



Sonata Software Limited Conference Call FY2011 (Q3)

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CORPORATE PARTICIPANTS

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Srikar Reddy

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CONFERENCE CALL PARTICIPANTS

Harsh Jain

Microsec Capital - Kolkata

Nikunj Doshi

Bay Capital – Mumbai

Sudhakar P

Stan Capital - Mumbai

Virangan Venki

Brilliant Securities - Chennai

Roshan Jain

Mumbai - Way 2 Wealth

Prem Chand

Mumbai - Axis Bank

PRESENTATION

Swati – Moderator

Good morning ladies and gentlemen. I am Swati, the moderator for this conference. Welcome to the national call of Sonata Software Limited. Mr. B. Ramaswamy will be your call leader today. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants in the call. I now hand over the call to Mr. Ramaswamy. Thank you and over to you sir.

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Thank you Swati. This is Ramaswamy here. Welcome to the Sonata quarterly earnings call. I have with me Srikar who is the Chief Operating Officer and Executive Director, Venkat who is the Head of Strategic Finance and Risk Management, Sathya who is the Head of Finance, Praveen who is the Company Secretary and Sharbari Chakraborty, who is from the Corporate Communications.

Let me begin with the results for the quarter which we announced day before yesterday. The international operations, which constitute about 21% of the consolidated revenue, and 83% of PAT, grew 12% year-on-year in terms of constant currency that is the revenue growth that we had in this quarter. We had currency head wins, which Venkat will cover in detail when he takes up. Because of that the EBITDA percentage was marginally lower at 26%, but as compared to last year it has remained stagnant. But the growth in EBITDA has been only 4% because of the currency head wins.

The profit after tax was flat at 16.04 Crores. The cash and cash equivalents at the end of the quarter were 184 Crores on a consolidated basis, up from about 157 Crores in the previous quarter. We added eight new clients. In terms of geography US contributed 54% to our international services revenues, 36% came in from Europe and 10% from Asia Pacific mainly Middle East.

The onsite revenues were at about 29% and offshore were about 71%. In terms of breakup from key business segment travel vertical contributed 34%, ISV which is the outsource product development contributed about 38% and 28% was the share of the other customers.

Now I will hand over to Srikar to take you through the highlights of TUI InfoTech as well as SITL.

Srikar Reddy - Executive Vice President, Director and COO - Sonata Software Limited

Good morning everyone. I will briefly cover the qualitative highlights in the TUI InfoTech and the domestic business in India. In the TUI business, the significant happening in the last quarter has been that the TUI Group has extended their contract with TUI InfoTech for the further period of five years for two important services that is the desktop services and unified communication.

Now as the group further moves towards standardization and consolidation we see more opportunities for TUI InfoTech to play a key role. The experience of being involved in the business transformation initiatives can be further leveraged across other geographies in other travel companies. We also see some interesting opportunities emerging in the non-TUI business in the German market especially for application hosting for mid-sized enterprises. Based on the success with APU, which we are covered in



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earlier meetings, which is a large German power retailer.

In the India business as we continued to focus on IT consulting and services we have seen some good traction in Oracle and SAP implementations and IBM based e-Commerce solution and we have also seen some success in the travel vertical.

I will now hand over to Ventak for further quantitative analysis.

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Thank you Srikar. Good morning, this is Venkat. Our result for the quarter was published on February 14, 2011 and we have hosted a detailed presentation on the same on our website and what I will now attempt is just to give you a quick overview of the same.

As has been the practice what we try to do is we try to analyze our business in three distinct verticals or business lines. One is the software exports business which is Sonata Software Limited, the listed company and its subsidiaries which is the offshore and onsite software development business. All of it referred to as international services. The second line of business is the domestic product and services where we actually do business in India as well as do product resale, which is the large part of the business. The third business line is our joint venture in Germany with TUI, which is called TUI InfoTech in which we hold about 50.1% shares along with TUI AG, the European travel and holiday major.

First I will cover a consolidated financials. On consolidated basis our revenue for the quarter was 348 Crores which was actually a growth of 4% year-over-year whereas on a sequential basis it was down by 11%. Here I would like to caution you that it is more meaningful to look at this drop by business line rather than on a consolidated basis because each of them have their own rhythm and they fire (ph) at different places so it is important to look at from that perspective.

Consolidated PAT for the quarter was 19 Crores. PAT showed a drop of 12% on a year over basis and 23% on a sequential basis and as Mr. Ramaswamy had referred to fundamentally, this is on account of the currency translation loss that we experienced. The translation loss is nothing but when a foreign currency subsidiary is consolidated into a rupee financials we multiply it with the quarter end currency rate and that is how the consolidation is done and there you could end up with some bitter losses. This is called translation loss, which is actually notional and not realistic. In this translation loss has been big part of which contributed to this drop in PAT and that to on account of translation of TUI financials which I will cover as we go forward. EPS was Rs.733, which is a growth of 3% on a year-over-year basis.

We ended the quarter with about 184 Crores of cash and cash equivalence and large part of this was with the international services and with TUI. 69 Crores was with TUI and about 56 Crores was with international services business. Our consolidated manpower at the end of the quarter was about 2864 people.

Coming to the international services business, which is the software development business line. For the quarter ended international services was contributed 21% of the consolidated revenues, but it has actually contributed to 83% of PAT, so essentially that is the big value generator amongst all the three business lines.

Revenue in this business for the quarter was 72 Crores up from 69 Crores a year ago showing a growth of 5% on a year-over-year basis. Sequentially the drop was 4%, but this was again on a currency conversion base fundamentally it was because of currency conversion that was done to INR. In constant currency it was 12% year-over-year and actually flat on a quarter-over-quarter basis.

EBITDA for the quarter was at 19 Crores versus about 18.3 Crores a year ago showing a growth of 4% on a year-over-year basis. As covered earlier exchange rate on booking of revenues and translation contributed to a major part of the decrease that we are talking about.

PAT for the business was 16 Crores. It is flat on a year-over-year basis. Sequentially PAT has dropped by about 10%. Fundamentally it was on account of about approximately 1.5 Crores of exchange difference on account of foreign currency translation and realization. We do have hedges so lots of this translation or restatement losses will come back as and when we get the actual receipt of money.

DSO the business was 87 days compared to 84 in the previous quarter. So it is almost status quo. We had added about eight new clients and employee utilization in the business was about 79%. We had 2286 people in this business.

Coming to the domestic production services business, which is actually conducted through one of our 100% subsidiaries in India, Sonata Information Technology Limited and this is what Mr. Reddy was referring to.

Coming to this business, it contributed 45% of consolidated revenues and 14% of consolidated profits. So you can see the impact as on revenues but reduced extent to which it contributed to the profit. Revenues in this business for the quarter was 156 Crores, growth of 38% on a year-over-year basis, whereas on a sequential basis it showed a drop of 17%. So if you look at an overall consolidated topline the substantial part of the drop is because of the domestic business and in this business because we are in product resale business sales sometimes happen to be lumpy and a couple of large views in the previous quarter is what really contributed to the drop of revenue in this current quarter.



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EBITDA in this business for the quarter was 5.3 Crores versus 4.1 Crores a year ago and this is a growth of 30% on a year-over-year basis and 1% on a quarter-over-quarter basis.

PAT for the quarter was 2.6 Crores a year-over-year growth of 20%. Sequentially it was a drop of 8% and primarily this was on account of that lumpy sale that I was talking to you about the deal closure that happened in last quarter whereas in this quarter we are missing about 20 Crores of the deal.

Key metric actually for this business is working capital management, return on capital employed. For the quarter our DSO was 97 days compared to similar number of days in the last quarter, so it remains static. Return on capital employed was 18%, which is ahead of our cost of borrowings and cost of capital and thus essentially it is accretive in nature. The domestic business we ended with head count of about 133 people.

Now coming to the last pillar of our consolidated business, which is TUI InfoTech of joint venture in Germany. TUI InfoTech is a 50.1 JV with TUI AG of Germany. TUI InfoTech is actually a dominant IT operations and IT services provider to the \$16 billion TUI Group. The 50.1% share, the JV was acquired by us Sonata, through Sonata Europe Limited in 2006 for about 18 million Euro.

Our international service business, which I referred to earlier, does offshore business software development work for TUI InfoTech at an arm's length basis. In this analysis and our presentation which you have seen on our website what we have done is we have eliminated these intersegmental or interdivisional transfers. TUI InfoTech just had revenue for the quarter where Rs.120 Crores. This is the drop of 5% on a sequential basis and a drop of 22% on a year-over-year basis.

Now fundamental reason for this drop is on account of devaluation of Euro by almost 14% year-over-year, so what I am saying is what numbers we converted at Rs.69 last year we had converted it at Rs.60 this year. When we consolidated the Euro balance sheet and Euro P&L there is a huge reduction in the total number. So that this is what you call a translation loss and it is actually notional and this is what has contributed to the drop in topline in TUI and so it has got nothing to the fundamental of the business.

EBITDA for the quarter stood at about 13.7 Crores versus 24.1 Crores a year ago showing a degrowth of 43%. This swing is primarily on account of the currency devaluation that I talked about earlier.

PAT for the quarter was 0.66 Crores showing a drop of 82% on a year-over-year basis and 85% on a quarter-over-quarter basis. The translation loss again contributes to substantial or large part of this.

To give you a figure of translation loss, last quarter it was a gain of 2.3 Crores, last year on the same quarter we had a gain of 2.3 Crores. In the current quarter we

have a loss of 1.78 Crores. So if we look at it, it is almost a swing of Rs.4.1 Crore and odd. If you eliminate this noise TUI has actually performed on par as compared to the last year.

TUI InfoTech ended the quarter with a head count of 445 people this is compared to 447 in the previous quarter so no major changes.

With that I come to the end of my overview. What I will do is now will turn the call over for questions.

Swati – Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants will get a chance to present there questions on a first-in-line basis. To ask a question participants may please press “*” “1” now. The first question comes from Mr. Nikunj Doshi from Mumbai, Bay Capital. You may ask your question now Mr. Doshi.

Nikunj Doshi – Bay Capital – Mumbai

Good morning to all. I have two questions. One is we have cash of almost 45% of the current market cap. What is the planned at the company has about the cash?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Three sorts of uses of this cash. One is the ongoing CapEx for the facilities both upgradation as well as new. Second, is we have a policy of distributing up to 40% dividend and in the past the practice has been to sort of hovering around 30%-33%. The next is in terms of looking at inorganic growth as you know in 2006 we did this acquisition or investment in TUI InfoTech of 18 million Euro and for about 20 months or so or less than 20 months we had borrowed about 10 million Euro and that too repaid so essentially that acquisition was paid for by internal generation of funds and going forward we would be looking at similar kind of investments, wherein it will be funded mainly a majority as far as possible from the internal accruals and if necessary some kind of borrowings. So this is the rough plan in terms of our cash.

Nikunj Doshi – Bay Capital – Mumbai

There are again rumors again about promoters selling out their stake in the company, so what is the take on that is there any clarity on that?



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B. Ramaswamy - President and Managing Director - Sonata Software Limited

I have maintained that this is one company which is very unique, which is the promoters or the principle shareholders are distinct from management, so what we are tasked with is to look at the companies, business and sort of how we are going forward and the talks of stake sale is nothing to do with this company current status or future prospects. So the entirely issue of the shareholders and I urge everybody to direct to those questions to the shareholders or the promoters.

Nikunj Doshi – Bay Capital – Mumbai

They are never available on the call.

B. Ramaswamy - President and Managing Director - Sonata Software Limited

I shall give you the so-called contact numbers.

Nikunj Doshi – Bay Capital – Mumbai

Secondly whenever this earlier also in last quarter we look trades of Bhupathi with the holding company, like whenever the rumor come and price goes up Bhupathi was the seller in the market, so I do not what is the intention of the promoters in doing that anyway I do not think you will be able to answer this?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Yes I will not be able to answer this.

Nikunj Doshi – Bay Capital – Mumbai

Another thing is about the prospects of the mid-tier company, you see no mid-tier company being able to scale up to the levels beyond a point and you have not seen growth rates of mid cap companies matching even that of the large-cap companies, so what is the sense you are having about the business for this mid-tier companies?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

If you see the results of the last three quarters, I would not just bucket them as tier I or tier II or mid-tier, last tier kind of thing, but take it across various sizes whether it is 100 million, 500 million or 3 billion or 7 billion kind of thing, the growth which is revived is mainly in the BFSI segment. Those who have had fairly large share of BFSI even the mid-tier 1s have grown well. Those who did not have even in the tier I there is a differential

growth if you observe. So it depends on the kind of segment and the geographical focus that you have had especially in the mid-sized because mid-sized does not have, mid-sized companies are sort of companies which are around 100 million, 200 million do not have the kind of diversity that large player has. So necessarily we will be in one or two verticals or three verticals and if it is so happens then it is not be a precise of growth may not be all that. So that explains the kind of differential in terms of growth.

Nikunj Doshi – Bay Capital – Mumbai

Okay thanks.

Swati – Moderator

Thank you Mr. Doshi. The next question comes from Mr. Sudhakar P from Mumbai, Stan Capital. You may ask your question now Mr. Sudhakar.

Sudhakar P – Stan Capital - Mumbai

Hi everyone. If you could share the TUI numbers in Euro terms please, pertains in the growth and margins?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Hi Sudhakar this is Venkat. If you have my contact what we will do is we will provide that to you, because we have been analyzing it in rupees.

Sudhakar P – Stan Capital - Mumbai

No, I will just mail it across to you. Secondly what kind of growth do you expect across all your three different business over the next two to three years?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

As you know that we are not giving any forward-looking guidance so to that extent I would not be able to comment on the future growth projections.

Sudhakar P – Stan Capital - Mumbai

Without any quantitative numbers, if you could just give us in terms of qualitative, in which direction do we see the company, because right now we are around 300 million, you see becoming a 500 million company in the next two to three years, just in terms of direction?



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B. Ramaswamy - President and Managing Director - Sonata Software Limited

Now you are putting that question in another way. We expect more precise numbers in terms of percentage growth. Surprise to say that our focus will be on the so-called IT services business is the high margin business and within the domestic it will be again on the IT consulting which is a high margin, but forms relatively small portion of our current business. These two will be our focus areas and in the TUI the focus will be on growing the external market because the TUI business is more or less saturated and the focus will be on growing the external market or the third party business we called it other than TUI customers.

Sudhakar P – Stan Capital - Mumbai

Right now the TUI business is exclusively for the group or the TUI for the third party also?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

I would say 97% today is TUI group company business.

Sudhakar P – Stan Capital - Mumbai

Lastly on the contingent liability part, your comment on that what is the progress?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Progress is that it is all hinging on one issue whether software is good, or software is royaltyable that means there is a TDS on the software import. The whole issue was came up before the Supreme Court and Supreme Court said that this matter has to be again examined by the High Court based on merits, so it has been reminded to the High Court and we have no progress on that this was in August 18 that we had hearing in the Supreme Court later on it is not come up from in the High Court of Bangalore. So we are awaiting that.

Sudhakar P – Stan Capital - Mumbai

Thank you and all the best.

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Sudhakar this is Venkatraman, if you look at your Q4 in Euro, EBITDA was about 1.1 million and Q2 it was 1.2 million. Revenues were 20 million and Q3 was 21.9 million.

Sudhakar P – Stan Capital - Mumbai

Right, thank you.

Swati – Moderator

Thank you Sir. The next question comes from Mr. Virangan Venki from Chennai, Brilliant Securities. You may ask your question now sir.

Virangan Venki – Brilliant Securities - Chennai

The current year depreciation for the nine months is only 28 Crores against 37 Crores and for the whole year last year it was 49 Crores, can you tell me why is the discrepancy what is that. As an investor we would like to have the market capitalization now, naturally this is coming down, why this because due to in the current year it is going to be maintained the same sales or something like that, the market is always in advance, so that is the only one of the worry from the investors point of view, can you throw some light?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Depreciation is primarily on account of TUI, TUI InfoTech contributes to a large of part of depreciation on a consolidated basis, because there in the IT operations business what we do is they give lot of server, desktop and those kind of hardware support services from the TUI group which gets depreciated on a straight-line basis. I will give you exact difference with TUI and how much it contributes to the consolidated basis. The second part I would defer it to.

B. Ramaswamy - President and Managing Director - Sonata Software Limited

You are talking about the market capitalization. I think our philosophy is very simple. We will be tasked with the responsibility of producing key and the PE and the price thereof in the market capitalization is something, which the investors have to decide. If you see the history of the company we grew at about 50% topline and bottomline between 2003, 2008 and 2009. The last two last years the growth has been around high single digits or low double digits that is about 10% kind of thing. That is the phenomena of the industry itself and having faced this kind of situation where we had to sort of look at the overseas market where there was some amount of commotion on account of financial prices. So I feel that we have come out of this successfully and now that the so-called economies are stabilizing and we have sort of customer base intact. We should be looking at sort of reviving our growth and the fact is that from the point of view of the investors who are long-term the only fact that I would like to drop on is that in this difficult period we have managed our operations



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fairly successfully and still grown and there is no degrowth and I think once the sort of demand side improves it can only be better for the company.

Virangan Venki – Brilliant Securities - Chennai

What is the contingent liability so far in absolute amount and what are the chances of maintaining the last year profit after tax on a scale of 1-10?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

We have already finished nine months so it is one more quarter to go. So there is no need to guess on probabilities kind of thing. On the contingent liability I think Venkat will give you the figure.

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

On the contingent liability if you look at it is overall about 280 Crores, 280 Crores is the total liability unsettled. On a consolidated basis it is about 340.

Virangan Venki – Brilliant Securities - Chennai

That is on respect of how much cash you have got in the system is it almost equal?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

If I understand it correct. See what happens is the contingent liability would be about 45 Crores. Because we have given a detailed note on account of the Supreme Court decision that B. Ramaswamy just mentioned about.

Virangan Venki – Brilliant Securities - Chennai

What about the pledged share? Regarding pledged shares how much is the percentage now it is on the increasing or same as what you have stated?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Same as the last quarter.

Swati - Moderator

Thank you. Participants who wish to ask questions may please press “*” “1”. Participants who wish to ask

questions may please press “*” “1”. The next question comes from Mr. Roshan Jain from Mumbai, Way 2 Wealth. You may ask your question now Mr. Jain.

Roshan Jain - Way 2 Wealth - Mumbai

How much of the contingent liability you said 45 Crores?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

45 Crores on Sonata Software and 25 Crores on account of Sonata Information Technology Limited.

Roshan Jain - Way 2 Wealth - Mumbai

What you said on the figure of 340 Crores?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

That was the note that I referred to in the same. If you look in the financials we have given some notes.

Roshan Jain - Way 2 Wealth - Mumbai

So it is 45 and 25 Crores and when can we expect this decision in the Supreme Court?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Supreme court has actually ordered in favor of us. There was a decision of Karnataka High Court, which said that all software payments made out of India is subject to tax. Whoever has not deducted tax as to pay the tax and the penalty that is what the High Court said, so the entire software industry went to the Supreme Court, the Supreme Court decided in our favor, they said that all such payments are not on a blanket basis subject to tax, you need to evaluate if it is actually a royalty, if it custom software and so on and so forth. So they overruled the High Court order and they have then instructed the High Court to take a fresh look at the transactions or on the cases and see if such payments were actually royalty. In our case what we do is we import package software. So for example Microsoft, it comes in a box, we import it through customs and then we sell it. So it is goods and that has been the stand that we have taken and we have had a very favorable order in our favor even in the income tax appellate level.

Roshan Jain - Way 2 Wealth - Mumbai



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Okay so when can we expect this contingent liability removed out of the balance sheet or the High Court passing decision?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

You are talking about the notes that will go out of the balance. So that is it is anybody's guess, because the next one will be there will appeal which will come up at the High Court and because at the trigonal level we have one. For the High Court level whatever the decision is other party will again take to Supreme Court is I would think. This is a huge, this is an industry level issue, and so it is not any company specific. So at the High Court and Supreme Court there are host of companies who are fighting into this battle.

Roshan Jain - Way 2 Wealth - Mumbai

Okay thanks a lot.

Swati – Moderator

Thank you Mr. Jain. I will take the next question, which comes from Mr. Prem Chand from Mumbai, Axis Bank. You may ask your question now Mr. Chand.

Prem Chand - Axis Bank - Mumbai

Are you looking at any inorganic growth opportunities at this point in time?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Yes we are.

Prem Chand - Axis Bank - Mumbai

Which would be the domain, which you are looking at?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Anything which can strength in our existing domain which is travel TTO or OPT or any of the horizontals which is ERP, infrastructure management.

Prem Chand - Axis Bank - Mumbai

What would this be funded through would it be internal accruals or you are looking at?

B. Ramaswamy - President and Managing Director - Sonata Software Limited

First this thing will be internal accruals and if the size is a little larger we will look at sort of topping it with some debt.

Prem Chand - Axis Bank - Mumbai

That is on from my side. Thank you.

Swati – Moderator

Thank you Mr. Chand. Participants who wish to ask questions may please press "*" "1". At this moment there are no further questions from participants I would now hand over the floor back to Mr. B Ramaswamy for the final remarks.

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Thanks Swati and if there are no more questions we will sign off. Thank you for participating in the earnings call. Thank you very much.

Swati – Moderator

Thank you Sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines thank you for connecting to conference services from Airtel and have a pleasant day ahead.