revenue and in the current year for three financial years, i.e., FY15-16, FY16-17 as well as FY17-18 we would have actually booked around $50 million or so.

Moderator: Thank you. The next question is from the line of Priyankar Sarkar from Motilal Oswal Asset Management. Please go ahead.

Priyankar Sarkar: Madam, you mentioned that the number of current employees we have is 1,015, can you give a broad sense of where we can see this number going forward?

Aarti Arvind: In terms of the number of people that we have I think it is difficult to extrapolate and give the number either three or six months down the line because it depends upon various factors such as, is it on-site revenue or is it offshore revenue, which practice, which area, and also what is the level of automation that is required in the future to turn a number of people and it is not always linear with your revenue increases, your people increases or vice versa, so I think it is not possible for us to give a headcount projection for 3,6 or 12 months in advance.

Priyankar Sarkar: Madam, just wanted to figure out this is the fourth year in a row where we are paying Rs. 24 dividend, is there a formal dividend policy which we have put in place?

K. Ramaseshan: We do not have a formal dividend policy, but every time we look at what we need to do, we always look at and discuss various options with the Board of Directors, but having said that we do not have a formal dividend policy yet.

Priyankar Sarkar: My last question is on the profitability front, if you look at the last 12 quarters or so, I mean we have seen the profitability swing from as high as 22.8% to as low as 10.7%, so going forward where do we see the ballpark figure for profitability and what are the factors which is trimming it to such a drastic degree?

K. Ramaseshan: We do not give any outlook in terms of the profitability, but having said that every quarter we look at our revenue projections and what levers we have to improve our cost, either it could be utilization or moving the work from on-site to offshore and whatever the overhead expenses, so we continue to do that, but having said that if you look at even this quarter, the foreign exchange gain versus the foreign exchange loss that we had which is even though we are trying to put some mechanism, it is going to be very difficult to get an estimate on the closing rate which can swing significantly on the profitability, but having said that we would also try to see what are the levers that we have so that you do not see such swing which we can control for a long time.

Moderator: Thank you. The next question is from the line of Lalit Dua from Rajasthan Global Securities. Please go ahead.

Lalit Dua: My first question is to the CFO of the company, what is the returns that they generate on the surplus money, I think we hold Rs. 85 crores of cash as on moment in the balance sheet so what is the Treasury returns?

K. Ramaseshan: If you look at the returns on the cash over the last probably three to four quarters, there is a significant increase on the yield. We normally use our cash to put the money in the fixed deposit with the bank. This is as per the directives given by the Board of Directors, so having said that this increase of the yield on the cash that you are seeing in the other income.

Lalit Dua: Sir, but what is the yield first of all?

K. Ramaseshan: The yield could be if you look at the cash, we get around 6% to 7% pre-tax return.

Lalit Dua: Has the management done any deliberation that instead of earning 6% to 7% yield on the surplus cash, it is not prudent so as to distribute the cash back to the shareholders whereby the promoters may not participate which would result in the optimal structure of the balance sheet, it will also result in the distribution of the surplus back to the shareholders, it will also result in increase on capital employed and return on net worth and it will also help the promoters to increase their stake indirectly, also since the return on the Treasury is only 6% to 7% even if you do it at Rs. 700 per share, it will be EPS accretive, also it is a season of the buybacks and if you would see companies like TCS, companies like Wipro, companies like Infosys, they have been very aggressive in returning back the cash to the shareholders who actually own the cash and they are the best persons who has to decide what to do with the cash, even globally companies like Apple, so they have also launched $100 billion buyback, so this is my first question?

K. Ramaseshan: I will answer your question on the various options that you have mentioned in terms of buyback or looking at increasing the stake in different forms, we always debate in every board meeting. One thing is if you look at the cash which is sitting in the balance sheet which is after the payment of 200% final dividend, we take care of only three to four months of the working capital requirements and also some of the capital investment that we plan based on the business projection, so to your question whether the management or the Board is looking at various option of using the cash, the answer is absolutely, yes. We look at it, we look at the right point of time to do differencing. As you correctly said, yes, some of the companies, some of the IT companies have done recent buyback, so we also look at the various option, but the board will also consider various timeframe and look at current quarter, there is an indirect open offer which is going on, so we look at the different things at different point of time and then take a call on that front.

Lalit Dua: This is because the dividend distribution tax is too expensive, so dividend is not the best way of returning the cash to the shareholders since the shareholders own the cash, but when you distribute a dividend, bulk of the expense goes to the government in the form of DDT, also the dividend is also taxed at the end of the shareholder if it exceeds a certain point, so my suggestion to you is that the Board can always calculate a breakeven point whereby at a certain price the buyback would be EPS accretive, so I will give you an example of a company called Nucleus Software once again, they did a buyback in spite of the fall in the profits. The earnings per share increased, this is because the buyback was EPS accretive, so I think instead of distributing Rs. 24 dividend and having this Rs. 85 crores cash whatever amount you think is surplus and would not be required for working capital that should be returned back to the shareholders in the form of a buyback because return of 6% of 6.5% is too measly and it could be EPS accretive buyback also and plus the promoters could increase their stake if at all the Indian company matters to them in the whole scheme of things, so my subsequent questions would be addressed to the CFO of SQS AG?

K. Ramaseshan: Your point is well taken, as I said we always look at various options and as a CFO, I understand the tax impact on the dividend both from the company's point of view as well as the shareholders' point of view, but having said that as I said we look at various options considering different things and definitely we will consider all those options going forward.

Lalit Dua: You must seriously consider also what is the breakeven point whereby any buyback would also be an EPS accretive, so not only it will be an optimal distribution of cash, it would also help the company to increase its earnings per share because when you retire the Treasury shares and if the price is lucrative then the earnings per share also increases.

K. Ramaseshan: Understand and well appreciated.

Lalit Dua: Fair enough, so my subsequent questions are addressed to the CFO of SQS AG, Rene Gawron, who is also a Director on your company, can I proceed?

K. Ramaseshan: Unfortunately, he is not on the call, if you want to send a mail to me I can take that off-line?

Lalit Dua: Well, these were regarding the offer price, I can speak on the call, maybe some of them you can answer?

K. Ramaseshan: Go ahead.

Lalit Dua: Fair enough, because on some point you may say that this is nothing to do with the target company, it is between the acquirer and the strategies, so that is why I specifically mentioned, still I would put my questions maybe some of them you might answer or you might be able to answer, so there was a Gentlemen an analyst called Pranav who rightly asked that do the Indian shareholders matter to the acquirer or your parent company in the overall scheme of things, my question is in the same pursuit. In the last conference call, Rene Gawron mentioned that the offer price that is being given to the Indian shareholders that is the same price based upon the PE multiple of 17.5x to 18x that is being offered to the German shareholders or to the shareholders of SQS AG. What I wanted to ask was what earnings per share for SQS BFSI was calculated so as to derive the PE multiple 17.5x to 18x, we have an earnings per share of Rs 29.9, so for the abbreviation sake we can take it to Rs 30 even if I were to go by your argument then the offer price should have been Rs 540 rather than Rs 482.95, the initial offer price was also Rs 475.27, also by mentioning that the offer price is at the same PE multiple of 17.5x or 18x that is being given to the same SQS AG shareholders, I think he conveniently, intentionally omitted or forgot to mention a lot of points that the SQS AG got a premium of 56.4% to the closing price on December 14th, it was at 53% premium to the six-month weighted average price, it was also at 31.5% premium to the lifetime highest price, but in our context it was lower than the December 14th price, it was at a 0% premium to the 60 days weighted average, and it was at a 63% discount to the lifetime highest price of Rs 1,290, does the Indian subsidiary matter to the acquirer, SQS AG and Assystem Technologies in the overall scheme of things or it is too small?

K. Ramaseshan: That is a great question, I will give you the answer in two perspective. One is from the shareholder’s perspective and the other is from the acquirer perspective, but having said that we will definitely get back to Rene with this question to get anything else which you wanted to mention.

Lalit Dua: I have lot of questions, I have 9 to 10 questions on these lines only, they have been scientifically arrived, I own 4% of your company, at one moment of time I also held 7.5% of your company, please go ahead now, Sir?

K. Ramaseshan: Thank you. We will see actually how many questions we can cover because other people also will be waiting, but having said that one when you calculated the PE ratio of 17x and then said

Rs 29.96 is the earning per share of India BFSI that is actually you are taking March 31, 2018, so when Rene mentioned in the last call, the price to the shareholders is arrived using the same pricing ratio and the multiple, the earning per share was on the previous quarter, which is lower than the current Rs 29.96, I do not have the number but if you roughly work.

Lalit Dua: Fair enough, I get your point but you had a chance to revise the open offer on April 25, 2018, which was the last day of the revision of the open offer price, I think by April 25, 2018, you had a fair indication of what the company had earned or has earned because by the time the accounts were consolidated, so legally if you ask Rs 475.27 or Rs 482.95 is the exact price that was obligated to pay, but the acquirer has offered not to pay even a single dine more, a single nickel more than what was obligated and I think the Indian shareholders got a very raw deal, raw deal on all the aspects and I will explain you why. When you took this legal statutory obligated price of Rs 475.27 or Rs 482.95 which is the 60 days weighted average, it was an artificially depressed price and I will tell you why. This was because it was a sheer coincidence that at moment of time our company was construed to be a shell company, which depressed the price. Obviously, our Company was not a shell company and rightfully it was removed from that category, but when you calculated the price that depressed artificially priced because of we being construed as a shell company was counted in that. If you would have taken any other parameter whether it is the March 31, 2018, and offered the same PE multiple or you would have seen that while the German shareholders have got a premium of so many 56%, 31% to the lifetime highest price, 53% to the weighted average price, I think the Indian shareholders would have fair enough, now my question is that at Rs.483 or when you had a chance to revise the open offer price, we as Indian shareholders are we missing out something, is the Indian company only worth Rs. 483 or it is worth more?

K. Ramaseshan: As I said, at that point of time what he said still holds good in terms of the PE multiple and arriving at the value, but having said that actually do they really value this company, the answer is yes. But in terms of the price, again they arrived at the price using the multiples at that point of time, whatever was available information, whatever was done was right, what he said still holds good the statement of Rene, but having said that if you really want a separate discussion and detail communication on that, we will get back to Rene and then put it forward.

Lalit Dua: My last question, you do not think that by increasing this thing voluntarily also at this price would the EPS accretive for the acquirer, so there have been lot of transactions even in the Infotech space whereby the acquirer has chosen to take their company private, one such example is Polaris which was taken private by Virtusa, if you study and understand the Virtusa's concall even by paying a 200% premium to the floor price of Polaris, the Virtusa shareholder which this was in NASDAQ were extremely happy because they told that it is a leverage buyout, even at 2 to 2.5%, 3% interest rates trending globally, I think even if you pay Rs. 700 or Rs. 800 to the Indian minority shareholders and increase your stake, it will be EPS accretive for the acquirer because you would not lose on the minority expense, the profit which goes to the Indian minority shareholders which will be consolidated in your books, so I think your acquirer Assystem Technologies, they are going through a buyback whereby they are buying their own 6 million shares at a price of €37.5 while that company pays only €1 as dividend, so it is 37.5 times the dividend, here we are paying Rs. 24 dividend, so I think SQS AG or Assystem Technologies at the moment of time should consider going for an creeping acquisition or through a leverage buyout because it is not something that they do not know, they have been doing it globally worldwide because the only apprehension that I have is, we as Indian shareholders either we do not figure in their overall scheme of things or we are missing something or we are being too bullish?

K. Ramaseshan: Some of the technical aspects in terms of getting the price, I was only trying to say on what basis Rene said the price, but having said that, we will definitely take your questions and then take it forward to Rene.

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

Deepan Shankar: Can you provide us more update on Asian region, so has it stabilized in terms of revenue contribution and also as oil prices have moved up substantially, so when do we expect Middle East to start firing on growth?

Aarti Arvind: If you look at the, what we call Asia now is India, Middle East, and Asia Pacific market put together and each of these has their own characteristics and distinct market presences. If you look at the Middle East, what you mentioned is right, oil prices have moved up, but if you go country by country in the Middle East honestly business has not picked up. If you look at the different countries, if you take whether Saudi Arabia or Dubai their oil prices are better but does not mean the economy has dramatically changed, I think that is going to take time and even the priorities and investment is slightly different and we have still not seen large transformation project start-up in these markets, so I do not think just the oil prices going up right now the business has changed and I think Middle East everybody including the financial institutions are lot more cautious right now, that is on the Middle East. If you look at India, I think the market is quite robust in the sense that banks and financial institutions are investing in going to be more digital and you have lot of new payment organizations coming in, lot of Fintechs coming in, so you have a lot of activity happening and I think we have also acquired quite a few customers in India who are working in different places and we are working with them on that, so India is quite a good market and is growing. If you look at Asia Pacific, there are certain countries which are doing better in Asia-Pacific whereas certain countries or geographies where it is limited and what we are also finding is the protectionism within these countries is increasing where the need for more local is increasing, so that is something we are looking at, how do we address that and how do we take that up, but there is business from this market, so, I would say if you combine these three and see, there are some which are better, some which are pretty much the same, so not dramatically different in terms of the business.

Deepan Shankar: In terms of the acquirer, Assystem, they do not have any BFSI business that we can understand, but even in terms of their owner, private equity firm Ardian, so they also do not seem to have much BFSI presence, so how do we see synergies between these two?

Aarti Arvind: One of the reasons for acquisition was for Assystem to diversify and add a new vertical which is the BFSI part from the SQS Group which would contribute to that not only our BFSI revenue, but Ardian may not have, Ardian is a PE firm, so, when you look at it they would have certain senior level connects, which they would help us with overtime based on the ones that we identify to have the business potential, so, that way I think the leverage comes more from the fact that we are part of a larger group which is very well connected at senior levels across different organizations particularly in financial services, so, this could be something which helps us in Europe more than any other region.

Deepan Shankar: In terms of SQS Group contribution, so, we have seen the increase, potentially where it can turn to and is there any changing over there on the group side?

Aarti Arvind: If you look at it, it is started much lower and ranges from around 16-17% to around 20% or so, but we are not expecting any dramatic changes in this maybe the same range, so, around 18% to 20%-22% is what we are expecting in terms of group revenue because good portion is also direct and certain amount is group revenue, so, we are not expecting any great change in this percentage.

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

Rahul Jain: I joined the call a bit late so sorry if I am repeating any question, I wanted to know what has been the revenue from the parent business and what are the new thought on this including the new management, how they see this as an opportunity and how does it add to the scope of that opportunity within SQS, within group kind of a business prospect?

Aarti Arvind: I think from a growth perspective our revenue as a percentage is pretty much same, but as an absolute quantum it is higher and has grown from the previous quarter in terms of group business it is around 19% or so for total revenue and if you talk about Assystem, is your question in terms of what are we expecting going forward with Assystem, or sorry I could not get your question?

Rahul Jain: The question is that there was a clear articulation by the SQS Group that they want to use the outsourcing capability and they have been doing it with two subsidiaries that they have in India, so how does this thought process changes in terms of the change in management because we still have a very, very large piece of business which has been delivered from other locations and the cost of operations are very different and that we see in the EBIT margin of those business versus India business, so how is the change in thought from this perspective?

Aarti Arvind: In terms of building business that is delivered out of India or the Indian entities, the definite commitment is there from Assystem also because I think if you look at as an organization, there were multiple treatments why they went ahead with the acquisition. One was the fact that they wanted to diversify and BFSI was one. Apart from that, India team also was another something which is very attractive to Assystem. If you look at SQS, we have close to 1800 to 2000 people in India, Assystem has around 300, this was also one of the reasons why they felt that acquisition made sense because all Olivier Aldrin who is the CEO of Assystem Technologies has repeatedly said that he sees a lot of future, he sees a lot of potential here so, I think this is definitely something which is important for them and they will want to nurture this and make sure that the offshore part also does well. Not only offshore, but overall BFSI business is something that they would look to see how do they diversify and how do they grow on this business.

Rahul Jain: Just one question more, in terms of growth potential we are seeing a strong adoption of software both on the SaaS model and the on-premise model also in some cases, so, how we see this trend culminating into incremental demand for our business?

Aarti Arvind: If you look at the trend that may be a little bit earlier in the call I mentioned business is changing in terms of what our customers want and what they are willing to spend for and they are spending more in terms of areas that give them more business and also more of digital offerings which are the future, so, these are some of the changes which are happening not only for us but I think for pretty much everybody in the IT industry, these are not unknown changes but this is affecting or we have to evolve our offerings, solutions, everything along these lines, so, it is not very different from what rest of IT is going through, but pretty much the same.

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

Aarti Arvind: Thank you. Just before we close, I would like to say that the year ended well for us with growth over the previous year as well as over the previous quarter and it is not every quarter that you grow, but the inherent value that we deliver to our customers really has helped us to grow over a period of time. We did had some challenges during the year, but with the support of all our well-wishers and investors, we overcame these challenges and have come out stronger, so thank you all for your support throughout. Our focus on the digital space and offering new solutions to our customers continues, there is no change over there and we hope to grow in the space in the future. Thank you all for your interest and for joining the call.

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.