



Annual Report FY 2017 - 2018



Corporate information

BOARD OF DIRECTORS

Diederik Vos
Chairman & Director

Aarti Arvind
Managing Director & Chief Executive Officer

K. Ramaseshan
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 & COMPLIANCE OFFICER

S Sampath Kumar

AUDITORS

Kalyaniwalla & Mistry LLP
Chartered Accountants
Esplanade House, 29, Hazarimal Somani Marg, Fort, Mumbai – 400 001.

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

Cameo Corporate Services Limited
Subramanian Building No.1, Club House Road, Chennai-600 002
Tel. 044 2846 0390 / 044-40020700,
email: investor@cameoindia.com, website: <http://www.cameoindia.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

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Board of Directors



1. Diederik Vos

Diederik (Dik) Vos is the Chairman and Additional Director (Non-Executive) of SQS India BFSI Limited. He has been CEO of SQS Software Quality Systems AG since October 2012. He is responsible for the company's strategy and the management of the Group Management Board. Dik Vos was appointed to the SQS Management Board in March 2011 and started in SQS as COO, responsible for global sales and operations. In this role, he focused on driving forward company growth and improving the operational excellence of the global SQS Group. He previously held senior management positions in AT&T, Lucent Technologies, AVAYA and International Network Services.

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 20 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. Mr. K Ramaseshan

K Ramaseshan is the Executive Director and CFO of SQS India BFSI Limited. He is an Associate Member of the Institute of Chartered Accountants of India and the Institute of Cost Accountants of India. He has more than 23 years of professional experience and has held key positions in TVS Suzuki, WIPRO Limited and IBM India Limited. Prior to joining SQS India BFSI Limited he

worked as Chief Financial Officer and Head-Business Excellence of Tata Elxsi Limited, a listed Indian entity and a member of risk management committee of the board of directors.

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. S 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 Software Quality Systems AG 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.



Mr. Diederik Vos
Chairman

Chairman's overview

Dear shareholders,

I would like to share with you the performance for the Financial Year 2017-18 of SQS India BFSI, new developments, the QA world around us and our market approach. Your company for the FY 2017-18 had a slow start in the beginning of the year but continued to build up the momentum and reported good growth across key verticals and regions. We reported an operating revenue of USD 42.84 Million as compared to USD 38.77 Million in FY 2016-17 reflecting an increase of 10%. We achieved a Net Profit Margin of 11.5%, an increase of 37.5% on year on year basis. We continue to share the profit and have recommended an overall dividend of Rs 24 per share for the year, subject to your approval at the AGM.

With an intention to stay ahead in this digital era, your parent company Software Quality Systems (SQS) AG took a strategic decision and agreed a merger with Assystem Services Deutschland GmbH, a subsidiary of Assystem Technologies (AT), backed by French PE fund Ardian. Ardian is an investor with more than two decades of successful track history and has investments of €62bn in many European and global companies. The enlarged Assystem Technologies group (AT) with combined revenues of approx €1 billion, strengthening its presence in the major European economies (particularly in Germany, France, UK, Ireland, Italy, Sweden and Switzerland), United States and India. The joining of two companies has created an opportunity to deliver a “best in class” offerings to customers based on a shared culture of technical excellence across geographies and sectors (especially in BFSI, automotive and aerospace). The customers of both, AT and SQS, are increasingly seeking to use smarter, more automated processes to boost operational efficiency, meet evolving regulatory standards and remain competitive. This has been successful and a very positive development for the Group as well as for SQS India BFSI.

The pace of change in business has never been faster.

As the world's largest independent quality specialist and trusted advisor for 'Digital Change', our vision is accelerating agility to deliver faster, better, lower cost outcomes with greater certainty. Using global leading capabilities, we ensure our clients pace of change becomes a competitive advantage. We accelerate agility and performance through our:

- Focus and ability to combine business agility, management consulting and continuous quality expertise;
- Combination of local trusted relationship, global reach and industrialised managed services (iMS) to optimise value for money;
- Our Accelerators and ContinuousQ platform drive the highest value through industry best practices and IP;
- Focus on being the trusted advisor and delivering fit-for-purpose outcomes for our clients.

We firmly believe our people are our most important asset. The People Team have developed initiatives based on the pillar of being a Great Place to Work. This will allow us to attract, hire and retain the best talent in the industry. The focus on this team is to create a more collaborative work force using avenues such as Learning & Development and Communities of Practice.

The following 4 topics are the key areas this team is actively working on:

- Achieving a “Consultative Mindset”: Connect, Collaborate & Consult
- Invest in upskilling of employees to meet market changes
- Investing in growing our Management Consulting and Business Agility Skills
- Extend our highly valued client engagement model

The Value Propositions and Innovation Team have developed initiatives based on the pillar of instilling a culture of Innovation and Continuous Improvement. The following outlines the core focus areas:

- Value Propositions: Developing and communicating a ‘Go To Market’ message outlining our value propositions
- DevOps: Establishing a DevOps service to all key accounts in all regions as part of our overall Business Agility capability
- Innovation: Creating a culture that encourages innovation

As we transit through a rapidly changing environment, we are confident that your company is rightly poised to remain at the forefront to take advantage of these changes. On behalf of Board, I would like to take this opportunity to thank our customers for their trust and business support, to our staff for their dedication and hard work and to you, our valued shareholders for your confidence and continued support.

Yours sincerely,

Diederik Vos

Chairman

Performance highlights

Decade at a Glance (Consolidated Basis)

Rs. in Millions

Particulars	2017-18#	2016-17#	2015-16#	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Gross Revenue	2764	2599	2642	2142	1944	1614	1214	829	829	923
EBIDTA	538	424	605	389	499	326	224	61	105	179
Profit Before Tax	479	370	562	320	422	265	185	32	91	161
Profit After Tax	319	232	369	216	300	194	114	19	82	145
Fixed Assets: Gross Block	307	300	526	483	473	457	225	194	101	90
Fixed Assets: Net Block	224	267	248	243	274	312	109	112	42	33
Share Capital	107	107	106	105	103	101	101	101	101	87
Reserves and surplus	1179	1164	1239	911	980	781	655	599	592	382
Networth	1286	1271	1345	1016	1082	882	755	700	693	469
Sundry Debtors	681	424	541	567	558	413	236	229	159	239
Cash and Bank Balances	850	891	861	683	502	394	404	400	514	266
Current Assets	1633	1380	1519	1380	1157	952	899	762	789	600
Current Liabilities	626	435	490	560	290	289	263	183	149	171
Working Capital	1007	945	1029	820	867	663	636	579	640	429
Employee Strength (Nos)	1012	919	1076	907	905	782	742	661	499	538
No of Equity Shares ('000)	10710	10680	10639	10545	10268	10124	10052	10052	10052	8702
Earnings Per Share (Diluted) (Rs.)	29.9	22.3	34.6	20.6	28.7	19.0	11.3	1.9	8.8	17.6
Book Value per Share (Rs.)	120.1	119.0	126.4	96.4	105.4	87.1	75.1	69.6	68.9	53.9
Dividend - Rs. per share (Interim and Final)	24.0	24.0	24.0	24.0	9.0	6.0	5.0	1.0	1.0	1.0

EBITDA : Earnings before Interest, Depreciation, Taxes & Amortization

Figures as per Ind AS Report from the financial year 2015-16

One Million (Mn) is equal to Ten lakhs

Directors' report

Dear members

We are pleased to present the report on our business and operations for the year ended March 31, 2018.

1. Financial highlights for the year ended March 31, 2018:

(Rs. in Millions)

	Consolidated		Standalone	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Total Revenue	2,844.98	2,610.10	2,838.02	2,609.27
Employee benefits expense	1,841.18	1,580.05	1,153.57	1,045.93
Depreciation and amortization expense	55.50	51.96	55.36	51.77
General, administrative and other Expenses	466.29	605.86	1,203.38	1,164.12
Finance cost	2.87	1.96	2.87	1.96
Total Expenses	2,365.84	2,239.83	2,415.18	2,263.78
Profit/(loss) before exceptional items	479.14	370.27	422.84	345.49
Exceptional Items	-	-	6.89	-
Profit Before Tax	479.14	370.27	429.73	345.49
Tax expense	159.39	132.14	149.66	121.63
Profit After Tax	319.75	238.13	280.07	223.86
Other Comprehensive Income	(0.77)	(6.19)	(0.77)	(6.19)
Total Comprehensive Income	318.98	231.94	279.30	217.67
Earnings per Equity share (Par value of Rs. 10/- each)				
Basic (Rs.)	29.90	22.31	26.19	20.98
Diluted (Rs.)	29.90	22.26	26.19	20.92

2. Business and Operations Review:

Total operating revenue was Rs. 2,764.38 Mn for the Financial Year 2017-18 as compared to Rs. 2,599.48 Mn in the previous year, a growth of 6%.

During the year under review, repeat business from existing clients accounted for 92% of revenue, increased from 88% in the previous year. New client acquisitions contributed to 8% of revenue.

Profit after tax (after OCI) stood at Rs. 279.30 Mn, (representing 10.1% of revenues) as against Rs. 217.67 Mn (8.4% of revenues) in the previous year. Currency fluctuations resulted in a gain for the year of Rs. 53.72 Mn, compared to a loss of Rs. 84.01 Mn in the previous year.

Geographically, revenue from Europe increased by 23%. Business derived from Europe was 65.0% of our revenues (previous year 54.9%) 27.2% from India, the Middle East, Asia and Australia (previous year 35.2%) and 7.8% from US (previous year 9.9%). The proportion of onsite to offshore revenue stood at 61.3%/38.7% compared to 63.3%/36.7% in the previous year.

The revenue from Group clients for the financial year 2017-18 increased to 19% as against 17% during the previous year. On the practice front, Cards & Payment practice grew by 33.1% compared to the previous year, contributing 41.4% of revenues.

Employee strength, as on March 31, 2018, for the standalone entity was 914 (consolidated 1,012) compared

to 815 (consolidated 919) in the previous year. Women employees for the standalone entity count stood at 305 (33%) compared to 240 (29%) in the previous year. For the consolidated, women employees stood at 324 (32%) compared to 255 (28%) in the previous year. The attrition rate stood at 20% for the year ended March 31, 2018 compared to 23% in the previous year.

3. Capital expenditure:

During the financial year 2017-18, we added Rs. 12.43 Mn to our gross block with capital expenditure, which comprised of Rs. 9.46 Mn on account of technology infrastructure, Rs. 2.25 Mn through physical infrastructure, and the balance Rs. 0.73 Mn through intangible asset addition.

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. 1,607.74 Mn (against Rs. 1,038.40 Mn in the previous year). Our Cash balance stood at Rs. 562.60 Mn as compared to Rs. 297.88 Mn in the previous year.

5. Share capital:

At the end of the financial year March 31, 2018, the Company's Paid-up Equity Share Capital stood at Rs. 107.10 Mn, consisting of 10,710,381 fully Paid-up Equity Shares of Rs. 10/- each. The exercise of employee stock options granted under Thinksoft ESOP Scheme, 2011, resulted in the allocation of 30,500 equity shares during the financial year 2017-18 to employees. As a result, the Company's Paid-up Equity Share capital increased from Rs. 106.80 Mn to Rs. 107.10 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/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 stood at Rs. 1,013.96 Mn as at March 31, 2018 as against Rs. 1,038.92 Mn at the end of the previous year.

7. Transfer to general reserve:

During the financial year, the Company transferred Rs. 28.00 Mn, (previous year - Rs. 21.70 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, 2018 was Rs. 181.09 Mn (previous year - Rs. 153.09 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 2017-18. The Board had also declared an interim dividend of Rs. 4/- per equity share (40% on face value of Rs. 10/- each) on October 26, 2017, which was paid on November 21, 2017.

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, 2018, similar to previous year.

9. Subsidiaries:

The Company operates internationally through four wholly-owned subsidiaries:

- a) SQS BFSI Pte. Ltd., Singapore
- b) SQS BFSI Inc., USA
- c) SQS BFSI UK Ltd., UK
- d) SQS BFSI FZE., UAE

The voluntary winding up of the Thinksoft Global Services (Europe) GmbH, Germany has been completed during the year. The Company has also closed the Branch office situated at Hongkong and initiated the closure proceedings in Australia. The Company has branches/place of business in Belgium and Malaysia.

The Board of Directors of the Company reviewed the affairs of the wholly owned subsidiaries of the Company for the financial year 2017-18. In accordance with Section 129(3) of the Companies Act, 2013, the Company has prepared the Consolidated Financial Statements of the Company, which forms part of this Annual Report. Further, a separate section on the salient features, performance and financial position of each of the subsidiaries and their contribution to the overall performance of the Company during the period under report, as prescribed under Section 129(3) of the Companies Act, 2013, read with Rule 5 and Rule 8(1) 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 Annual Accounts shall also be available on the website of the Company.