

## SQS INDIA BFSI LTD

03 MAY 2017

Quarterly Update

**Hold**

Target Price: Rs 574

### Q4FY17: Macro overhang persists

SQS India BFSI Ltd delivered a modest performance in Q4FY17, with earnings (PAT) coming in at Rs 4.4 Cr, down 58.8% Y-o-Y on account of decline in sales and higher other expenses. In Q4FY17, revenue of the company declined 20.3% Y-o-Y to Rs 57.5 Cr while other expenses increased 23.5% Y-o-Y to Rs 14.2 Cr, resulting in contraction in EBITDA margin to 13.9% (down 900 bps). The company reported a forex loss of Rs 3.8 Cr in Q4FY17 as against Rs 2.4 Cr loss in Q3FY17 on account of depreciation of GBP and Euro. Company's European region's revenues were up 4.4% Q-o-Q/ down 16.8% Y-o-Y to Rs 32.6 Cr while North American region's revenues were down 12% Q-o-Q/50.5% Y-o-Y to ~Rs 5.5 Cr. Offshore business contributed 41% as against 38% in Q3FY17.

2018 is also likely to be a challenging year for Indian IT players due to macro overhangs. We revise our earnings estimates downward to Rs 30.2 Cr from previous estimates of Rs 34.9 Cr for FY18E. Reiterate **Hold** with a revised target price of Rs 574.

CMP : Rs 539  
Potential Upside : 6.5%

#### MARKET DATA

No. of Shares : 1.1 cr  
FV (Rs) : 10  
Market Cap : Rs 604 cr  
52-week High / Low : Rs 1240 / Rs 488  
Avg. Daily vol. (6mth) : 22285 shares  
Bloomberg Code : SQSI IN  
Reuters Code : THIN.BO  
BSE Code : 533121  
NSE Code : SQSBFSI

### Key Highlights

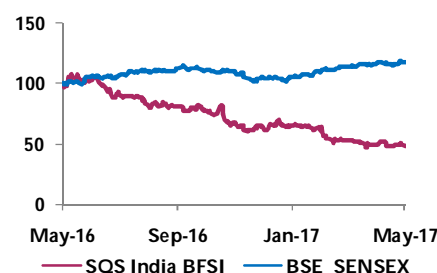
- **Forex adjusted profit down 32.6% Y-o-Y:** In Q4FY17, SQS India reported a forex loss of Rs 3.8 Cr as against a gain of Rs 0.6 Cr in Q4FY16. Adjusting forex loss/gain, adjusted profit of SQS India for Q4FY17 declined 32.6% Y-o-Y to Rs 6.9 Cr. SQS India's 25% revenues were realized in GBP (Great Britain Pound). Depreciation in USD, GBP and Euro against INR was reported at 2%, 15% and 8% respectively which resulted in forex loss for the company.
- **EBITDA Margin contracted due to higher other expenses and decline in revenue:** In Q4FY17, other expenses increased to 24.7% of sales from 23.6% (% of sales) in Q3FY17. Revenue declined 5.5% Q-o-Q/ 20.3% Y-o-Y to Rs 57.5 Cr on account of ramping down of European region's projects.
- **Geographical revenue break- up:** In Q4FY17, Europe's contribution in overall revenues of the company has increased to 56.7% v/s 51.3% in Q3FY17 while contribution of Asia in total revenues has come down to 33.8% in Q4FY17 from 38.5% in Q3FY17.
- **Onsite/offshore mix:** In Q4FY17, contribution of offshore business increased from 38% in Q3FY17 for 41%. Offshore delivery has higher margins compared to onsite business but revenues get impacted adversely if a project shifts from onsite to offshore.
- **Client concentration:** In Q4FY17, the company had 10 clients in USD 0.5-1 mn revenue, 10 clients in USD 1-3 mn revenues and 1 client in more than USD 3 mn revenue bracket. Company's 88% business comes from repeat business.

### FINANCIAL SUMMARY

Y/E	Sales	PAT	EPS	Change	P/E	RoE	RoCE	DPS
March	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(x)	(%)	(%)	(Rs)
FY15	214	21.6	20.5	(28.0%)	26.3	18.4%	18.0%	24.0
FY16	264	36.9	35.0	70.5%	15.4	31.3%	30.5%	24.0
FY17E	260	23.1	21.9	(37.5%)	24.6	19.2%	19.3%	20.0
FY18E	295	30.2	28.7	31.1%	18.8	24.9%	24.9%	20.0

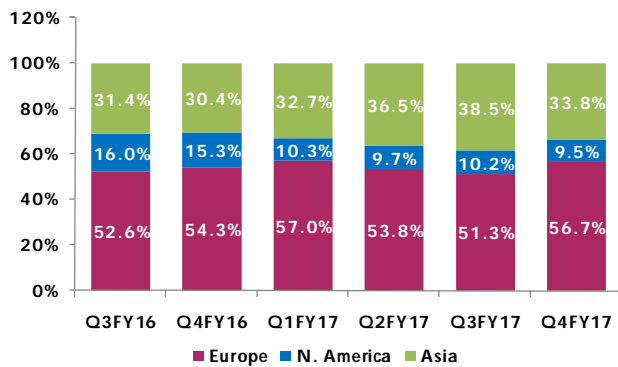
Source: Company and Axis Securities

### PRICE PERFORMANCE

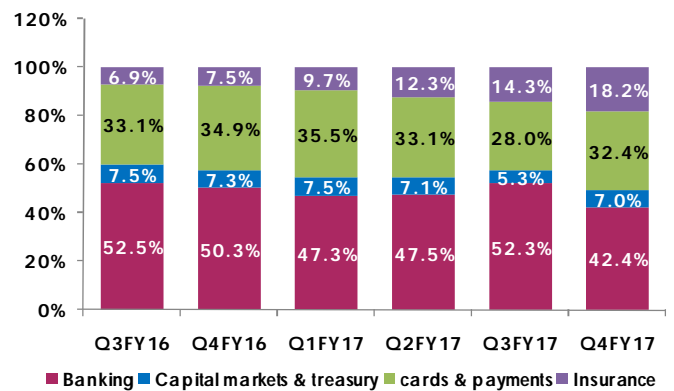


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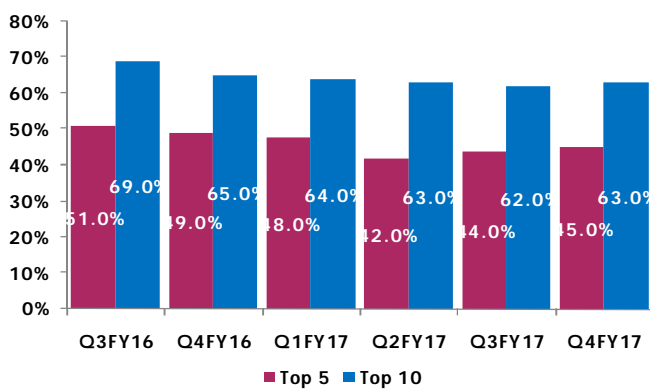
### Revenue by Region (%)



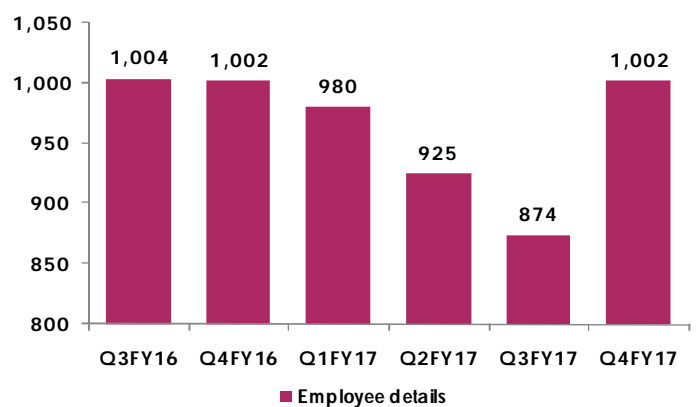
### Revenue – Segmental



### Client Concentration (%)

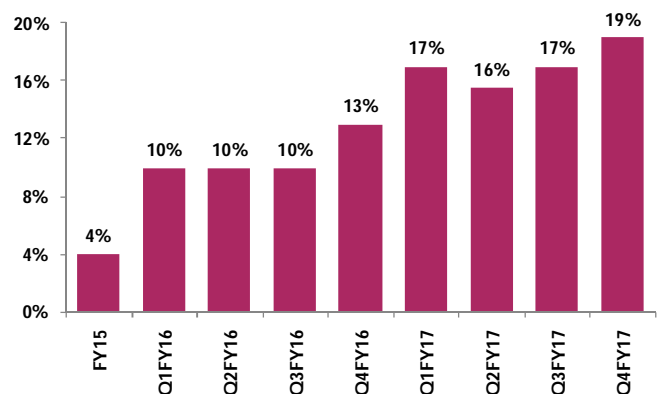


### Employee Count



### Revenue contribution from parent SQS AG

- Parent SQS AG's contribution in total revenues of SQS India increasing gradually: Parents' contribution in total revenues of SQS India has increased from 4% in FY15 to 19% in Q4FY17. According to SQS India management, contribution from parent in overall revenues can reach to 25% level going forward.



Source: Company

### Key Challenges:

- **Currency fluctuation:** Around 50% billing is done in Euro & GBP and depreciation of these currencies against INR can adversely impact the earnings of SQS India.
- Brexit and US president's policies to adversely impact Indian IT players.

### Quarterly Update

(Rs. Cr)	Q4FY17	Q4FY16	Y-o-Y % Chg	Q3FY17	QoQ % Chg	FY17E	FY18E	Y-o-Y % change
<b>Net Sales</b>	<b>57.5</b>	<b>72.2</b>	<b>(20.3%)</b>	<b>61</b>	<b>(5.5%)</b>	<b>259.9</b>	<b>294.7</b>	<b>13.4%</b>
Less:								
Personnel	35.4	44.2	(20.0%)	39	(9.6%)	159.3	172.0	8.0%
Other expenditure	14.2	11.5	23.5%	14	(1.4%)	59.9	69.6	16.1%
<b>Total Expenditure</b>	<b>49.6</b>	<b>55.7</b>	<b>(11.0%)</b>	<b>54</b>	<b>(7.4%)</b>	<b>219.2</b>	<b>241.5</b>	<b>10.2%</b>
<b>EBIDTA</b>	<b>8.0</b>	<b>16.5</b>	<b>(51.6%)</b>	<b>7</b>	<b>7.8%</b>	<b>40.8</b>	<b>53.2</b>	<b>30.4%</b>
Less: Depreciation	1.4	0.8	76.3%	2	(6.0%)	5.2	7.1	36.9%
Less: Interest	0.1	0.1	0.0%	0	NM	0.2	0.1	(50.0%)
Add: Other income	0.1	0.2	(50.0%)	0	0.0%	0.7	1.2	71.4%
<b>Profit Before Extra-ordinary items and Tax</b>	<b>6.6</b>	<b>15.8</b>	<b>(58.4%)</b>	<b>6</b>	<b>9.5%</b>	<b>36.1</b>	<b>47.2</b>	<b>30.7%</b>
Less: Total Tax	2.2	5.2	(57.7%)	2	0.0%	13.0	16.9	30.1%
<b>Profit After Tax</b>	<b>4.4</b>	<b>10.6</b>	<b>(58.8%)</b>	<b>3.8</b>	<b>15.0%</b>	<b>23.1</b>	<b>30.2</b>	<b>31.1%</b>

Source: Company, Axis Securities Ltd

NM: Not Meaningful

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