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SQS India BFSI Limited

Annual Report FY 2016 - 2017



Transforming the World Through Quality

Corporate information

BOARD OF DIRECTORS

David Bellin
Chairman & Director

Aarti Arvind
Managing Director & Chief Executive Officer

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

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@sqsq.com, website: www.sqs-bfsi.com

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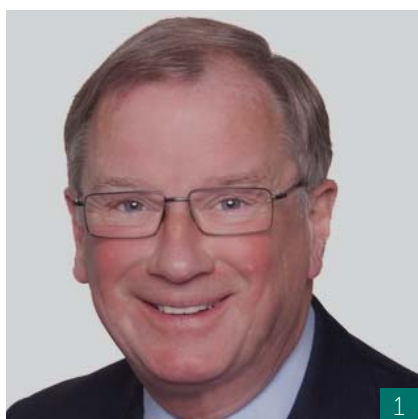
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Board of Directors



1. David Bellin

David is the Chairman and Director of SQS India BFSI Limited. An MBA from the Open Business School in the UK. David was a political and business television correspondent, producer and programme editor. He has advised on media development and investments in Europe, the Balkans, Ukraine, south-east Asia and India. He was appointed to the Supervisory Board of SQS Software Quality Systems, AG in September 2013 and became Chairman of the Supervisory Board in May 2014.

2. Aarti Arvind

Aarti is the Managing Director and CEO of SQS India BFSI Limited. Aarti holds a Post Graduate Diploma in Management from T.A. Pai Management Institute, Manipal and a Bachelor's degree in Science from Madras University. She has over 19 years of experience and has played a key role across multiple areas including business operations, commercial & legal, human resources, infrastructure and learning & development among others.

3. N Vaidyanathan

N. Vaidyanathan (NV) is the Executive Director and Chief Financial Officer of SQS India BFSI Limited. Apart from holding a Bachelor's degree in Science, NV is a Fellow Member of the Institute of Chartered Accountants of India and has more than 41 years of professional experience in multinational organisations of Indian and overseas origin such as GEC Alstom, Castrol Ltd, Guest Keen Williams, Binny Ltd etc.

4. Prof. K Kumar

Prof. Kumar is Deputy Chairman and Independent Director of SQS India BFSI Limited and is a Professor of entrepreneurship at the Indian Institute of Management Bangalore. He has over two decades of experience as a corporate manager, consultant, entrepreneur and in academia. Prof. Kumar holds a Bachelor's degree in Electrical & Electronics Engineering (Madurai Kamaraj University) and holds postgraduate and doctoral qualifications from the Indian Institute of Management, Bangalore (IIM-B).

5. Lilian Jessie Paul

Jessie is an Independent Director of SQS India BFSI Limited. She is the Founder and CEO of Paul Writer, a B2B marketing advisory firm. Previously, as Chief Marketing Officer of Wipro's IT business and as Global Brand Manager at Infosys, Jessie has been recognized for her contribution towards putting the Indian IT industry on the global map. Jessie holds MBA from Indian Institute of Management (IIM), Calcutta and earned a Bachelor's degree in computer science and engineering from National Institute of Technology (NIT), Trichy.

6. Prof. S Rajagopalan

Prof. Rajagopalan is an Independent Director of SQS India BFSI Limited. He is a Bachelor of Technology (B.Tech) in Chemical Engineering from Indian Institute of Technology, Post Graduate Diploma in Management from Indian Institute of Management, Bangalore and earned his doctorate from IIT Kanpur. He has

38 years of experience working in Government, not for profit, private industry and in academia.

7. Rajiv Kuchhal

Rajiv is an Independent Director of SQS India BFSI Limited. He worked for Infosys group for 16 years where he was instrumental in setting up of Product Engineering and Telecom business units and was the founding team member of Infosys BPO. Subsequently, he was Chief Operating Officer of OnMobile Global where as part of senior management team helped company achieve global scale. He is now working as angel-investor / mentor with multiple startups, primarily in domain of social enterprises and technology. He is a General Partner at Exfinity Ventures and a mentor at NSRCEL-Social at IIM, Bangalore.

8. René Gawron

René is a Director of SQS India BFSI Limited. He is currently the CFO of SQS, the world's leading specialist in software quality services, in charge of finance, mergers and acquisitions, human resources and IT.

9. Ulrich Bäumer

Ulrich is an Independent Director of SQS India BFSI Limited. He is a qualified lawyer (admitted to practice in Germany and the US) and a partner in the technology group of the international law firm Osborne Clarke in Cologne. He advises the clients of the firm mainly in the areas of information technology, licensing (ERP, etc), outsourcing, digitalization and all other aspect of IT law.



David Bellin,
Chairman

Chairman's overview

Dear shareholders,

Your Company encountered a challenging 2016-17. Brexit in the UK and the subsequent devaluation of Sterling; the Presidential election in the US; political uncertainties in Europe and lower oil prices in the Middle East all had negative effects on business confidence in our key territories. Our total revenues were flat (compared to previous year) in constant currency terms but, despite these many headwinds, I am pleased that we have been able to maintain our profitability and have achieved an EBITDA of 19.7%. We have also consistently shared the profits of the company with our shareholders and have recommended an overall dividend of Rs.24 per share, subject to your approval at the AGM. The Board sincerely congratulates the management and staff for achieving cost reductions, operational efficiencies and successful client relationships to make this possible.

Your Company performed well in Europe and Asia but US sales have yet to reach their desired potential. The pace of change in the global market for Quality Assurance (QA) is accelerating as more of our clients IT investments are decentralized to achieve greater and faster operational benefits, lower costs and better customer service. Traditional technologies are being replaced but the requirement for quality assurance at every stage of every project is growing. The emergence of new and disruptive technologies and methodologies in our clients' business processes requires us to extend the Quality Assurance we provide. We will continue to transition our business to respond to new client requirements, accelerated project timelines, more industrialization and better efficiencies in what we do through more end-to-end engagements. Banking in many respects leads the way as customers expect anytime-anywhere uniform banking access. The Digitalization and omni-channel execution behind that generates major QA requirements, which we are proud to deliver to our banking clients around the world.

Insurance organisations are also gearing up for digitalization, IOT and Telematics. In one of our large Insurance customers in the UK we are delivering a much

wider range of services from project management to Test Automation and Non-Functional Testing services, all in a distributed agile environment with various stakeholders located across multiple geographies. With a state of art framework encompassing a stack of tools and processes, not only has the time to market been shortened using Agile methodologies, but costs have also been reduced.

Banking remains our major vertical, delivering 47% of revenues. Our insurance business has nearly doubled from 6.6% of revenues in 2015-16 to 13.5% in 2016-17. We see further growth potential from cards and payments revenues in the future.

Customer satisfaction remains pleasingly high with over 88% of our revenue coming from existing customers. Even within existing customers the offerings have become more digital in nature and more focused on automation.

Within the SQS Group we look forward to meeting the challenges our BFSI clients present to us and working with them through their own change processes. To build more robust and differentiated competencies we will continue to invest for growth in:



- Enhanced investment in Learning & Development of our existing staff
- More industrialization and standardized delivery platforms
- More specialized market offerings which combine domain expertise with technical capabilities within our verticals for banking, insurance, card payments, and treasury/capital markets.

The share of our business generated via other SQS Group entities continues to grow from 11% to 17% this year and further growth is anticipated. Your Company will be able to leverage the presence of the SQS Group operations in the US, as necessary, to mitigate the effects of recent changes in visa regulations there. We will continue to offer our current and future customers in the US a global delivery model.

Our success in a highly competitive global market is down to the quality of our staff and their work for our clients. The Board acknowledges their commitment to clients, to change, to the future and to the value of our independence in assuring the quality of what matters to our clients and our clients' customers. In thanking our staff I must also thank our clients for valuing our independence and our delivery and, as always, the Board thank you, our valued shareholders, for your continued support.

Yours sincerely,

David Bellin
Chairman

0,229220	-0,284602	0,534707	-0,510990	-0,483385	tau	-0,417402
0,230325	-0,284602	0,534707	-0,510990	-0,483385	EF	47,994
0,231429	-0,285667	-0,337730	-0,387225		FG	40,49
0,633214	0,610826	0,583790	0,552311		beta	0,8234405
0,632813	0,610331	0,583203	0,551638		ksi	-0,406038
0,632410	0,609833	0,582615	0,550963		Ye	57,133 Yf
					Ze	60,634 Zf
0,554354	-0,534707	-0,510990	-0,483385		psi5	-0,099355
0,000176	-0,000217	-0,000257	-0,000295			
0,554002	0,534272	0,510475	0,482794			
0,201221	-0,248770	-0,294426	-0,337841			
0,000484	0,000466	0,000446	0,000422			
0,202188	0,249703	0,295317	0,338685			

Performance highlights

Decade at a Glance (Consolidated Basis):

Rs. in Mn.

Particulars	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
Gross Revenue	2,599	2,642	2,142	1,944	1,614	1,214	829	829	923	749
EBIDTA	415	605	389	499	326	224	61	105	179	122
Profit Before Tax	361	562	320	422	265	185	32	91	161	108
Profit After Tax	231	369	216	300	194	114	19	82	145	100
Fixed Assets: Gross Block	578	526	483	473	457	225	194	101	90	89
Fixed Assets: Net Block	267	248	243	274	312	109	112	42	33	28
Share Capital	107	106	105	103	101	101	101	101	87	77
Reserves and surplus	1,165	982	911	980	781	655	599	592	382	247
Networth	1,272	1,089	1,016	1,082	882	755	700	693	469	329
Sundry Debtors	425	544	567	558	413	236	229	159	239	204
Cash and Bank Balances	890	857	683	502	394	404	400	514	266	147
Current Assets*	1,398	1,534	1,380	1,157	952	899	762	789	600	420
Current Liabilities	418	728	560	290	289	263	183	149	171	123
Working Capital	980	806	820	867	663	636	579	640	429	297
Employee Strength (Nos.)	919	1,076	907	905	782	742	661	499	538	580
No of Equity Shares ('000)	10,680	10,639	10,545	10,268	10,124	10,052	10,052	10,052	8,702	7,663
Earnings Per Share (Diluted) (Rs.)	21.6	34.6	20.6	28.7	19.0	11.3	1.9	8.8	17.6	13.4
Book Value per Share (Rs.)	119.1	102.3	96.4	105.4	87.1	75.1	69.6	68.9	53.9	42.9
Dividend - Rs. per share (Interim and Final)	24.0	24.0	24.0	9.0	6.0	5.0	1.0	1.0	1.0	2.0

EBITDA : Earnings before Interest, Depreciation, Taxes & Amortization

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

One Million (Mn) is equal to Rupees Ten lakhs

Directors' report

Dear members

We are pleased to present the report on our business and operations for the year ended March 31, 2017.

1. Financial highlights for the year ended March 31, 2017:

(Rs. in Mn.)

	Consolidated		Standalone	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Total Revenue	2,606	2,706	2,605	2,693
Employee benefits expense	1,592	1,676	1,058	1,061
Depreciation and amortization expense	52	40	52	40
General, administrative and other expenses	599	425	1,158	1,091
Finance cost	2	3	1	2
Total Expenses	2,245	2,144	2,269	2,194
Profit Before Tax	361	562	336	499
Tax expense	130	193	120	180
Profit After Tax	231	369	216	319
Earnings per Equity share (Par value of Rs.10 each)				
Basic (Rs.)	21.61	34.85	20.27	30.09
Diluted (Rs.)	21.56	34.62	20.22	29.90

2. Business and Operations Review:

Total operating revenue was Rs.2,599 Mn for the Financial Year 2016-17 as compared to Rs.2,642 Mn in the previous year, a decline of 1.6%.

During the year under review, repeat business from existing clients accounted for 88% of revenue, increased from 82% in the previous year. New client acquisitions contributed to 12% of revenue.

Profit after tax stood at Rs.216 Mn, (representing 8.3% of revenues) as against Rs.319 Mn (12% of revenues) in the previous year. Currency fluctuations resulted in a loss for the year of Rs.84 Mn, compared to a gain of Rs.43 Mn in the previous year.

Geographically, despite the Brexit impact, revenue

from Europe increased by 6% compared to the previous year while revenues from India, the Middle East, Asia and Australia grew by 3.8% over the previous year. Business derived from Europe was 54.9% of our revenues (previous year 51.0%) 35.2% from India, the Middle East, Asia and Australia (previous year 33.3%) and 9.9% from US (previous year 15.7%). The proportion of onsite to offshore revenue stood at 63.3%/36.7% compared to 61.8%/38.2% in the previous year. This has reflected in increase of 0.8% in onsite revenue from Rs.1,631 Mn to Rs.1,645 Mn during the year under review.

The revenue from Group clients for the financial year 2016-17 increased to 17% of revenue as against 11% of revenues during the previous year. On the practice

front, Insurance practice grew by 100% compared to the previous year, contributing 13.5% of revenues.

Employee strength, as on March 31, 2017, for the standalone entity was 815 (consolidated 919) compared to 939 (consolidated 1,076) in the previous year. Women employees for the standalone entity count stood at 240 (29% of the total) compared to 288 (31%) in the previous year. For the consolidated, women employees stood at 255 (28%) compared to 309 (29%) in the previous year. The attrition rate increased to 23% for the year ended March 31, 2017 compared to 21% in the previous year.

3. Capital expenditure:

During the financial year 2016-17, we added Rs.70 Mn to our gross block with capital expenditure, which comprised of Rs.22 Mn on account of technology infrastructure, Rs.38 Mn through physical infrastructure, Rs.3 Mn through vehicles and the balance Rs.8 Mn through intangible asset addition.

During the financial year 2016-17, we added a new 250-seater facility. The new facility has been designed as a 'Delivery Only Center'. The focus was on creating additional project delivery seats and strengthening existing offshore capability. The new floor also includes an inbuilt-training room equipped to deliver technical and non-technical training. The training facility comprises an in-built Video Conference (VC) facility which can facilitate training across all locations. The facility is equipped with a Variable Refrigerant Variant (VAV) High Volume Air Condition (HVAC) system, which will result in energy conservation. The facility is built around existing certification requirements and was recently certified as compliant under Payment Card Industry Data Security Standard (PCI-DSS) requirements.

4. Liquidity:

The Company continues to maintain comfortable cash balances to meet its strategic objectives. The liquid assets as at the end of the year stood at Rs.568 Mn (against Rs.893 Mn in the previous year). Our receivables balance stood at Rs.271 Mn. as compared to Rs.348 Mn. in the previous year. This reflects a validation of customer relationship and a more structured follow-ups practice.

5. Share capital:

At the end of the financial year under review, the Company's Paid-up Equity Share Capital stood at Rs.106.80 Mn, consisting of 10,679,881 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 41,132 equity shares during the financial year 2016-17 to employees. As a result, the Company's paid-up Equity share capital increased from Rs.106.39 Mn to Rs.106.80 Mn. The details of the Thinksoft ESOP Scheme, 2011 and the requirement as specified under Regulation 14 of SEBI (Share Based Employee Benefits) Regulations, 2014 is available at the Company's website at <http://www.sqs-bfsi.com/investors/corporate-governance-policies.php>. The disclosure in compliance of Rule 12 of Companies (Share Capital and Debentures) Rules, 2014, is attached to this report as **Annexure I**.

6. Net worth:

The Company's net worth increased to Rs.1,039 Mn as at March 31, 2017 from Rs.871 Mn at the end of the previous year. This works out to a per share net worth of Rs.97.

7. Transfer to general reserve:

During the financial year, the Company transferred Rs.22 Mn, (previous year - Rs.32 Mn) to the general reserve, which represents 10% of the net profit of the Company. As a result, the total amount of general reserve as on March 31, 2017 was Rs.153 Mn (previous year - Rs.131 Mn).

8. Dividend:

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 2016-17. The Board had also declared an interim dividend of Rs.4/- per equity share (40% on face value of Rs.10/- each) on October 20, 2016, which was paid on November 15, 2016.

The final dividend, if approved by the shareholders in the ensuing Annual 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, 2017 (previous year - 240% on face value of Rs.10/- each, i.e. Rs.24/- per equity share).