

Current	Previous
CMP : Rs.794	
Rating : BUY	Rating : HOLD
Target : Rs.1,053	Target : Rs.665

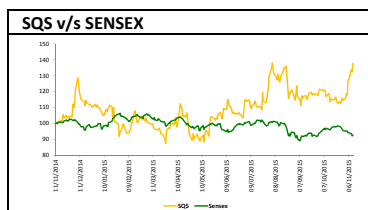
STOCK INFO	
Bse	THINKSOFT
Nse	SQSBFSI
Bloomberg	SQSI IN
Reuters	THIN.BO
Sector	IT-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	103
Mkt Cap (Rs mn)-Full	8,386
52w H/L (Rs)	842/508
Avg Daily Vol (BSE+NSE)	43,166

SHAREHOLDING PATTERN (as on Sep. 2015)		%
Institutions		4.4
Others, Incl Public		41.1
Promoters		54.5

Source: BSE

STOCK PER. (%)	1m	3m	12m
SQS BFSI	20	19	33
Bse Sensex	-4	0	-9

Source: Capitaline, IndiaNivesh Research

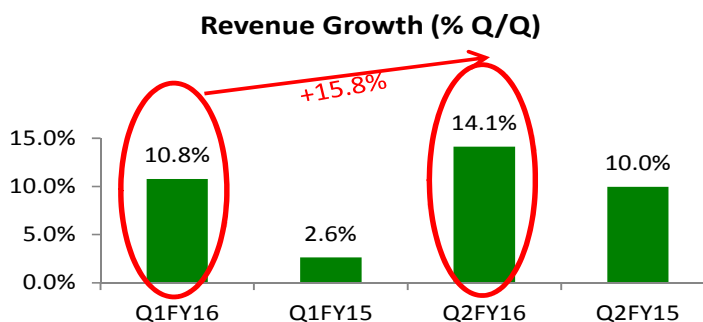


Source: Capitaline, IndiaNivesh Research

As mentioned in our initiating coverage (Dated: 7-4-2014) Integration with parent is the potential game changer for SQS India BFSI Ltd (SQS). The combination started yielding positive results in the form of following: (1) Strong revenue growth, (2) Improving utilization level, (3) Consistent improvement on margin front, and (4) Growth in key vertical and geography. As a result, we increase our TP to Rs.1,053 from Rs.665 and upgrade our rating to BUY from HOLD on the stock.

Revenue growth trajectory improved significantly...

- In 1HFY16, the company's performance improved significantly (+15.8% Y/Y) relative to same period last year. The revenue growth was broad based largely delivered by key geographies and verticals. In 1HFY16, verticals like Cards & Payments (+12.0%), Banking (+13.3%), and Insurance (+87.2%) demonstrated growth; partially offset by 30.9% de-growth in Capital Markets. Europe delivered above company average revenue growth (+36.6%) followed by Asia (7.9%) in 1HFY16. However, the performance in N.America continues to remain lacklustre (25.1% de-growth in 1HFY16 v/s 1HFY15). The integration between parent and SQS India remains on the track. In our view, these are the early sign of integration actual benefit and J-Curve type growth should be visible in FY17E.



Source: Company Filings; IndiaNivesh Research

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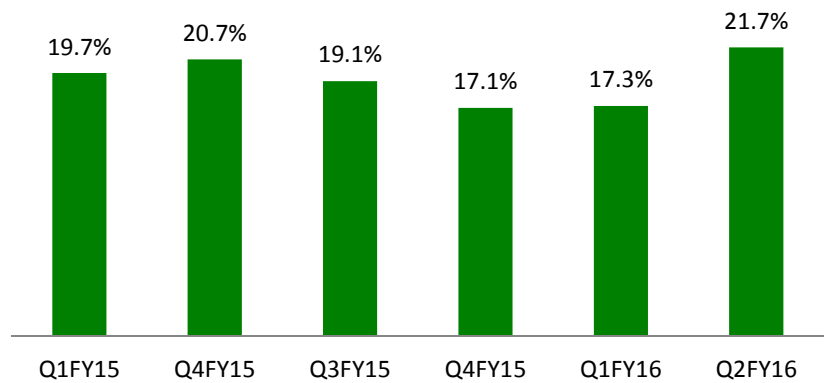
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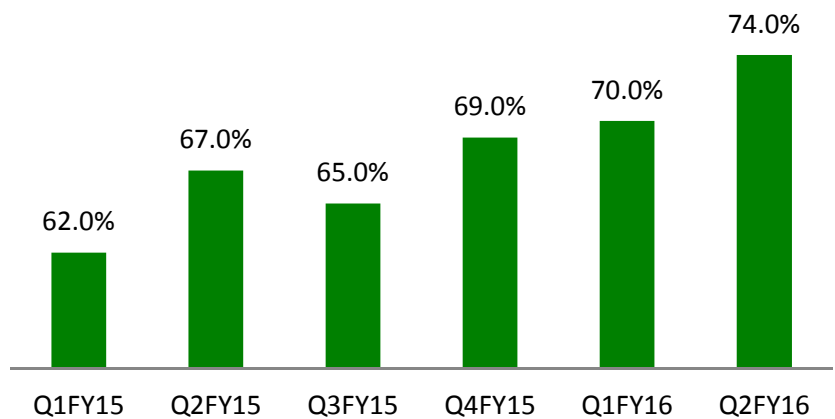
Improving margin profile...

- SQS margin profile improved consistently and touched the five quarter high of 21.7% in Q2FY16. The key drivers were better consultant utilization, higher onsite ratio, and efficient overhead cost management. Additionally, the company's strategy to terminate low margin clients and focus on long-term (managed testing services) high margin Europe, US, and Australia contracts boosted the overall margin. The incubation of automation should further bode well on EBITDA margin going-ahead. The management target 300 bps improvements on utilization front (from 72% FY15 to 75%) in near-to-medium-term, which could lead to further expansion in EBITDA margin.

EBITDA Margin Trend (%)



Increasing Utilization Level (%)

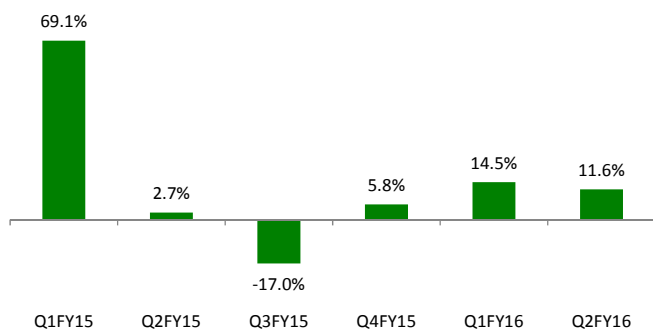


Source: Company Filings; IndiaNivesh Research

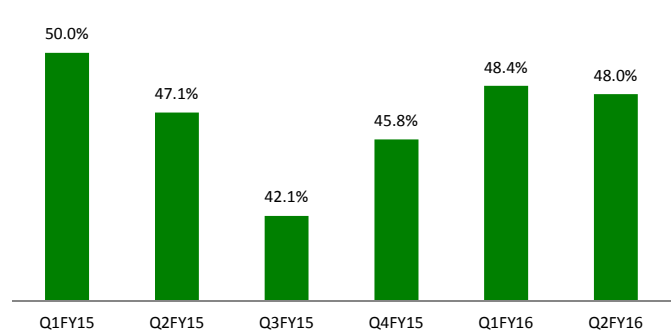
Network effect started triggering...

After becoming the part of parent, SQS started seeing substantial ramp-up in SQS BFSI Europe revenue. The integration led to increase in sales team from mid-single digit to low-triple -digit in Europe region. Further, joint-go-to-market strategy led to increase in order magnitude. Additionally, the parent’s strategy to build employee base of 8,000-10,000 at group level and large proportion of billable staff in offshore destinations, illustrates that bulk of such expansions could come in India.

Europe (Q/Q Gr %)



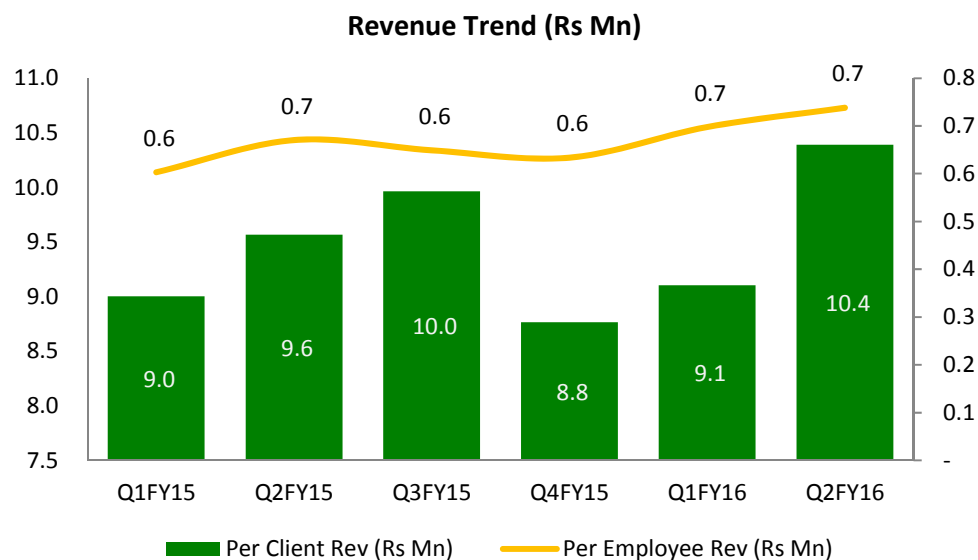
Europe Contr. (as % of Rev)



Source: Company Filings; IndiaNivesh Research

Large-Size Advantage

After become the part of leading testing company, we expect significant increases in revenue profile on back of premium deal-size going ahead. The combine strength will allow SQS BFSI to qualify for large size (request for proposal) RFP's and enhance the client mining opportunity. This could lead to significant expansion in average revenue per client/employee going-ahead. On back of 910 employee strength, SQS BFSI is strategically placed to expand its presence in high growth US & Europe markets. Further, the recent acquisition of Trissential LLC (US) and Galmont (US) strengthens SQS BFSI presence in this geography.



Source: Company Filings; IndiaNivesh Research

Valuations

At CMP of Rs.796, the stock is trading at P/E multiple of 19.2x FY16E and 9.1x FY17E earning estimate. The current quarter performance gives the indication of integration benefit through following: (1) Strong revenue growth, (2) Improving utilization level, (3) Consistent improvement on margin front, and (4) Growth in key vertical and geography. The higher revenue growth during 1HFY16 remains the positive surprise. The sustenance of similar performance for medium-term could lead to significant re-rating. We upgrade our rating from BUY to HOLD with increase in TP to Rs.1,053 (valuing 12.0x FY17E) from Rs.665 on SQS India BFSI.

Income Statement

Y E March (Rs m)	FY13	FY14	FY15	FY16e	FY17e
Net sales	1,614	1,944	2,142	2,782	5,395
Y/Y Ch %	32.9	20.4	10.1	29.9	93.9
COGS	966	1,182	1,361	1,648	2,827
SG&A	347	365	365	486	1,222
EBITDA	302	397	416	647	1,345
Y/Y Ch %	134.7	31.6	4.6	55.7	107.9
EBITDA Margin %	18.7	20.4	19.4	23.3	24.9
Interest	15	20	16	13	13
Depreciation	46	57	52	56	93
EBIT	241	320	347	578	1,239
EBIT Margin %	14.9	16.5	16.2	20.8	23.0
Other Income (Inc Forex)	24	102	-27	17	16
Extra Ordinary Exps/(Income)	0	0	0	0	0
PBT	265	422	320	595	1,255
Tax	70	122	104	167	377
Effective tax rate %	26.6	28.9	32.4	28.0	30.0
Reported PAT	194	300	216	428	879
Y/Y Ch %	70.8	54.5	-28.0	98.0	105.1
Forex Gain	10	77	-45	-	-
Adj. PAT (APAT)	184	223	261	428	879
RPAT Margin %	11.4	11.5	12.2	15.4	16.3
Y/Y Ch %	183.2	21.4	16.8	64.2	105.1

Source:Company filings; IndiaNivesh Research

Balance Sheet

Y E March (Rs m)	FY13	FY14	FY15	FY16e	FY17e
Share Capital	101	103	106	106	106
Reserves & Surplus	781	980	913	1,210	1,822
Net Worth	882	1,082	1,018	1,316	1,927
Minority	0	0	0	0	0
Long-term loans	114	96	73	73	73
Others	0	0	-1	0	0
Total Liabilities	996	1,179	1,090	1,389	2,000
Gross Block	457	483	511	845	1,492
Less Depreciation	146	202	254	310	403
Net Block	312	281	257	535	1,089
Capital Work in Progress	1	0	0	0	0
Investments	0	0	0	0	0
Deferred tax (net)	10	6	7	7	7
Others	12	25	3	4	8
Current Assets	952	1,157	1,383	1,533	2,233
Sundry Debtors	413	558	567	731	1,417
Cash & Bank Balance	387	502	684	631	487
Loans & advances	151	97	132	171	329
Others	0	0	0	0	0
Current Liabilities	170	195	254	292	566
Provisions	119	95	306	397	770
Net Current Assets	663	867	823	844	897
Total assets	996	1,179	1,090	1,389	2,000

Source:Company filings; IndiaNivesh Research

Cash Flow

Y E March (Rs m)	FY13	FY14	FY15	FY16e	FY17e
Operating Profit	255	340	364	591	1,252
Depreciation	46	57	52	56	93
Interest Exp	-15	-20	-16	-13	-13
Changes in Working Capital	2	60	275	-57	-185
Cash Flow After Chang in WCapital	289	437	674	577	1,147
Tax	-70	-122	-104	-167	-377
Others	0	0	0	0	1
Cash flow from operations	219	316	570	411	772
Capital expenditure (net)	-279	-82	-80	-334	-647
Free Cash Flow	-60	234	490	77	124
Other income	0	0	0	0	0
Investments	0	0	0	0	0
Cash flow from investments	-279	-82	-80	-334	-647
Long-Term Debt (Decrease) Increase	114	-17	-21	0	0
Dividend paid (incl tax)	-60	-81	-66	-130	-268
Share Issue / Repurchase & Others	-7	-19	-220	1	0
Cash flow from Financing	47	-117	-307	-129	-268
Net change in cash	-13	117	183	-53	-143
Cash at the beginning of the year	401	387	502	684	630
Cash at the end of the year	387	502	684	630	487

Source:Company filings; IndiaNivesh Research

Key Ratios

Y E March	FY13	FY14	FY15	FY16e	FY17e
Adj.EPS (Rs)	18.0	21.9	25.5	41.9	86.0
Cash EPS (Rs)	23.6	34.9	26.3	47.4	95.1
DPS (Rs)	5.9	9.0	6.5	12.8	26.2
BVPS	87.1	106.0	99.2	128.4	188.2
ROCE %	25.6	28.9	33.3	42.5	62.6
ROE %	22.0	27.8	21.3	32.7	45.7
ROIC %	24.6	22.8	22.8	29.8	35.1
EBITDA Margin %	18.7	20.4	19.4	23.3	24.9
Net Margin %	11.4	11.5	12.2	15.4	16.3
PER (x)	41.8x	27.1x	37.6x	19.0x	9.3x
P/BV (x)	9.2x	7.5x	8.0x	6.2x	4.2x
P/CEPS (x)	33.8x	22.8x	30.3x	16.8x	8.4x
EV/EBITDA (x)	26.0x	19.8x	18.9x	12.1x	5.8x
Dividend Yield %	0.4	0.7	1.1	0.8	1.6
m cap/sales (x)	5.0x	4.2x	3.8x	2.9x	1.5x
net debt/equity (x)	-0.3x	-0.4x	-0.6x	-0.4x	-0.2x
net debt/ebitda (x)	-0.9x	-1.0x	-1.5x	-0.9x	-0.3x
Debtors (Days)	73	91	96	96	96
Creditors (Days)	37	34	38	38	38
Cash Conversion Cycle (Days)	36	57	58	58	58

Source:Company filings; IndiaNivesh Research