



SQS India BFSI Limited

Annual Report FY 2015 - 16



sqs-bfsi.com

BOARD OF DIRECTORS



David Bellin



Aarti Arvind



N. Vaidyanathan



Prof. K. Kumar



Lilian Jessie Paul



Prof. S. Rajagopalan



Rajiv Kuchhal



Reji Thomas Cherian



René Gawron



Ulrich Bäumer

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CORPORATE INFORMATION

BOARD OF DIRECTORS

David Bellin
Chairman & Director

Aarti Arvind
Managing Director & CEO

N. Vaidyanathan
Executive Director & Chief Financial Officer

Prof. K. Kumar
Independent Director

Lilian Jessie Paul
Independent Director

Prof. S. Rajagopalan
Independent Director

Rajiv Kuchhal
Independent Director

Reji Thomas Cherian
Additional Director

René Gawron
Non-Executive Director

Ulrich Bäumer
Independent Director

COMPANY SECRETARY

S. Sampath Kumar

AUDITORS

PKF Sridhar and Santhanam LLP
Chartered Accountants
91-92, Dr. R K Salai, Mylapore, Chennai-600 004

INTERNAL AUDITORS

A. Murali & Associates, Chartered Accountants
New No.2, T4 3rd Floor, Majestic Square, Sherfudeen Street
Choolaimedu, Chennai-600 094

BANKERS

The Lakshmi Vilas Bank Limited
Cathedral Road, Chennai-600 086

ICICI Bank Limited
Bazullah Road, T. Nagar, Chennai-600 017

The Hongkong and Shanghai Banking Corporation Limited
Cathedral Road, Chennai-600 086

LEGAL ADVISORS

S. Ramasubramaniam & Associates
New No.13/1, Bishop Wallers Avenue West
Mylapore, Chennai-600 004

REGISTRAR AND SHARE TRANSFER AGENTS

Karvy Computershare Private Limited
Karvy Selenium Tower B, Plot 31-32, Gachibowli
Financial District, Nanakramguda, Serilingampally
Hyderabad-500 032, Tel. 040 6716 2222
email: einwards.ris@karvy.com, website: www.karvycomputershare.com

REGISTERED OFFICE

6A, Sixth Floor, Prince Infocity II, No.283/3 & 283/4
Rajiv Gandhi Salai (OMR), Kandanchavadi, Chennai-600 096
Tel. 044 4392 3200, email: investor.sqsbfsi@sqsbfsi.com
website: www.sqs-bfsi.com

Letter to Shareholders

Dear Shareholders

Your Company delivered another strong result in 2015-2016: revenues up (23%) to Rs.2,642 million; net profit after tax up (71%) to Rs.369 million and EBITDA up (30%) to Rs.541 million. These results, combined with a high cash conversion ratio of 122% enabled your Board to recommend a dividend of Rs.20 per share. Combined with the interim dividend of Rs.4 per share this represents a payout ratio of 80% of Profits after taxes in our third year under the SQS Group umbrella. Revenues from other Group entities increased from 3% to 12% year-on-year and we anticipate this trend continuing.

Banking remains our strongest market sector at 51% of revenues but we saw encouraging growth in cards and payments, now 34% of revenues. By geography Europe, at 51% of revenues, remains our strongest territory. The Middle East exceeded expectations.

At the year-end we served 84 active clients, with the numbers of \$1million revenue clients and \$3-\$5 million revenue clients rising. Our top ten clients account for 65% of sales, down from 71% in the previous fiscal year and the value of repeat business dropped from 91% to 82% as new clients and new projects emerged. We value our relationships with all our clients, new and old, large and small and thank them for their support and confidence in our staff, our services and our delivery. We now employ 1076 staff and anticipate that number growing as we serve additional clients and larger projects. An additional 250-seat facility at our Prince Info City HQ in Chennai will be operational in July, 2016

The Board pays tribute to the hard work, energy, enthusiasm and above all the client commitment of our staff, which lies behind our 2015-2016 results.

Shareholders are aware from our postal ballot in March, 2016 of changes to the Board. Dr. Martin Müller, who led the executive leadership team from December, 2013 to March, 2016, resigned as Managing Director & CEO, to return to Germany with his family, where he has taken up a new CEO position. We thank him for his significant contribution to the successful integration of Thinksoft into SQS and wish him well in the future. He leaves behind a strong management team from which we have made two new Board appointments.

Ms. Aarti Arvind, who takes over as MD and CEO and our CFO, Mr. Vaidyanathan became Executive Director on April 1, 2016. Both were instrumental in our successful integration and success in the last three years. Ms. Aarti Arvind has been with the Company since 2004 and was previously Executive Vice President in Thinksoft handling HR, Commercial Management and Delivery Process. With her detailed knowledge of our industry, business, clients and staff she is well positioned to lead our Company through its next development phase. Mr. Vaidyanathan has over 39 years of experience in finance, accounting, corporate planning and administration. He joined the Company in 2005 and has proved an exemplary CFO and compliance leader for all shareholders past and present.

Mr. Gireendra Kasmalkar resigned as a non-executive director at the financial year end and also as Managing Director and CEO of SQS, Pune. We thank him for his support and contribution as a non-executive director and wish him well in his new ventures.

On April 28 Mr. Reji Cherian was appointed as an additional (non-executive) director subject to your approval at the Annual General Meeting. He has over 25 years' experience in the IT industry, especially in the transportation and telecoms sectors, from previous senior roles with Siemens, Deutsche Telecom and Cap Gemini. He joined SQS as head of India in January this year.

I would personally wish to thank all my past and present executive, non-executive and independent colleagues on your Board for their hard and often unseen work, unstinting commitment to your Company and contribution to the effectiveness of your Board.

As a Board we sincerely thank our clients, our staff, our advisors and of course you, our valued shareholders, for your support. It is a tough time to be macro-economic forecaster or geo-political analyst but as a Company we shall continue on our growth path as a specialist and independent quality assurance Company, with confidence in what we can deliver for our clients and their ever more complex and inter-dependent business processes.

Thank you,

Yours sincerely,

David Bellin

Chairman of the Board

Decade at a Glance (Consolidated Basis)

Rs. in Million

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
Gross Revenue	2641.6	2141.6	1944.4	1614.4	1214.4	829.3	828.6	922.6	749.2	588.6
EBIDTA	605.3	388.6	499.0	326.2	224.2	60.9	105.1	178.7	122.2	122.4
Profit Before Tax	562.0	320.4	422.3	264.8	185.0	32.0	90.6	160.6	108.2	103.6
Profit After Tax	369.0	216.5	300.4	194.4	113.8	18.7	82.3	144.9	99.7	94.6
Fixed Assets: Gross Block	526.3	482.8	472.6	457.0	224.8	194.2	101.2	90.2	88.5	69.9
Fixed Assets: Net Block	247.9	243.0	274.1	312.1	108.7	111.5	42.4	33.5	28.2	22.1
Share Capital	106.4	105.5	102.7	101.2	100.5	100.5	100.5	87.0	76.6	72.5
Reserves and surplus	982.2	910.8	979.7	780.7	654.6	599.2	592.2	381.9	246.6	160.0
Networth	1088.6	1016.2	1082.4	881.9	755.1	699.7	692.7	469.0	329.0	232.5
Sundry Debtors	543.9	567.4	557.8	413.2	235.8	229.0	159.3	238.6	203.7	186.4
Cash and Bank Balances	856.6	683.5	502.5	393.9	404.5	400.3	514.0	265.6	147.3	76.6
Current Assets*	1556.6	1380.1	1156.9	951.7	898.9	762.2	789.2	600.3	420.0	291.0
Current Liabilities	728.4	559.8	289.9	288.7	263.1	183.3	149.3	171.1	122.6	82.0
Working Capital	828.2	820.3	867.0	663.0	635.8	578.9	639.9	429.2	297.4	209.0
Employee Strength (Nos.)	1076	907	905	782	742	661	499	538	580	494
No of Equity Shares ('000)	10638.7	10545.3	10267.7	10123.7	10052.0	10052.0	10052.0	8702.0	7663.0	7245.0
Earnings Per Share (Diluted) (Rs.)	34.6	20.6	28.7	19.0	11.3	1.9	8.8	17.6	13.4	13.2
Book Value per Share (Rs.)	102.3	96.4	105.4	87.1	75.1	69.6	68.9	53.9	42.9	32.1
Dividend - Rs. per Share (Interim and Final)	24.0	24.0	9.0	6.0	5.0	1.0	1.0	1.0	2.0	2.0

EBIDTA: Earnings before Interest, Depreciation, Taxes & Amortization + Other Income.

*Current Assets: Figures are as per new Schedule VI format from the year 2011-12 onwards

One Million (Mn) is equal to Ten lakhs

Directors' Report

To the Members,

We are presenting herewith, the report on our business and operations for the year ended March 31, 2016.

1. Financial Highlights for the year ended March 31, 2016:

	Consolidated		Standalone	
Rs. in Mn	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Total Revenue	2,706	2,159	2,693	2,159
Employee benefits expense	1,676	1,361	1,061	812
Depreciation and amortization expense	40	52	40	52
General, administrative and other expenses	425	410	1,091	998
Finance cost	3	16	2	16
Total expenses	2,144	1,839	2,194	1,878
Profits Before Taxes	562	320	499	281
Taxes	193	104	180	96
Profit After Tax	369	216	319	185
Earnings per Equity share (Par value of Rs.10 each)				
Basic (Rs.)	34.85	20.86	30.09	17.81
Diluted (Rs.)	34.62	20.57	29.90	17.56

2. Business and Operations Review:

Total Operating Revenues increased, in Rupee terms by 23% to Rs.2,641.62 Mn during the Financial Year 2015-16 from Rs.2,141.55 Mn in the previous year. In US dollar terms revenues increased by 15%.

- During the year, repeat business from existing clients accounted for 82% of revenues, down from 91% of the previous year. New client acquisition contributed 18% of revenues. New business is expected to grow, as synergies within the SQS Group feed through the sales pipeline.
- Profit after tax was at Rs.319 Mn, (representing 12% of revenues) as against Rs.185 Mn (9% of the revenues) for the previous year. Currency fluctuations resulted in a gain for the year of Rs.43 Mn compared to a loss of Rs.37 Mn in the previous year.
- Geographically, 50.98% of revenues came from Europe (previous year 46.24%), 33.30% from India, Middle East, Asia and Australia Regions (previous year 31.58%), 15.72% from America (previous year 22.18%). The proportion of onsite to offshore revenues stood at 61.76% / 38.24% compared to 55.34% / 44.66% in the previous year. This is reflected in the increase of 38% onsite revenue from Rs.1,185.21 Mn to Rs.1,631.41 Mn during the year under review.
- Employee expenses increased due to higher onsite deployments with onsite revenue increasing to 62% of the total Revenue (previous year 55%).
- Employee strength, as at March 31, 2016, for the standalone entity was 939 (consolidated 1,076) compared to 767 (consolidated 907) in the previous year. Women employees standalone count stood at 288 (31% of the total) compared to 221 (29%) in the previous year. For the consolidated group, women employees stood at 309 (29%) compared to 250 (28%) in the previous year. The attrition rate increased to 21% for the year ended March 31, 2016 compare to 17% in the previous year.

3. Capital Expenditure:

During the year, Rs.45.26 Mn of capital expenditure was added to a gross block comprising of Rs.20.73 Mn on technology infrastructure, Rs.3.89 Mn on physical infrastructure, Rs.0.09 Mn on Vehicles and Rs.20.55 Mn addition on intangible assets which includes in-house developed software of Rs.15.81 Mn.

4. Expansion Plan:

To expand, the Company has taken a lease on 23,000 Sq. ft. of additional space within the building campus of Prince Info City, Chennai and is currently working on the creation of a 250 seat facility. This additional capacity, at a cost of Rs.90 Mn, will be a state-of-the-art facility and will be operational from July, 2016. The additional capacity will help the Company to meet growing opportunities for offshore business. This will be the fourth offshore delivery center in India for BFSI.

5. Enhancing automation in Test Process:

The Company developed a tool called FaXimmé, a financial transaction simulator that aids issuers, acquirer and network providers to carry out financial transaction testing without requiring a direct physical connection with live production environment. It enhances automation in test process. FaXimmé has been developed to work in a hosted/cloud environment. The scoping and evaluation was performed and the development of the tool was commenced during 2014. During the last two years, the Company has been testing/piloting the tool. The development was completed during the fourth quarter ended in March, 2016 and is ready for deployment.

Development Spend & Amortization: The Company has so far spent an amount of Rs.15.81 Mn, in terms of development efforts and related consulting over the last two years. Now, as the development work is complete, the development spend is being capitalized in the books of Accounts on March 31, 2016. The tool cost will be amortized, as per the Accounting standards and the policy of the Company, over the useful life of the tool, during the next three years.

Revenues: The Company has successfully demonstrated the framework to five of our Clients and also received very positive feedback about the marketability of the product. Clients' suggestions for additional features are considered to meet the changing business needs. The Company as such is confident of making progress in marketing the tool to its existing and prospective clients.

6. Liquidity:

The Company, has repaid its Loan commitments in advance and became a debt free Company at the year end. The Company continues to maintain sufficient cash balance to meet its strategic objectives. The liquid assets at the end of the year stood at Rs.893.00 Mn (as against Rs.1,034.72 Mn previous year). The Year-end Account Receivables improved to 76 days sales (Rs.347.60 Mn) as against 94 days sales (Rs.549.81 Mn) in the previous year.

7. Share Capital:

As at the end of the financial year, the Company's Equity Share Capital stands at Rs.106.39 Mn, consisting of 10,638,749 fully paid up Equity Shares of Rs.10 each. The exercise of employee share options granted under Thinksoft ESOP Scheme, 2011 resulted in the allocation of 93,450 equity shares during the Financial Year 2015-16 to employees. As a result, the paid-up share capital of the Company increased from Rs.105.45 Mn to Rs.106.39 Mn. The disclosure in compliance of Rule 12 of Companies (Share Capital and Debentures) Rules, 2014 is attached to this report as **Annexure I**.

8. Net Worth:

The net worth of the Company increased to Rs.870.53 Mn as at March 31, 2016 from Rs.848.56 Mn at the end of the previous year. This works out to a per share net worth of Rs.81.83.

9. Transfer to General Reserve:

During the financial year, the Company has transferred Rs.31.9 Mn, (previous year Rs.18.48 Mn) to General Reserve, which represents 10% of the net profits of the Company. As a result, the total amount of General Reserve as on March 31, 2016 was Rs.131.39 Mn (Rs.99.49 Mn as at the end of the previous year).

10. Dividend:

Based on the Company's performance and the Net Cash Position of the Company, the Board of Directors is pleased to recommend a final Dividend of Rs.20/- per share (200% on face value of Rs.10/- each) for the financial year 2015-16. The Board had also declared an interim dividend of Rs.4/- per equity share (40% on face value of Rs.10/- each) on November 05, 2015.

The Final Dividend, if approved by the Shareholders in the General Meeting, would result in a total dividend of Rs.24/- per equity share (240% on face value of Rs.10/- each) for the financial year ended March 31, 2016. (Previous year 240% on face value of Rs.10/- each, i.e. Rs.24/- per equity share).

11. Subsidiaries:

The Company operates internationally through five wholly owned subsidiaries:

- a) SQS BFSI Pte. Ltd (formerly Thinksoft Global Services Pte. Ltd.), Singapore
- b) SQS BFSI Inc. (formerly Thinksoft Global Services Inc.), USA
- c) SQS BFSI UK Ltd (formerly Thinksoft Global Services UK Ltd.), UK
- d) SQS BFSI FZE (formerly Thinksoft Global Services FZE.), UAE
- e) Thinksoft Global Services (Europe) GmbH, Germany (being wound up)

The Company has initiated action towards voluntary winding up of the German Subsidiary. With a view to harmonize the operations in UK region, the Company's branch office in UK is closed with effect from July 31, 2015 and our wholly owned subsidiary SQS BFSI UK Limited continues to operate as usual to meet the business requirements. The Company also has branches / place of business in Belgium, Malaysia, Australia and Hong Kong.

Financial Statement of Subsidiaries:

A separate section on the salient features of the financial statements of subsidiaries, as prescribed under Section 129(3) of the Companies Act, 2013 read with Rule 5 of Companies (Accounts) Rules, 2014 can be found in **Annexure II**.

The Audited Annual Accounts and related information of subsidiaries, wherever applicable, will be made available to shareholders upon request and will also be available for inspection during normal business hours at the registered office of the Company. The Audited Accounts shall also be available at the website of the Company.

12. Annual Return:

The extracts of the current Annual Return for the present financial year as prescribed under Section 92(3) of the Companies Act, 2013 read with Rule 12 of Companies (Management and Administration) Rules, 2014 is attached to this report as **Annexure III**.

13. Number of meetings of the Board:

Five Board Meetings were held during the year. The dates on which the said meetings were held are as follows: April 23, 2015, May 18, 2015, July 23, 2015, November 05, 2015 and January 28, 2016. The details of the same are given in the Corporate Governance Report. The intervening gap between the Meetings was within the period prescribed under the Companies Act, 2013.

14. Corporate Governance and Management Discussion Analysis Report:

A separate section on Corporate Governance forming part of the Directors' Report and the certificate from the Company's auditors confirming compliance with Corporate Governance norms as stipulated in the erstwhile Clause 49 of the Listing Agreement entered into with National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are included in the Annual Report. The Company has taken adequate steps for strict compliance with the Corporate Governance guidelines, as amended from time to time.

A separate Management Discussion and Analysis Report is also attached and forms part of this report.

15. Declaration given by Independent Directors:

All the Independent Directors of the Company have given their declaration under Section 149(7) of the Companies Act, 2013 confirming that they are in compliance with the criteria of independence as laid down in Section 149(6) of the Companies Act, 2013 for being an Independent Director of the Company.

16. Policy on Directors' Appointment and Remuneration:

The Policy of the Company on Directors' appointment and Remuneration, including criteria for determining Qualifications, Positive attributes, independence of a Director and other matters, as required under Section 178 (3) of the Companies Act, 2013 is available. There has been no change in the policy since the last financial year. The details of the Remuneration Policy is covered in the Corporate Governance Report.

17. Particulars of loans, guarantees or investments:

The Company has not given any loan to any person or other body corporate, given any guarantee or provided security in connection with a loan to any other body corporate or person or acquired by way of subscription, purchase or otherwise, the securities of any other body corporate. As specified under Section 186 of the Companies Act, 2013, the Company has the following investments in its Wholly Owned Subsidiaries:

Particulars	March 31, 2016 Rs.	March 31, 2015 Rs.
Unquoted equity instruments (in subsidiaries)		
100,000 equity shares (Previous year - 100,000 equity shares) of SGD 1/- each in SQS BFSI Pte. Ltd (formerly Thinksoft Global Services Pte. Ltd.,) Singapore	2,658,023	2,658,023
3,000 equity shares (Previous year - 3,000 equity shares) of USD 0.01/- each in SQS BFSI Inc. (formerly Thinksoft Global Services Inc.,) USA	4,625,400	4,625,400
EUR 50,000/- (Previous year - EUR 50,000) in Thinksoft Global (Europe) GmbH, Germany	2,714,774	2,714,774
350,000 equity shares (Previous year - 350,000 equity shares) of GBP 1/- each in SQS BFSI UK Ltd (formerly Thinksoft Global Services UK Ltd.,) UK	24,168,000	24,168,000
24 equity shares (Previous year - 24 equity shares) of AED 25,000/- each in SQS BFSI FZE (formerly Thinksoft Global Services FZE.,) UAE	8,696,000	8,696,000

18. Particulars of contracts or arrangements with related parties:

During the year 2015-16 the contracts and arrangements entered by the Company with related parties were on an "arm's length" basis and in the ordinary course of business. The contracts and transactions with the promoters M/s.SQS Software Quality Systems AG, along with its subsidiaries has exceeded the threshold limit of 10% on the previous year consolidated turnover of the Company. Hence, the transactions with M/s.SQS Software Quality Systems AG and its subsidiaries have become "Material Transactions" as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. A transaction limit upto Rs.975 Mn per annum for providing services has been approved by the Shareholders in the Annual General Meeting of the Company held on July 23, 2015. The aforesaid transactions falls within the limits approved by the Members. There are no materially