



“Thinksoft Global Q2 FY’14 Earnings Conference Call”

October 18, 2013



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Moderator: Ladies and gentlemen, good evening and welcome to the Thinksoft Global Q2 FY'14 Earnings Conference Call. As a reminder, for the duration of this conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, Sir!

Diwakar Pingle: Good afternoon, good evening. Welcome all the participants for the Q2 FY'14 earnings call of Thinksoft. On the call today, we have Mr. AV Asvini Kumar, – Chairman and Managing Director, Ms. Vanaja Arvind – Executive Director, Mr. Mohan Parvatikar – Whole-time Director, and Mr. N. Vaidyanathan – CFO. We will start the call with a brief introduction about the quarter results by Asvini followed by an update on the business by Vanaja. We might have a small snapshot about the financials given by NV after which we will go on to the Q&A session from there. I request all of you to participate in the call. Over to you, Asvini. Please go ahead Sir.

AV Asvini Kumar: Thank you, Divakar. A very good afternoon to all of you , and good morning, and good evening if you are from different time zones. We thank you very much for joining the call. For those of you who are joining here for the first time on this analyst call, I will give a brief about the Company. Thinksoft is a specialist independent test services company. We provide independent testing services specializing on the financial services sector, which includes banking, finance, insurance and capital markets. We have about 800 people with two main delivery centers in Chennai owned by us and one in Mumbai, and we have operations in multiple countries including the US, many countries in Europe, India, Asia-PAC, Australia, etc. We operate in all the main verticals and subverticals within the BFSI, namely banking and its subverticals and insurance and its subverticals, payments, etc., and capital markets.

Now coming to the quarterly performance, I am happy to announce that the quarterly revenue for Q2 FY 13-14 is 55.5 Crores or 550 million. This is almost a 14% increase in rupee terms and in US dollar terms it amounts to US \$8.7 million which is 3% increase in US dollar terms, on a quarter-on-quarter basis. EBITDA was at 11.7 Crores at 23.1 %, which is an increase of 9% on QoQ and our net profit was 10.55 Crores and this is a 3% increase QoQ. We generally saw a much stronger and improved performance during the last six months of this year and operating revenues increased by 13% and net profits increased by a real good 85% compared to the six months of last year. The cards and payments segment and Euro geography was one of the key drivers during this quarter. We are confident that this growth momentum should continue to different segments of business.

The outlook is optimistic and for now a review of what has happened in brief and for business updates, I will pass this on to my colleague Vanaja Arvind.

Vanaja Arvind:

Thank you Asvini. Good afternoon to everyone. You heard from Asvini that we had a reasonably strong quarter and our growth has been consistent in the first and second quarter. I will just touch upon some of the key business aspects. As mentioned earlier, the payments competency practice was formed last year because we anticipated growth there and momentum there as specialist and we found that there is a good traction and from 4% last year the payment has moved to 10% of our revenue.

From geography perspective we have seen Australia, where we started business and introduced the place of business, hired a sales person a year before has grown and we have closed two key accounts, which we hope to grow and give us good strong revenue next financial year but the starting point has been made and we are seeing a lot of traction in Australia and we hope that Australia will become a key region like Europe soon. We are seeing some green shoots in UK and the entire Europe is also turning around. We are seeing good business opportunities and growth potential in Europe. This augurs well for us as we try to diversify our risk profile from a revenue perspective and our onsite percentage has increased. That is mainly because some of the new clients have initially asked us to keep their people onsite to get comfortable before moving offshore. So, these people will move offshore, which can result in dip in revenue, which will be augmented by the new business. So we are confident that this will not sort of affect our topline in anyway. The negative thing on receivables, which many of you might have been curious is because of one or two clients, who've skewed up, these are mainly product companies, which are dependent on their end clients to give them their payments where there has been some delay because of which they requested us to wait for the payments, which has skewed our receivables. But these are strong clients, we will definitely collect it and we hope to collect it in the next two quarters.

The decrease in margins in EBITDA was primarily due to the employee wage revision, which was done across the board with an average of 3% onsite and 10% offshore, which has resulted in marginal decrease in EBITDA, but our business momentum is continuing and will continue to grow similar fashion in the next quarters is what we hope and unless there is a serious change in the business climate, this will continue. Thank you, and now I will ask NV to give a brief snap shot of financials and then we can move on to the Q&A.

N. Vaidyanathan:

Good afternoon participants. In respect of the performance of the quarter and half year, for the quarter ended September 2013 the gross revenue improved from 485 million in Q1 to 554 million, showing a growth of 14%, and on a year-to-year six monthly basis, from 831 million to 1040 million, showing a 25% growth. In terms of EBITDA margins, from 107.5 million to 116.7 million during the quarter ended September, and for the six months from 168.2 million for the last year six months to 224.2 million for the six months ended September 2013 showing a 33% growth. In terms of PAT margins, we have improved from 102.5 million in the Q1 of FY'14 to 105.5 million during Q2 FY14 showing a 3% growth, and from 112.5 million over the last year first half to 208 million during the first half of the current fiscal showing a growth of 85%.

In terms of Earnings Per Share has gone up from 11.2 for the last year six months to 20.5 during the current year showing an 83% growth. In terms of the geographic distribution there has not been much of a change in terms of the regional distribution for the current fiscal. North America has 19.1% share while Europe has 51.7% and Asia 29.2%.

In terms of the practice wise revenue distribution 40% is contributed by banking, 16% from capital markets and treasury, and cards, and payments 41.4%. With this, I will hand over the floor to Diwakar to take it forward.

Diwakar Pingle: You can throw open the floor to Q&A.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have the first question is from the line of Durvesh Sanghvi from Prospero Finance & Investment. Please go ahead.

Durvesh Sanghvi: Good afternoon. Just wanted to know what is this cards and payments? I am not quite acquainted with the business and the products that you offer or the services that you offer? Can you explain in a bit of a detail, like a payment gateway services business or what is it exactly?

Vanaja Arvind: Earlier it was part of the banking services where the payment competency because of the internet banking and mobile banking, the payment part of it is significantly increasing in importance in various financial institutions. So, we felt that the mobile banking requires special attention. So, we developed the competency in testing mobile banking specifically and then we launched a payment practice separately to focus on this. So, this will include the cards payment and merchant payments as well as banking payments in terms of other areas where the payment gateway and everything will come part of it. So, there is a focus. We are a specialized company, so we need to differentiate ourselves and demonstrate our expertise. For this the competency was launched and there are payment expert who are working with the clients to sort of help them to implement these things in a secured manner.

Druvesh Sanghvi: So with 93.5 Crores of total revenue you said, cards and payment is around 10% of the revenue at this stage, right?

Vanaja Arvind: Right.

Druvesh Sanghvi: So, is this 10% is it just two to three clients or we can say there are 50 to 60 clients?

Vanaja Arvind: Initially, it will be two three clients where the revenue is coming from but this business is likely to grow because there is a huge demand going forward.

- Druvesh Sanghvi:** But how easy it is for a customer to replace the existing technology vendors like Thinksoft. I am just trying to understand the continuity of this business and the kind of mode that we might have?
- AV Asvini Kumar:** Let me just correct your impression. We are not a technology vendor. We are a vendor who have built core competencies in financial system, and applications, and products, so we look at all BFSI verticals and top three to five products among them, and we build our entire functional expertise, and testing expertise around them. So, even if you take cards and payments for example, one is there have been traditional card management companies who started with the plastic form of payment, then moved to mobile payments mechanisms and going forward tomorrow, there might be other forms of payment, number one. Number two, the whole - if you take the global payments platforms are coming because payments all are globalized now. It is not insulated from country to country as was earlier and used to go through payment gateways. No longer as in the global payments platforms and to sort of regulate that there are various assets, frameworks like single European payment area, etc. There is some in the US and then India also we have our own standard exercise. Then the government entering Aadhar payments that are a completely new thing, where micro payments and payments are going to the other poorer sections, so they have put a National Financial Service where you will have Aadhar enabled payments etc. So there is a whole big area which is growing and we are not the technology providers for that area but we are assuring our business services, testing services, on an independent fashion, we provide to these areas. Similarly for all the other verticals of other banking or insurance or treasury, capital markets, etc. So, that is what I wanted to add this response to what you are saying.
- N. Vaidyanathan:** Incidentally, cards payment is 41% and not 10% as you mentioned.
- Vanaja Arvind:** Only payments.
- Durvesh Sanghvi:** Cards and payments is 41% and only payments are 10%?
- Vanaja Arvind:** Just to add to that there are various payments products, which are coming in the market, new products are getting introduced based on new technology and when the business wants to, ultimately we have earlier also mentioned in our earlier analyst call that more than 50% of our business is representing the business users. So predominantly it is for acceptant testing. So for a business to accept new technology in acceptant testing they need to have people who understand the product as well as the services, what is required and do the acceptant testing accurately on their behalf and that is a specialization where we are focusing on; not on payment technology. We are technology agnostic and it does not matter what technology comes, we will still be able to test on behalf of business users.
- Durvesh Sanghvi:** If I were to see as a part of your total revenues, top 10 clients will be what or you can give me some sense on the concentration of the revenues coming from the clients or something on that side on the overall basis?

- N. Vaidyanathan:** Top 10 clients contribute for 77% of the revenues.
- Durvesh Sanghvi:** Out of that top five would be what say more than 50?
- N. Vaidyanathan:** It would be around 55%.
- Durvesh Sanghvi:** Are these contracts a three-year or five year period or this is renewable every year or something on that side?
- Vanaja Arvind:** We have been working with various clients now for six to seven years, but most of the contracts are renewable. Almost all clients will have an exit clause. Even if they sign for two three years, but ours is mostly renewable and they keep renewing.
- Durvesh Sanghvi:** One more thing, on the financials of each quarter there is some other income which has been coming up as 5 Crores and 5.5 Crores for the last two quarters. Can you explain what is this? Is it just forex gains or what is it?
- N. Vaidyanathan:** In Q1 about 52 million is accounted for for exchange gain, while in Q2 about 47 million is accounted for exchange gain the rest would be...
- Durvesh Sanghvi:** Q2 can you come again. Q2 what is the number you said?
- N. Vaidyanathan:** Q2 is 47 million.
- Durvesh Sanghvi:** Q2 is 47 million. So this is based on the forward booking, so have you hedged them and how does it work like? Why did we gain in terms of this or how do you book?
- N. Vaidyanathan:** We do not have any forward booking.
- Durvesh Sanghvi:** So, you are booking the revenue at a certain stage, and the payments for coming to you at a later date and that is where you gain the currency difference.
- N. Vaidyanathan:** Yes.
- Durvesh Sanghvi:** So, this means that even if I say only 10% currency move, so this is around 50 Crores of payments coming in and giving you a 5 Crores other income, which is an MTM gain?
- AV Asvini Kumar:** Technically yes, but this would be a combination of the differential between the mark-to-market as of the last quarter and how the same has been realized during the current quarter also.

- Durvesh Sanghvi:** So, let us say if the currency stays at the same level as it is today, as on September 30 what kind of MTM gains can we see or we will not see anything there?
- AV Asvini Kumar:** I do not think anybody can guess that.
- Durvesh Sanghvi:** Let us assume that the currency stays at the same level as it was in the September quarter end?
- AV Asvini Kumar:** It will be negligible. There can be some cross currency gains but assuming the currency, all currencies remain at the same level as the quarter ending that will be close to zero.
- Durvesh Sanghvi:** So, basically when we say that the PAT growth is X, Y, Z, 80% and 90% essentially this is just one off cases where we are adjusting our currencies to the real values and I think now there should be more or less in the price?
- Vanaja Arvind:** You should see it as EBITDA, the gross margin as well as the PAT. The swing is only in the PAT.
- AV Asvini Kumar:** The Forex gains in both the quarters have contributed to only 5 Crores.
- Durvesh Sanghvi:** Total 10 Crores, right? 5.2 Crores and 4.7 Crores, nearly 10 Crores?
- AV Asvini Kumar:** 10 Crores, post tax its impact will be about 7 Crores. Similar gains would have sort of incurred in the previous half year also. So, therefore there is business gain, there is more activity and other aspects of businesses also have grown.
- Durvesh Sanghvi:** I will get back in the queue.
- Moderator:** Thank you. We will take the next question from the line of Gaurav Sud from Kanav Capital. Please go ahead.
- Gaurav Sud:** Good afternoon. Congratulations for a good set of numbers. The numbers were pretty robust and one can see at least the quarter-on-quarter growth in dollar terms also. So, I had the following - again I wanted to understand a bit more about the kind of traction you are getting in the Australian side of the business and as Vanaja earlier said that you are anticipating this will grow very fast and could scale up to a size which would almost rival - could potentially rival Europe. So, could you give some more color on that?
- Vanaja Arvind:** I did not say it will rival Europe. We anticipate good growth from Australia, similar to what we are experiencing in Europe is what I said. Australia is a new territory, which we started in 2010-11, we just opened a place of business because we got one client who gave us two resources order and we have grown there and it is nearly about this year we have done about half a million from that region and we hope to grow further in that and there we see a good response for specialist in that region, so

we are hoping that the business will grow there. There are good opportunities where we see traction and there is a potential for growth there. This is similar to what we experienced in Europe whereas US is a mature market where the incumbent vendors are quite large and there is vendor consolidation is also quite large because of which the challenges and obstacles are lot more. For us, an organization which started in 2000, we are still moving ahead and growing in US but it has been a slow steady growth.

Gaurav Sud: So, this year the offering which you earlier explained on to the earlier question which was the mobile banking part, so that as a product offering is gaining traction for you as a company?

Vanaja Arvind: Yes.

Gaurav Sud: This is again across the geographies or again this is Australia?

Vanaja Arvind: This is across geography. We are doing mobile banking testing in lot and most of our clients in Europe, banking clients and also we are doing it for card clients and US also we are doing it.

Gaurav Sud: So, while one can see the business growing but if I see in your presentation the customer counts so more than half a million on an aggregate basis, it has grown from 12 to 13 so the number of customers which are growing into bigger customers that is kind of stagnating? So is that that the one-off or it is just the nature of the business that no customer will grow to too big a size?

Vanaja Arvind: Most of the customers we start with predominantly onsite to gain... because we represent the business users. Initially we start with onsite, all the team members and gradually over a period we shift the team members offshore. So, initially the customer revenue will be completely onsite and after that it will sort of come to offshore. Offshore is more robust and long-term and sustaining and the customers will also be happy, but they need to get comfortable before we shift it offshore. So this is an ongoing activity as we add new customers there will be some onsite revenue from that whereas the older customers will move to offshore. So for the first two years the volume will be more or less, it will appear stagnant, but it will even appear as if it is going down but that is what builds a long-term relationship and confidence of the customers, because this is a new service, specialized service and they need to understand before they transition to offshore.

Gaurav Sud: So, wanted to understand it correctly then the number of clients with more than say annualized 0.5 million of revenues - this will start growing at a faster clip with a time lag?

Vanaja Arvind: I did not understand. What was the question?

Gaurav Sud: The question was that the number of customers with more than 0.5 million annual revenue, it is 13 right now on a trailing 12 months basis, so the number of customers, which will contribute to more

than 0.5 million will this number grow over time or this will remain stagnant because you are dealing with multiple customers and the nature of the contract is the fact that no one customer will contribute to big revenues?

Vanaja Arvind: Why is that assumption?

Gaurav Sud: From last year to this year the customer count has only grown from 12 to 13 so whereas the revenue if one sees that the revenues are up by almost 40%? I am referring to the presentation that you gave.

Vanaja Arvind: I am just going through that to understand your question and respond.

Gaurav Sud: I am talking about this is slide #7, which talks about the customer profile.

Vanaja Arvind: The half a million customer?

Gaurav Sud: I am just adding the two numbers. Its revenues are 0.5 to 1 million and 1 to 6 million?

Vanaja Arvind: Yes.

Gaurav Sud: Q2 FY13 it was 12 and now it has grown to only 13, so only one customer has on an aggregate basis, I assume some of the older customers might have dropped out of this number?

Vanaja Arvind: I think there has been a steady increase in the clients and we have maintained that 0.5 million and 1 to 5 million clients and we are steadily increasing it and there is a mining going on. While the customer gives us initially one order, which later transitions offshore, there will be a dip in revenue in that order, but the same time the same clients will give us additional orders, because of which the revenue is maintained, so in a specialized business we have to go deeper and then grow so it will take one to 1.5 years for us to really accelerate growth in that account. Our contracts are not like typical maintenance contracts in a software development firm where they put 200 bodies and they manage the client. This is a different kind of business.

Gaurav Sud: So you are seeing the number or the count will gradually increase with a lag that is what I was trying to ask?

Vanaja Arvind: For each client it will gradually increase. Our top client is contributing about 15% of our revenue. It is a 7-year relationship.

AV Asvini Kumar: This is also calculated on the last 12 months.

Vanaja Arvind: It is last 12 months calculation.

- Gaurav Sud:** In terms of the employee details, the count has grown to 740, so one sees the increase in the employee count after some gap, so where is this new hiring happening, which particular vertical?
- Vanaja Arvind:** Seven clients have been added in the quarter, out of which two clients are from Australia in this quarter.
- Gaurav Sud:** The question was around the employees? The total employee count has increased from 708 to 740, so one sees the employee addition after some time gap? So I was asking in which particular vertical is this hiring happening?
- Vanaja Arvind:** Predominantly banking and cards.
- Gaurav Sud:** Banking and cards?
- Vanaja Arvind:** Yes.
- Gaurav Sud:** For which geography? Is this Australia?
- Vanaja Arvind:** Resources are not geography based. They are all based in the delivery centers. From there, based on the practice they will be deputed to wherever. So up to test lease level they can move across practices.
- Gaurav Sud:** Will the employee hiring accelerate going forward or the hiring is done for this particular year?
- Vanaja Arvind:** I think there will be some additions, but as much as possible we are trying to improve the productivity, and also do some local hiring for onsite services because there are lots of obstacles for VISA and stuff in some geographies, so the employee additions will not be completely in India.
- Gaurav Sud:** The employee count that you are sharing is the Indian employee count? You are not counting the people outside India?
- Vanaja Arvind:** No, this is the total employee count.
- Gaurav Sud:** It is the total employee count. Vanaja, when you had highlighted the debtor days had gone up because of the delays, so you see this normally sorting out in the next three to six months, but on a normalized basis what should be the normal debtor days, we should take it as 90 to 95 days?
- AV Asvini Kumar:** 90 to 100 days.
- Gaurav Sud:** These extended debtor days 117 these would reduce in the next couple of quarters?
- AV Asvini Kumar:** Yes.

- Gaurav Sud:** The other thing was the wage bill has gone up by almost 6.5 Crores year-on-year, and to that extent if the wage hike was only 10% then this seems to be a large amount. So was some bonuses also built into it?
- Vanaja Arvind:** Onsite was 3%.
- N Vaidyanathan:** Onsite was 3% and offshore was 10% and in this particular quarter there is a slight change in the onsite-offshore mix also. The wages would have gone up because of that also and onsite wage is more.
- Gaurav Sud:** So the onsite offshore mix has changed now.
- Vanaja Arvind:** Yes.
- Moderator:** Thank you. We have the next question from the line of Saurav Gupta from Quantum Asset Management. Please go ahead.
- Saurav Gupta:** Good afternoon. I am on the call for the first time. So, just wanted to understand what kind of differentiation do we bring to the table. What I understand is this assurance services is a big practice for most of the guys in offshore. So given our size what kind of differentiation do we offer to the clients? Is it pricing? Is it more domain knowledge and things like that, and more on the sales cycle and the size of the sales team, if you could just highlight?
- AV Asvini Kumar:** I think... let me give you a very small example. Let us take the larger point. We have people who say that there are so many thousands of testers in this company, so many hundreds of testers in that company and all that. So, the first level of differentiation is that we are restricted to the finance sector so we build our knowledge in that, so we are not into manufacturing of healthcare, pharma or whatever it is. Second level is, within the finance there are verticals, subverticals and within that there are products. So, let me go down to a subvertical product like let us say anti-money laundering. There are seven or eight products, out of which the top three products occupy 70% of the market share. So now we have built this knowledge both proactively - we have a lot of tacit knowledge and formal knowledge on this and we have a lot of experience on this. So, immediately we will have for example an entire repository of let us say 5000 tests which we do and check whether the anti-money laundering products from particular vendor has got all the requirements which it should have, and plus the custom requirements which have been ordered, and we are ready to go on day one and then we can finish this whole one cycle of testing in a matter of weeks. Now this is the kind of steep learning curve which is a total barrier to entry for anybody else wanting to do that. So we are not just shifting out test engineers or losing some test tool to mechanize the testing and all that. We have really built an end-to-end suite of knowledge with test orchestration which results in a complete fast paced assessment and test reporting of whatever is applied to the client. This is not very easy to

replicate and the more we do of this, the more the differentiation and the more the barrier between somebody else who might be wanting to do that.

Saurav Gupta: Sir, if you could just name a competitor who would be closest in terms of skill set or maybe anybody internationally very close to our competency level or you think that we have got distinct advantage?

Vanaja Arvind: Internationally there will be several small consulting companies which will be doing this. As I said earlier, we represent the business users, not the IT. So sometimes there are several organizations which had business users educated and they were doing the acceptant testing, but now holding business users free for this is becoming very expensive. So, they tend to outsource it now and the business users guide the testing. Unless you have the knowledge equal to the business users you cannot really do that. So just paying a technology vendor you will not be able to do this.

AV Asvini Kumar: People who are doing testing globally if you all look at that, they are people, users with themselves, there are people who ask their system integrator to do it and there are people who rely on people like us specialists to come and do it. So I think the whole thing is getting so complex and so critical that I think the specialization aspect has come to the fore and this kind of offering or people who are offering this kind of thing will increase the proportion of people offering this kind of...

Vanaja Arvind: If you have been observing the IT service, the growth in the last three decades, earlier it was more like a real estate where if you have an offshore center, you have a place, computers and other things - various countries they outsource and they were coming here to train the people and monitor and project manage the applications, development and testing. Over a period of time, now the demand is skills differentiation, specialization and expertise and outcome based. They want you to take charge and completely take care of it and be accountable for it. That can be done only if you differentiate yourself as a specialist. So the future growth will be more in terms of demand for specialist than for generalists.

Saurav Gupta: So what percentage of our billing would be outcome based? Say more than 50% or time and material is still there?

AV Asvini Kumar: The thing is the outcome based has got many, many interpretations, but what we are successful in telling our clients or showcasing to our clients is that at the bidding phase itself when we start talking to the client, he thinks that the probability of the outcome which he wants is more from people like us than somebody who is a generalist or somebody who has done across multiple verticals etc., now the billing mode may be time and material, the billing mode maybe fixed price contracts, the billing mode may be managed services, but first the client has to see that there is a set of people who are showing me what is the kind of outcome that they will deliver for me and he has to see yes this is not coming from any other people, there seems to be some value addition and some unique proposition.

- Saurav Gupta:** The second question that I wanted to understand is the size of the sales team and how elongated is the sales cycle for us in this business?
- Vanaja Arvind:** It varies. I think it is a very large opportunity than it might be six to eight to nine months. It could be three to six months. It is varied based on the demand and the experience of the organization.
- AV Asvini Kumar:** If we are entering a new market, we give ourselves 15 months. For example, if we have to work in the Middle East for 15 months, five six years ago, we used to grab that market. Now we are doing the same thing for Australia. So we have given ourselves 15 months. If we go to a market, which is like India for example, they are all RFP oriented and they are pretty objective and have criteria for evaluation. For example, Reserve Bank of India or State Bank of India, these people already say that we need to go to specialist testing but our cycle is that we go through our RFP process and our tendering process and all that. So here also it is likely to be about six to nine months, but if we go to a managed service kind of opportunity, we could quickly even as low as 45 days to 60 days we could have pilot projects running with clients who are interested and built it up probably.
- Saurav Gupta:** That is all. Thank you.
- Moderator:** We have the next followup question from the line of Durvesh Sanghvi from Prospero Finance & Invest. Please go ahead.
- Durvesh Sanghvi:** What is the attrition rate that we have?
- Vanaja Arvind:** On a rolling 12 months basis, it is 19%.
- AV Asvini Kumar:** Overall number is 19%, but I think it would make sense to bring it down and get an understanding on how different it is at different levels. For example, at our senior management team or leadership team have, it will be much lower than 19%, but if you take the entry level teams or people who have worked here for 18 months to 48 months it is typically higher.
- Durvesh Sanghvi:** So, what you are saying is above three to four years of experience in the company, it would be as low as probably 5% to 7% or not so much?
- AV Asvini Kumar:** It will be about 10% to 12%.
- Durvesh Sanghvi:** I did not understand the logic of taking that 11 Crores debt. I mean it was raised in FY'13, but this is the first time I am speaking. So what was the reason of taking that debt?
- AV Asvini Kumar:** The reason for taking the debt was two fold. One is that we were so conservative that we never felt the need for bank funds. The reason for preserving cash was primarily as a war chest in case of any

inorganic acquisition opportunities that came our way. We are constantly in the search for domain focused companies in the region of US\$ 5 to 10 million that could complement our skill sets. We have come across some good targets but we have not made headway so far. So that was the other reason to keep some money aside this case.

Durvesh Sanghvi: So what is the kind of interest rate that we are paying on that 11 Crores?

N. Vaidyanathan: It is about 13.5% approximately.

Durvesh Sanghvi: For a year we probably may hold this kind of a debt and we might end up paying 13.5% not converting this money into acquisition, and if we have hard assets, which you have already pledged for this 11 Crores, it would be not more than 10 days time to get this much amount once the deal is signed with someone. So it leads that part, but never mind, and it further beats that you are paying dividends and still holding the debt of 13.5%?

N. Vaidyanathan: That is true. On a paper technically the analysis is true. We get a tax shield also on this interest paid.

Durvesh Sanghvi: Just a suggestion out here. From an investing angle, I am more of an investor rather than an analyst, and do investments on my own funds, the idea of IT company taking debt, it is very scary especially when people do not understand the nitty-gritties of IT companies. So that is a suggestion on your side.

AV Asvini Kumar: Surely. The moment we have a deployment target we can foreclose this in a minute and then go towards it. So there is no problem at all. The debt has also been synchronized to exactly match our earlier rental outflows because it is for our own buildings so there is no carry flow at the same time. Then there is an off balance sheet increase in the assets also if you mark-to-market all our assets, those are not reflected in the numbers.

Durvesh Sanghvi: So what is the kind of land buildings, because I understand the IPO proceeds were utilized to take up the office space and buildings? So can you just give me some sense on the real hard assets that are there because it shows that the book value is around Rs.87, but out of that a lot of it would be computers, furniture, so let us assume that we are taking away all the furniture, computers outside, what would be the real hard asset value on the books and probably realizable if you can throw some light on that?

AV Asvini Kumar: It will be more or less the same as of March 31-published balance sheet. In addition to that for your information, we have about 48 Crores as cash in bank balances at the end of the period and about 60 Crores is debtors. So that is the liquid assets that are available.

Durvesh Sanghvi: Okay. Just one last part. Is there a dividend payout policy or can you throw some light because the dividends are quite good. They have been improving with the profit and does it tell us the Rs.5 plus

Rs.8 kind of a thing will be constant or it is just going to be one-time or something? Is there a policy in terms of 50% payout, 70% payout, 30% payout?

AV Asvini Kumar: You have eight dividends payouts in the last four to five years. So you can run a regression and find out.

Durvesh Sanghvi: Regression would look very nice, but are we having a policy in terms of payout ratios or there is no stated policy?

Vanaja Arvind: There is no stated policy.

Durvesh Sanghvi: That is it. Thank you.

Moderator: Thank you. We have the next question from the line of Bhavya Gandhi from CIMB. Please go ahead.

Bhavya Gandhi: Sir, basically I just need to understand on the employee first, as I was just looking for the first five quarters so why there is a fluctuation in the employee cost? If you see from December to March there is degrowth of 10% approximately and from March quarter till Q2 there is a growth of approximately 30% salary cost?

Vanaja Arvind: I think the onsite offshore fluctuation will account for it to a certain extent because sometimes the projects – say if you take Middle East, most of the time planning will be done here and the execution will be done outside, in which case the employees have to move there, do the testing and then move back. So if the projects are for six months then the costs will go up, if the project is for three months the cost will be a lot less, and sometimes the projects get delayed the cost does not incur at all. So the fluctuation is part of the business.

AV Asvini Kumar: And the project buildup pattern.

Vanaja Arvind: That is part of our business, some reasons which is required. That is what causes fluctuation and utilization as well as employee cost.

Bhavya Gandhi: Basically our employee cost is more into a variable part to it?

AV Asvini Kumar: No variable, because as a policy we do not hire and fire on demand. We just keep them to capitalize on opportunities, which may come at any time.

N. Vaidyanathan: When the employee goes onsite they will have to be paid the onsite salaries and expenses.

Bhavya Gandhi: So, if I am saying from Q4 last year to Q2 this year the turnover on a quarterly basis have increased by around 35% vis-à-vis the employee cost has increased by around 32%?

- AV Asvini Kumar:** The onsite-offshore mix during last year and the current year has an execution difference.
- Vanaja Arvind:** What is your question again?
- Bhavya Gandhi:** Basically the March quarter, the turnover was around 37 Crores, which is in this quarter it is around 50-odd Crores which is a 35% growth. From an employee cost in March our employee cost was around 22 Crores, which is now around 30 Crores this quarter, which is about 31% growth?
- Vanaja Arvind:** Both have grown.
- Bhavya Gandhi:** Is it like that in this first half we have more end-to-end offshore client billing or something like that which has led to this employee costs higher?
- Vanaja Arvind:** It is an onsite-offshore mix...
- N Vaidyanathan:** The onsite component is higher.
- Bhavya Gandhi:** This first half?
- N Vaidyanathan:** That is why the employee costs have gone up.
- Bhavya Gandhi:** So, probably it is because of the new client addition and gradually in Q2, Q3, or Q4?
- AV Asvini Kumar:** The project build up for new clients will have higher onset component and then it will plateau off then it will go down and then the projects stabilizes at the offshore, so the project build up and settlement pattern that contributes many times.
- N. Vaidyanathan:** Q2 also has the salary increase built into it.
- Bhavya Gandhi:** By 20%?
- N. Vaidyanathan:** 10% offshore and 3% onsite.
- Vanaja Arvind:** The Q2 onsite increase was not just for billable team, it is also for sales team and presales team, so the cost was more.
- Bhavya Gandhi:** So we normally do an appraisal or something, the increment in Q2 that is what the point is?
- Vanaja Arvind:** We normally do it only every year only for the billable people whereas once in two years or three years we do it for the support groups also.

- Bhavya Gandhi:** Second part of the business and that is we are into testing part to it, so basically testing happens when there is an implementation by a clientele or new verticals or when they do a testing with some regular patches will also require a testing?
- Vanaja Arvind:** We do ongoing testing, because each IT department will have applications. They will be continuously making changes because for which the development is done so they will need testing, help for continuous testing, and products companies will have their releases before release a cycle it would be six releases a year for which they will keep testing.
- AV Asvini Kumar:** It is one time confirmative projects will be ongoing testing and then the product companies who are using their products, all these three comprise these.
- Bhavya Gandhi:** So, for us basically a customer or a client is Product Company or an end user?
- Vanaja Arvind:** It could be end users in a bank or a product company or it could be also IT also, all three.
- Bhavya Gandhi:** So, what is our mix, basically the IT Company is our mix?
- AV Asvini Kumar:** I think IT is lower.
- Vanaja Arvind:** 50% is business users testing, user acceptance testing.
- AV Asvini Kumar:** IT is not the major customer.
- Vanaja Arvind:** IT is where there is a major competition from all service providers, some of the billion dollar corporation will be having more whereas in these areas product companies, pre-shipment testing and business user testing we have an upper hand.
- AV Asvini Kumar:** I think it is relevant to note also here that we can enter large account through the business budget also; it is not necessarily IT budget. So if you go through the IT route, there will be a lot of competition because there are 10 to 20 major international companies who are bidding for staff augmentation and time and material projects, but since we have expertise, we have the additional route of actually going through the business units, the business verticals and making use of the business project to get it.
- Bhavya Gandhi:** Thank you Sir.
- Moderator:** Thank you. Participants that was the last question. I would now like to hand the floor back to the management for closing comments. Thank you and over to you!

AV Asvini Kumar: I am really thankful for the enthusiastic participation of all the people who were on this call. We like the perceptive questions and the probing questions which were asked. We hope that we had all the answers for you and then till our next call, I think it is good bye from us here at Chennai. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Thinksoft Global that concludes this conference call. Thank you for joining us. You may now disconnect your lines.