"SQS India BFSI Limited Q2 FY-18 Earnings Conference Call"

October 27, 2017

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MODERATOR: **DIWAKAR PINGLE – CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day and welcome to SQS India BFSI Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir.

Diwakar Pingle: Good afternoon to all the participants on this call. Welcome to the Q2 FY18 Results earnings call of SQS India BFSI Limited. Please note that we have mailed the results, presentation and the same is also available on the company's website. In case if you have not received the same or you are not in our mailing list, you can write to us and we will be happy to send the same over to you.

To take us through the results and answer your questions today, we have Ms. Aarti Arvind – Managing Director & CEO, SQS India BFSI; Mr. Rene Gawron – Director, SQS India BFSI and CFO of SQS AG and Mr. K. Ramaseshan – CFO of SQS India BFSI Limited.

We will start the call with the brief overview of the quarter gone past which will be given by Aarti and then we will go on to financials which will then be followed by 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 which can be construed as a forward-looking statement. It must be viewed in conjunction with the risks and uncertainties that we face. These risks are included and not limited to what we have mentioned in prospectus filed with SEBI and in the subsequent annual reports which you can find in our website.

With that said, I will now turnover the call to Aarti. Over to you, Aarti.

Aarti Arvind: Good afternoon everyone and thank you for joining the call today. I would give an update on the business performance for the period July to September, 2017 and then Mr. Ramaseshan, our CFO will take you through some of the financial areas.

The last quarter we have seen good growth on the revenue front compared to the previous quarter and we have increased our revenue across most regions. Revenue from some of our larger clients has increased but it has been more onsite and we have also started using more of local resources in some cases. The period July to September is typically a strong quarter with higher revenue compared to other quarters in the year because your spend on projects are at peak during this period so that is what they found as a trend over the year. We have had a lower profitability than previous quarters due to multiple reasons which we will cover a little later in the call.

On a macro level there are no major changes that has taken place in the last quarter and most regions are quite similar to what they were in the previous quarter. Customer strength continued to be cautious with more customers reviewing plans quarterly, this does not mean that they are not spending but at the same time they do not want to commit confirmed numbers for the future, however, as they get closer they look at ~~you're~~ their budget and release these. Most large financial services organizations are spending to transform themselves in line with what changes are happening in the market and are trying to spend less on business as usual expenses so that they can spend their money on change the bank rather than run the bank initiative, so this is something which is happened over the last more than a year or so. But it is getting more pronounced now where the spend is more in terms of transformation rather than running the business. With more clients moving to an agile model rather than waterfall model, the structure of the QA (Quality Assurance) teams and how we work with our clients has changed. The teams with these clients work in a decentralized fashion and the QA team members work in right along with members from development teams, business, operations, IT so it is more of a decentralized way that most organizations are functioning and the way we work on the QA side with our customers has also changed. The need for quality engineers to understand more about technology, development has increased and what can be done by QA team is increased in the last couple of years and the need for continuous QA has also gone up since the number of releases which is more of continuous testing which happens because of the deployment of scope changes, fixtures etc. are actually continuous process. So, the needs for QAs at the time the way the QA is done it is not centralized it is more decentralized and are more often. So, these are some of the things which are significant which we have found and also some areas which we are working with some of our customers.

Coming to the specifics of the quarter, I would like to cover some of the key parameters. On the revenue front, we grew well over the last quarter and in dollar terms we closed at close Rs. 10.8 million which was a growth of close to 15%. The growth is even higher if we discount the revenue from the sales of SEIS scrip in the last quarter. In rupee terms we grew by 14.5%. The quarter also saw some amount of higher revenues from specific projects mainly from Dutch and from Spain. On the profitability front, we have had some challenges at the EBIT level and this would be addressed a little later but it also mainly because of certain investments that we have made in the US market as well as certain specific expenses which have been higher than the quarter which may not be a recurring thing but certain expenses and investments we are making yes, they would be something which over the long term would help us to have better revenue growth in certain regions. If you look at the region mix, the revenue from Europe has increased considerably in this quarter with higher revenue from customers in Spain, Belgium and Dutch that is Germany, Austria and Switzerland. Revenue from most regions increased on absolute term but in terms of the percentage of the quantum this has gone down slightly. So, in absolute terms most regions grew and Europe in specific grew very well. We expect Europe to be strong in the next quarter as well. Onsite revenue increased to 61% compared to the 59% that we had in the previous quarter. When you look at the practice mix, we have had strong growth in Cards and Payments with revenue at over 40% of our total revenue. Banking is at 34% of our total revenue, this used to be higher as a percentage but in absolute terms banking business has also grown compared to the last quarter. Insurance is at around 17% of our total revenue. We had a considerable increase in Insurance business in the previous quarters so it is kind of stabilized at a certain percentage of our overall revenue but you have project cycle based on that revenue per practice kind of changes across quarters. Banking revenue has increased by around 16% and this is primarily due to increase in revenue from Europe driven by the customer in Belgium. So, this is just a little about the practice mix. Group revenue as a percentage of total revenue was at 17.7% compared to around 18.5% that we had previous quarter. But in absolute terms we grew by 12% so quantum wise it has grown but as a percentage is slower because revenue that we had from direct customers in Europe was higher. We had much higher revenue at a group level from the Dutch regions and revenue from Ireland also increased. We have also introduced a service called "On demand performance testing" where we have a small team out of our centers in India servicing multiple clients across geographies for the group so that a customer does not block a person for a period of time but it is more of a capacity we have which we could utilize to service multiple clients across multiple geography this is good because the rates that you get are higher and you are able to utilize people across different customers at the same time.

Next, I would like to cover some of the areas relating to employees. Utilization remained pretty much the same as the previous quarter with a blended at 73%. On the recruitment front, we recruited 75 people overall and had an attrition of around 35 people. So, we increased our staff at around 40 people net during the quarter. The focus was on adding people with experience in domain, technical skills, certain amount of entry level people to balance our pyramid. We took more people in Mumbai because as more projects come in Mumbai so we fell that it makes sense to add people over there instead of sending people and increasing certain cost. Attrition as an absolute as well as a percentage went down in the quarter and currently it is around 19% or so. We had our increments rolling out in July, so we can see an increase on the cost front but at the same time in terms of attrition we had a slight dip in the month of August and September but typically these costs go higher after increments and then average out and settle back in to your averages during the rest of the year. So, this is nothing unusual or different.

On the technical capability enhancement front, we rolled out a program called "common minimal technical training" across organization to help and ensure that all employees has a basic understanding of certain areas such as Automation, Agile, DevOp**s,** performance testing. We would of course have more detailed courses but the objective of this was to make sure that every single employee across the organization is aware of these areas and have a certain level of competency in these areas so we felt that that was a key for us to grow in this current market and that has been rolled out and we are expecting that to get completed in current quarter.

On the US market, we have initiated certain changes during the quarter with respect to additional investments and increasing sales capacity in marketing spends, pre-sale support etc. So we had a little bit more spend on this market and these investments are being made directly by us and we expect this to help us to achieve better growth in the US in the future.

These are some of the key highlights for the quarter July to September 2017. As mentioned earlier, the market is more challenging in terms of competition increasing and customers being more cautious about what they spend on and when they commit on to spend. So, it is very important for us to focus on our market offerings as well as on improving overall efficiency. There are various initiatives both at SQS BFSI as well as at the Group level which benefit everybody including us which are being worked upon to help us to service our clients with the right digital offerings and at the same time help us to work on productivity, improve on automation so that we are able to offer more to our clients at the same time get more in return as well.

With this overview on the quarter and a little bit about the business I will handover to our CFO, Mr. Ramaseshan.

K. Ramaseshan: Thank you, Aarti. Good afternoon everyone. Before I start on the financials, I thought I would give an update on the SEBI hearing related to shell companies. As you all know that we got the SAT order and we have shared with all of you. After that, we had personal hearing with the Whole-time Member of SEBI and we have submitted all the information sought by them. There is no pending clarification or query from SEBI and we expect the final order from SEBI soon.

With respect to the financials, as Aarti mentioned we ended up with revenue of Rs. 697 million which is up 15% quarter-on-quarter. On the expenditure side considering our salary increase program which kicked in July and some of the US investments Aarti mentioned about we spent Rs. 606 million for the quarter which is up 22% quarter-on-quarter. Other income stood at Rs. 2.3 million in the quarter. Our profit before interest and exceptional items ended at Rs. 92.9 million vis-à-vis Rs. 113 million of last quarter and with exchange rate gain of Rs. 18.5 million. Our profit after interest but before exceptional item was around Rs. 110.8 million considering the tax expenses of Rs. 37 million for the quarter we ended up with a net profit of Rs. 73.8 million vis-à-vis Rs. 90.1 million last quarter. We ended up with earnings per share of Rs. 6.87 per share.

If you look at the first half performance vis-à-vis what we did last year, we ended up with a total income of Rs. 1,304 million which is down 8% year-on-year. The total expenditure was Rs. 1,103.6 million and hence, we ended up with a profit from operation of Rs. 205 million in the first half of the year. If you consider the tax expenses of Rs. 87.9 million we ended up with a net profit of Rs. 163.8 million which is up 7% year-on-year at a first half basis and our earnings per share for the first half was 15.3% which is up 7% year-on-year.

On the cash side, we continued focus on our collection. We ended up with a cash of Rs. 748 million as on 30th September 2017. With that, I end my financial presentation.

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 Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: I have two questions. Firstly, what has driven the growth for this quarter, and secondly what has impacted the profitability in general. Is it related to the US sales cost front or there are more reasons to it?

Aarti Arvind: On the revenue front, we have grown primarily in Europe where we have had higher revenue from existing clients. Some of our larger clients in Belgium as well as Spain we have had higher revenue which they are based on. In the couple of previous quarters there were certain changes in these clients placed locations where they had deferred certain investments and certain expenses so some of that also helped us and we were able to get a larger share of the business in Europe. I would say across most regions we had a higher revenue in absolute terms though as a percentage share it looks lower. So, I think it is pretty much across the board, but Europe definitely played a role in terms of us having higher revenue. Now, on the profitability front may be Ram would explain a little more about that.

K. Ramaseshan: Thanks Aarti. On the profit side, as I mentioned about few things while I was talking about the overall total expenditure which has gone up by 22% quarter-on-quarter, there are few things which are like one-time cost in the current quarter. The first one would be the investment that Aarti mentioned about the US. We spent near about Rs. 9 million for the quarter on the US investment side, and similarly if you remember the last quarter we had a scrip sale which was around Rs. 19 million very close to Rs. 2 crores which comes with a 100% profit which is not there in the current quarter. So, obviously, if you compare quarter-on-quarter that it will be 2-2.5 points margin drop on the profit due to the scrip sale in the current quarter and thirdly, we had a onetime cost related to some of the legal and consulting fees as well. On top of that as I mentioned our salary program kicked in, in the last quarter and we have spent near about Rs. 20 million towards the salary increase which is included in the employee cost for Q2. So, all this if we put together and normalize the profit it will be better by five tenth of a point compared to last quarter, Rahul.

Rahul Jain: Okay. So, if we adjust for everything what are the steady state margin at the moment and secondly do we plan to distribute some of our larger cost over a multiple quarter because we have seen time and again that there are one or two quarters for SQS which are where the margin gets very volatile and very weak and other quarter it jumps back sharply. Do we have any plans to distribute the cost in a way that it could get aligned across the quarter, and what are the steady state margins if you can share that?

K. Ramaseshan: We follow the Ind-As Accounting Standard so whatever the accounting standard allows us to defer the cost over the period, we will definitely consider and do. But whichever cost which is incurred and spent where we would see the benefit coming in we have to actually book the cost in the quarter we incurred.

Rahul Jain: Yes, so what I mean to say was like we have seen some smaller mid-tier company who has spread their hikes and variable compensation over different quarters to sort of maintain some from an incur point of view itself?

K. Ramaseshan: If there is something we can do it, we will always look at it but as I said currently what you see in the current quarter is exactly what is being accepted by the standard and practices.

Moderator: Thank you. We have the next question from the line of Kunal Mashruwala from Mash Capital. Please go ahead.

Kunal Mashruwala: Just wanted to get a little bit more flavor on your growth plans for the US market?

Aarti Arvind: On the US market as you would have seen as a percentage of this entity's overall revenues it is around 10% or so. At the group level, our overall US revenue last year was around 17% and both as an entity and a group level we are clear that US is a region which can give us a lot more and that is one of the reasons why we are also making certain investments both in sales capacity, presales and certain marketing expenses over there, so the investment plans are clear. We feel that that is the region that can give us more and compared to other IT companies our percentage share of overall revenue we are much stronger in UK and Europe where we are pretty strong, and we are very well established and present. But US we felt we can do more and that is why we are investing, and we are clear that we should be able to grow that in the future. See your typical offerings would not work where US is a very matured market where there are many players in the market so the solutions and the offerings that they have which would be a standard ones are already done. So, for you to get into a new clients you need to be able to offer services which are more digital because that is the space that most service providers are grappling with in terms of how will I deliver that, how will I have the capability for that so those are the areas that we are focusing on. We have built our capability offering in these areas so it is a matter of getting the right requirements from the clients and delivering on the services in the US so that's our plan is to look at that. Apart from that if you look at certain segments that we want to focus on we do not want to focus on everything because then your expense cost as well as all your bandwidth get spread out so, we are focusing a little bit more on cards and payments which is a big market in the US and is one of our strong verticals where we have quite a bit of track record, and apart from that we are also looking at capital markets and certain amount of insurance. So, we felt that we focused on these and first would be Cards and Payments so that we are not spreading our cost and spreading our investments and time. So, this is a focus that we have and in this space also what are the kind of domain offerings that we could have, what are the kind of technical services that we could offer and the combination of domain and technology works so that is what customers wants and we are able to offer that so that is our current plans in the US.

Kunal Mashruwala: One more follow up on that. So, I get the sense that you lead with what you are good at and so on and so forth. But in terms of the parent company as well as SQS India is there a clear understanding sort of who leads the market entry for the US and who follows or how does it work internally because I mean the parent company the results were great last quarter that came out recently. I just wanted to get a flavor for how the dynamics are internally between the Group as well as SQS India and sort of is there clarity how to enter the US market. I understand the description that you just put like in terms of markets and services and how you will enter. But in terms of execution if you could throw a little bit more light, that would be very helpful?

Rene Gawron: Hi, this is Rene from SQS Group. Let me first give a quick answer on the US which is also very important market for us as a group to grow. In the US we are quite simply organized. We are organized in the US in our sales teams and go to market teams which we have increased by verticals and there is a strong vertical of course BFSI is one of those verticals and for BFSI team is fully controlled and directed by the management and by the company out of Chennai by SQS India BFSI. So, while automotive manufacturing in turn and retail logistics is run by our traditional SQS entity, there are also different locations. So, BFSI this company here is in full control of what we are doing in the US and gets on the other hand a full support of SQS group of all the infrastructure we have there to be to grow this and we have fully supported the investments here. The management has done in this field.

Moderator: Thank you. We have the next question from the line of Sumit Poddar from Birla Sun Life. Please go ahead.

Sumit Poddar: Just wanted to get some outlook as far as overall growth is concerned and the margin outlook as such and as we shared our current margin got impacted by several reasons but going forward what is the outlook on margins? That would be helpful.

Aarti Arvind: We typically do not give an outlook on our revenue or on our margins but if you look at revenue wise, yes we have had good traction in the European market and we expect that certain amount of this continue into the year but at the same time customer spends are very quarterly. You might have a three-year agreement or even a five-year agreement with a customer. But every customer looks at next quarter what do I spend the budgets are controlled even at the customer end every quarter and it is more centralized. So, lot of this kind of decision making happens quarterly. We have good long customers but how they spend varies depending upon how they are doing also. So, forecast is little difficult for us to give and we do not give it, but we are focusing on the right market, we are focusing on more account mining because we found that our existing customers understand our services, understand the value that we bring, understand what we can do and the relationship is good, we are able to build very well there. At the same time, we also look at which are the new customers we add because for us to grow it is a mix of existing and new customers so we are focused on that so that does not change.

On the revenue front, I would say that these are parameters which help on influence the revenue on what we will achieve subsequently. On the margin front, we have had some onetime expenses at the same time there are certain expenses which are investments for the future which would continue for the next nine to twelve months so some of it is more of a quarterly or a seasonal kind of an expenses, one-off expenses, some of it is more of investment expenses. So. it is only in the long term once we get the proportionate revenue from the investments that we are making that our margins would even out and become more in line with what you would typically make as the margins going forward. But as of now, I think for the nine to twelve months keeping in mind some of the investments, yes, margins could be slightly different from what they have been in the past or even the last quarter.

Sumit Poddar: Sure. If you could give some color as far as the three buckets that you mentioned - one is the salary, investment in US and onetime cost, if you could kind of give some more color on these three buckets and a bit of quantification?

K. Ramaseshan: Sure. As I said, our salary program kicked in, in the month of July you know for the quarter and the employee cost includes Rs. 20 million towards the salary increase program and on the US investment side, we have spent or we have included Rs. 9 million as a part of the quarterly results and the one-time legal consultancy fees will be around Rs. 5 million to Rs. 6 million which is included in the Q2 results. So, these are the all three main ones which I mentioned during the profit discussion.

Sumit Poddar: Sure, and the US investment is likely to continue at this level or can it accelerate?

K. Ramaseshan: Again, you know we want to see the impact of the investment, so we have certain plans for the investment looking at the revenue that we get out of the investment that is already made. So, definitely there will be some investment in the next quarter or two. But it is very difficult to put a number against that

Sumit Poddar: And in terms of as you mentioned about the growth that we have had a very strong growth if you could give some color of the spends or the revenues that have come this quarter, whether these are short term projects or what is the tenure of these projects which has come up?

Aarti Arvind: On the revenues, it is always mixed because you do have some amount of short term projects in every quarter. At the same time, if you look at the revenues come from some of our larger clients with whom we have been working for I think close to some one of them 8, 9 years and one of them 3 years. So, it is not short term clients but could be short term engagements which come out during a quarter and customer senses go up and down so some of it could be short term. At the same time, some of the projects that you get are multi quarter projects and those would continue. So, I would not say it is in either of these buckets it is kind of spread out between the buckets on which category of revenue it would be and some of the regions such as Middle East or India sometimes you have project based expenses and revenue which you get so it varies across these. So, I think it is kind of a mixed revenue that we have across multiple buckets.

Moderator: Thank you. We have the next question from the line of Saurabh Jain from Astute Investments. Please go ahead.

Saurabh Jain: I just wanted to check that it has been about a year and a half since we actually took 100% of SQS India Info Systems, the non BFSI entity in India. And would it all make sense for us to sort of evaluate a merger with that company or would there be synergies to make it easier for going to the market with a higher revenue, higher scale, just your comments on that?

Rene Gawron: I am happy to cover this question. Well we always regularly take a look at this and for various reasons very much about it is quite a tricky technicality on getting the valuation of both entities right, we are currently not pursuing any plans to merge the two entities. As you probably know, as you probably remember we do have a clear distinction of which verticals of industries are covered by the two entities, SQS India BFSI covers banking and financial services insurance while SQS Info Systems covers more industry automotive, retail, logistics and telecoms. Therefore, there is no efficiencies in our go to market approach because they address different markets and the two entities do share kind of processes and technologies wherever appropriate with the kind of services what they do but the kind of quality assurance offering we do in the industries as diverse like automotive and financial services are very well covered in the current structure. So, no plans to do such a merger. But it is in effect any of our efficiency or strength in the go to market approach.

Saurabh Jain: Right but just to get your sense, would it be easier to get into customers with much higher revenue base or that does not make a difference?

Rene Gawron: No, it does not make a difference because when I give an example if you are going to a large bank or a payment and cards company, this is one kind of company and if we are going to a corporate user it is a completely different value option. In a bank we are probably talking about quality assurance and supplying more automation of tests for payment systems. This is a very distinct knowledge and there they do not really care what we do in the card industry when it comes to they all have more software and connecting the data out of a card with new business models, the two are very different industries. And therefore, there is no synergy at least not for the foreseeable couple of years from our point of view.

Aarti Arvind: I think it is also when we bid for certain engagements we do show the consolidated revenue of the group because quite often from the size point of view that helps because they understand that you are much larger than the actual revenue that you report. So, that is something we do and leverage the group's overall revenue track record in multiple geographies so that way definitely it helps but we do not need to have it as one entity to have that benefit of synergies.

Saurabh Jain: Got it. And just the last question. I think it has been mentioned before but you now the parent had actually hiked their stake in the company by buying from the open market at a price which was higher than the current price, this was about two years back. So, we were just trying to understand I mean does the parent not see value in the company at the current price or just your thoughts on the same?

Rene Gawron: Of course we see value in the company and irrespective of what are the price of the stock market is which is following sometimes its own kind of rules but we do have control of the company, we do have control of the Board and I think SQS India BFSI is very well integrated very beneficial to the business in our company and processes so it does not make a huge difference whether we own 53% to 54% or whether we have 64% it does not really make a big difference to just mention another kind of percentage. But we will take a look at this, we have always said that there is a right point in time that we feel it is good thing, also keeping in mind that we have as a company, we do acquire other businesses wherever useful, we have used our money for instance this year as SQS Group to buy more management consultancy business active only in the field of banking financial services, insurance covering the Italian market. So, we think it also has a potential to help SQS India BFSI going forward if we have a stronger presence in some of the key markets for financial services in Europe or the US and this caters to Europe but Italy and therefore we rather invested our money there but if we run out of ideas we could also increase the share of SQS India BFSI. But it is always a matter of you have got to set your priorities what helps you more and having a higher majority right now is not making us more successful in the market but if we find another company because as I have said we have a majority and we are quite happy about that.

Moderator: Thank you. We have the next question from the line of Ankit Gupta from India Nivesh. Please go ahead.

Ankit Gupta: I would like to know the net worth has reduced by around Rs. 10 crores despite profits?

K. Ramaseshan: We paid the final dividend for the last year around Rs. 25 crores that would be taken from the net worth.

Moderator: Thank you. We have a follow up question from the line of Kunal Mashruwala from Mash Capital. Please go ahead.

Kunal Mashruwala: I just wanted to follow up on the US conversation, it is probably both for Rene and Aarti. So, could you Rene first give me a sense of when SQS AG entered the US market sort of in general what the lead times were in terms of converting your first client all the way to getting some sort of a critical mass there? And then Aarti, if you could follow up in terms of what sort of lead times are you expecting in terms of SQS India making some sort of an end road because just based on my experience I think it is going to be difficult to just measure a turnover investment like quarter-by-quarter. This is not that kind of a business especially when the parent is going higher up in terms of point of sale, doing management consulting acquisitions so I just want to link all these three and perhaps get your thoughts and comments on those. Maybe Rene first and then Aarti, that would be helpful.

Rene Gawron: Happy to do this. When we started typically the experience it takes about a six to nine months lead time to win a client and to start to see that there are some kind of visible revenues coming out of a client. So, it is not an overnight thing, and this is the same you know with when we start the business it is the same today we are ramping up new clients in the space. So, I think with the investments which was just done last quarter it will still take probably two quarters or so to show some effect but that is the nature of the game.

Aarti Arvind: In the US market we do have customers, we are already servicing them that is why a certain portion of our revenue already comes from these region, so it is not like starting from scratch. At the same time for us to be able to grow that across multiple verticals we need to invest, be more visible in the market, have more sales teams on the ground as well as certain marketing sense. That is why we felt it was important for us to invest and that is what we have done and as Rene mentioned we just about started it in the last quarter and do expect us to be investing in this over a year, year and a half but the returns would take typically from the time that you start investing over 9 to 12 months so as I mentioned we would start getting traction. It is not as that one fine day everything starts kicking in. There are various opportunities at different stages of the sales cycle. But for you to have that volume and for it to be more in line with the investments that you are making that cycle time will be 9 to 12 months if not a little bit more for it to really settle into a kind of standard revenue and standard cost structure.

Kunal Mashruwala: I completely agree, I think that is a very fair estimate. The other follow up I had was in terms of if you were targeting the US market in terms of scale whatever your critical mass is or volume number is internally, are we looking at because we are already serving the US market and you said it is a very mature market. So, are we looking at a higher point of sales both in terms of within the organization who we are reaching to as well as our price point in terms of what we charge?

Rene Gawron: Primarily in the US, our one of the areas which was one of the regions why SQS as a whole has been expanding into building out it is what we call the management consulting capacity these are typically an onsite consultancy and it is a higher point of sales because you are selling like program project managers, or do yourself change management and assess digital change readiness support organizations or the strategy that with the capability of the IT and how they implement that. That is a good way because you are typically very close to these people are hired to not only at a better price point, but they are also typically reporting directly to the CIO or COO or to a digital change manager and as a result out of this management consulting engagements we are getting first kind of opportunities also in Quality Assurance, and which is our typical field or major field so yes, we are doing that and we are extending that. What I mentioned previously from when somebody else asked the question where do we invest in, in terms of our money we recently bought some other company in the Italian market and be doing the same and we expect there is going to be may be from 9 or 12 months first cross selling potential also for SQS India BFSI.

Kunal Mashruwala: Yes it makes complete sense, what I am trying to figure out is this. This again links to my first question. So, if I go to market if we are leading with management consulting then does it hurt SQS India in terms of trying to reach out to the market directly without management consulting in its repertoire sort of. That was what I was trying to get at?

Rene Gawron: No, it does not hurt it is an additional kind of engagement channel. We call the sales channel, it is more of through an engagement. It is something additional, of course at the same, time we have for SQS India BFSI has increased its sales and pre-sales capacity in the US and parallel it is also done directly going and selling quality assurance and testing deals into those clients where we go in directly. So, it is all additional.

Aarti Arvind: I think if you are talking about the entity level for us to build that capability in terms of management consulting that would not make sense because you already have it somewhere and it's a different skill set and different competency level. So, it makes sense to use what is already available, that way we can leverage that and sell better to our customers.

Kunal Mashruwala: No, I agree, I am just saying in terms of once you are trying to grow mass in a market if you start with a lower end offering I mean my assumption is that management consulting offers a better price point as well as a point of sale. So, if we do a non-management consulting offering as the core, or the main offering then we are sort of setting ourselves at a lower price point right versus given a choice you would much rather wait even a couple of more quarters and establish ourselves as a higher price point offering. That is all I was trying to figure out what the trail off is in terms of your mind that is all it was. But I fully appreciate what growth plans are and how difficult it is to execute a new market entry. So, no critique of that sort it is just I am asking these questions to better understand the execution front.

Moderator: Thank you. We have the next question from the line of Deepan Sankar from Trust Line PMS. Please go ahead.

Deepan Sankar: Just want to understand how has been our expectation on Asian market particularly Middle East going forward?

Aarti Arvind: We have said this even early in couple of other calls. Middle East is a very project driven market and if you look at the economy right now last year calendar year 2016 and financial year 2017 we had a very good run in the Middle East where there were certain large projects which we had and those kind of ramp down in the beginning of 2017, so, we had a decrease in overall revenue from the region. The region is one which has quite a few opportunities at the same time large scale projects, large scale RSVs which are multiyear, multimillion dollar most customers are not looking at large deals right now because oil prices have not gone up and the spending power is limited. So, though they are investing in digital, and they are investing in new technology, they are not spending as much in transformation right now. I think they are looking at how do they transform existing operations, existing efficiencies, improvement as well as moving more to agile and more digital offerings. Banks are looking at that and that does involve a certain amount of spend which they are capitalizing on but at the same time we are not seeing projects which are multiyear multimillion dollar. That is not currently happening much. So, it is kind of a muted market and I do not think that is going to change dramatically till oil prices change because it is an economy very driven by oil prices.

Deepan Sankar: Okay so are you saying the year-on-year decline which we were seeing on Middle East though that has kind of stopped and also what about other regions in the Asia?

Aarti Arvind: I do not think it is a year-on-year decline we had compared to the last year, this year it is lower. If you look at Middle East as a graph for the last 10 years you will find one-year Middle East is high, one-year Middle East is low and another year Middle East is much, much higher the next year based on the project cycle is lower. So, Middle East is not a market where you have consistent revenue. They do not spend much on the business as usual so when there is a transformation they spent a lot and then there will be the same customer whom you had Rs. 3 million from in the previous year you will have Rs. 300,000 in the next year. So, it is not a market where we have declined in the last couple of years we had a very good run last year. This year has been lower. In terms of the other part of your question on other Asian markets, I think for us we focus on Middle East, India and in Asia primarily Singapore, Malaysia and certain amount of Philippines. So, these are the markets that we have. Asian markets do have lot of opportunities at the same time customer front is not different from elsewhere there is quarterly, and it is also sometimes challenging to service some of these because like in lot of other countries in the world the Asian countries are also have certain changes in immigration rules. So, lot more is depended on local resources which get signed up with various partners and other organizations to support us. So, Asian market wise Singapore yes, and Philippines I think is a market which is emerging and there seemed to be lot of opportunities and that is the market which is growing whereas most of the other Asian markets nothing dramatic, it is not that there is any economy wise they are doing well but nothing dramatic in any of these regions. India as a market where there is a lot happening in the financial services sector at the same time the spend or what customers want to spend on they are looking at transformation, they are looking at new digital. So, that is what customers are spending on. So, India definitely this trend is there. It is also how much of it that we want to do because price points are a challenge in India at times, so we also chose to do certain ones which works for us and let go some which do not work for us.

Deepan Sankar: And revenue based practice, we have seen in absolute terms banking has improved so it is a one-off kind of improvement or we are seeing improvement over there?

Aarti Arvind: The improvement in banking is primarily driven by the improvement with our customer in Belgium which is a specific case but at the same time we are seeing more opportunities in banking, so we do expect the revenue from banking to improve. But this particular case, it is more of a specific customer account where we had higher revenues.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Aarti Arvind: Thank you. I just like to summarize everything. We have had a good quarter on the revenue front and are also making investments which we feel will help us grow in the future. There will be an impact on the margins in the short run, but this will even out as our revenue picks up and as we grow. We grew well in existing accounts and also have traction in terms of the pipelines with us pitching for new clients across geographies which we look forward to converting in the near future. So, I think there is a lot of opportunities which are there in the pipeline and I see at the same time customer spends and market also is a factor which plays an important role in this. With that I would like to thank all of you for joining and wish you a good weekend. Thank you.

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