



Sonata Software Limited Conference Call

Sonata Software Limited Conference Call FY2012 (Q3)

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CORPORATE PARTICIPANTS

P. Srikar Reddy

Managing Director & Chief Executive Officer

N. Venkatraman

Chief Financial Officer

Sathyanarayana R.

Head - Finance and Accounts

Praveen Kumar D.

Company Secretary

Swati Sengupta

Head – Corporate Marketing and Communications

Sohrab Kakalia

Chief Sales & Commercial Officer

Moderator

Ladies and gentlemen good day and welcome to the Sonata Software Limited Q3FY12 Earning Conference Call. Joining us on the call today from Sonata are Mr. Srikar Reddy, Managing Director and Chief Executive Officer and N. Venkatraman, Chief Financial Officer. As a reminder for the duration of this conference, all participants will be in the listen-in mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal the operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Srikar Reddy. Thank you and over to you sir.

Srikar Reddy

Good morning to you all. Welcome to Sonata's Call to discuss the Financial Results for the quarter just ended December 31st, 2011. I have with me today apart from myself, Venkatraman who the coordinator has introduced and Satyanarayana, the Head of Finance and Accounts. I also have the pleasure of introducing to you, Sohrab Kakalia who joined us as the Chief Sales and Commercial Officer. He also shares his ideas at some point during the call. As you may have noticed we have a change in the leadership of the team on



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February 14th Mr. Sanjay Vishwanathan resigned from his position as MD and CEO of the company citing personal reasons. I have now taken over from him as the MD and CEO in my new role I like to emphasise on the following messages. I have been privileged to be associated with Sonata for over 25 years. I have a deep understanding of every aspect of the company's operation and hold Sonata's value very close to my heart. I am focused on growth and profitability that will be my mantra for the company along with growth I want to ensure that company gets back the status of being a pivot where people love to work. I know that you have the best, the most passionate in committed balance amongst our employees and together with them I am committed to make best the company of our dreams. As you know our strategy has been basically focused on our Tourism and Travel Vertical and what we call OPD that is the Independent Software Vendor and we are investing in the last few quarters in developing these expertise in our couple specific technology area especially mobility and cloud. We may have also informed you that about 9 months ago we had Gyan Pattnaik who used to head the mobility practice of persistent to drive the new technology initiative for the company. Gyana and his team have been focused over the last few quarters and developing these initiatives we start seeing some results on the efforts of these technology initiatives. The last two quarter, haven't been great financially. We have seen some slow down both in the US and European market. As we speak, now I see there has been a turnaround in the US market and most of you are aware of the cusp in the euro zone and we continue to see that going forward. But definitely based on our conversations with the clients over the last few months where I have gone around and visited our top 10 clients whom I have been managing over the many years. They are definitely looking at increasing their strength and we do hope that we get our share of the wallet. As we have TUI InfoTec which has been our investments in Germany. We have been telling you that we have been in a process of restructuring the company and in this quarter the restructuring cost that means the cost because of what is called earlier retirement process in Germany has been driven in and we feel these cost affecting us for the next few quarters right now we have non-cash cost because we pay out to people only when they retire from the company which will be beyond 2013-14 but as for the law we need to provide for it right now. Our Indian subsidiary has shown great results this quarter. Almost about 85% growth in the top line but for some non cash provisions which we are to make which Venkat will explain more clearly during his presentation. It has been a great quarter for our Indian



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operations and we see that going forward contributing to the bottom line. Our focus for the next few quarters, me and my team is to just put our heads down and drive our revenues from existing customers as we build a new sales organization under Sohrab and we believe that you will see the results of these efforts in the future quarters in the company's results. While we are doing this I seek your patience and support as you have been with us for a long time and we promise that we will all as a team put our heads together and need to deliver results which will satisfy our investors. Thank you.

N Venkatraman

Thanks. I will now try to give you a brief outline of our financial results a detail presentation has been on our website this gives you a view of our results by the segments that we normally talk about. On a consolidated basis we have shown revenues of Rs.526 crores which is a growth of 37% on a sequential basis and 51% on a year-over-year basis and the EBITDA is Rs.2.6 crores and we showed a net loss of Rs.6.9 crores. The consolidated results are a function of the results of our three business segments in which we operate, one being International IT Services, the Software Services and Export Business that is what we call it International IT Services. The second being Domestic Product and Services or rather which we run through our 100% subsidiary called Sonata Information Technology Limited and the third being our Joint Venture in Germany TUI InfoTec. As of being done in the past what I will do is, I will run you through the results by breaking them into the three segments because that is what will give you a better feel for of the consolidated number stack up. The International Business has traditionally been the largest contributor of profits of the company on a consolidated basis, that business contributes about 80-85% of the total profit to the company. In this business, we had shown a revenue of 69 crores for the quarter which is the growth of 5% on a sequential basis. EBITDA is Rs.6.4 crores compared to Rs.9.5 crores last quarter. As regards PAT it is Rs.2.8 crores compared to Rs.6.8 crores last quarter. Now this change or a drop in profit can easily be explained as it is essentially exchange variant which plays the spoil sport in the current quarter. Last quarter, we had a gain of Rs.7.5 crores where as this quarter we had a loss of Rs.50 lakh. So effectively a swing of Rs.8 crores, we adjust Rs.8 crores number to the current EBITDA in fact we have done better than the last quarter. As Srikar mentioned, I can say that our pipeline for business from existing customers and pipeline of new additions that we



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currently have has never looked healthier. The issue that we were likely to face in Q1 is that of talent shortage which I guess is a good problem that we should have. We are looking at a good quarter one and a good 12-13, I say that as a risk of making it look like a forward looking statement but that is what the truth is. What I meant is the course correction that we have put in place and we start yielding results in the next one or two months. Domestic Products and Services that is a SITL business, in this business we have had one the best quarters ever. Total revenues were Rs.342 crores which has shown a growth 83% over the previous quarter. The Products Business showed a revenue of Rs.335 crores and that was an 84% over the previous quarter and the Services Business, in the Domestic side showed a revenue of Rs.7.2 crores. So both business really showed growth and traction. In this business, that the Domestic Products and Services Business we showed an EBITDA loss of Rs. 60 lakhs. Like Srikar mentioned this is primarily on account of a non-cash write off of Rs.6 crores so we had a receivable which we had been pursuing following up for quite some time but finally it came to point where we had to make a write off rather provision for that amount and that is the number which we, that six crores. It is not for this non-cash charge or provision as we call it, we would have had an EBITDA Rs.6.7 crores which would have been an all time high. Net loss was Rs.3.8 crores which if adjusted for the non-cash charge that we talked about we would have profit of Rs.2.8 crores. Going forward in Q4 as well we have a little bit of the non-cash charge not as much as what we saw in Q3 but there is an element which still needs to be provided, the collection process is still on and if it does happen we will have to make a small provision for that.

Coming to the joint venture that we have in Germany this is 50.1% stake that we have in a company called TUI InfoTec. We have this joint venture partner with the \$19 billion Euro Corporate which is TUI AG. The JV has an ODC or Offshore Development Center with Sonata and we build that JV on an arm's length basis and that forms part of the International Services Business. The revenues for the JV was Rs.115 crores compared of Rs.120 crores in the comparable quarter last year. The JV has shown an EBITDA loss of Rs.1.8 crores. Please note that again here we have a non-cash charge which like Srikar mentioned, this is the provision we had made for the voluntary retirement scheme or the people restructuring cost as early retirement scheme provided by the company. As per German law we had to make a provision the moment somebody makes accepts the offer. The non-cash



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charge was about Rs.4.3 crores when we adjust for the Rs.4.3 crores we were at an EBITDA profit of about Rs.2.6 crores. As of been discussed the focus of the JV is get back on track and get the people balanced straight so that we are working on that with our joint venture partner in TUI in Germany we are in discussion with the TUI Group to see how much more a business we can get from the TUI world back into the JV. As you will see from above the fundamental business of International Services, Domestic Services are on a good footing and we should be back on past starting Q1 of next year. And with regards to TUI InfoTec we continue to work on that from of people perspective and that is smoothing which we have an active discussion with our JV partner TUI. The highlight for the quarter, during the quarter we had generated in our International Services or rather Sonata Software cash of Rs.12 crores and on consolidated basis we hit an all time high of Rs.146 crores of cash generation that is primarily on account of better collections that we had in our Domestic Services Business in India. We close the quarter with cash balances, cash and cash equivalents of Rs.191 crores on a consolidated basis. Out of this, Rs.93 crores is with International Services. The Domestic Business has about Rs.80 crores and the JV has about Rs.18 crores. Sonata Software Limited continues to be a debt free company and so that is comforting fact to all of us. That said the company is now fully energized and we are rearing to pullback both on the revenue and profit growth in our International Services, as it contributes significantly to the overall profits of the company. Based on the current plan, I am very confident that this will be the case starting Q1 of 2012. Now I handover the floor to Sohrab, our Head of Sales and he will share a few thoughts about his plan for the company.

Sohrab Kakalia

Thank you Venkat. Good morning folks and well-wishers of Sonata it has been my first quarter with Sonata and I must tell you, I am very excited to what I have seen in the last quarter. It has an excellent platform to launch and grow the next generation of our focus solution and services in the US, Europe and the emerging markets. We have a very healthy pipeline and we are also widening the footprint of services we have in our current space and we also have a very committed and close set of partners and joint ventures we are working with a good pipeline. In that sense I think we are very excited to see the future in the next few quarter and we will see the growth coming from this



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side of the company. With this I will hand back to Srikar and proceed with the line.

Srikar Reddy	Thank you very much we are now open for questions.
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Moderator	Thank you very much sir. We will now begin with the question and answer session. First question is from the line of Mr. Chetan Vadia from JHP Securities, please go ahead.
Chetan Vadia	Yes sir, my question to you would be you have provided for the Rs.4.3 cores in the current quarter for as a provision for non-cash item so how more is left on to be provided in the subsequent quarter?
Srikar Reddy	This is on the domestic services right Chetan?
Chetan Vadia:	No this is for TUI employee restructuring cost.
Srikar Reddy:	Okay see restructuring cost is based on how the employees accept the VRS Program.
Chetan Vadia:	Okay.
Srikar Reddy:	Okay so there is an offer which we have offered to about 20-24 people out of which three or four people have accepted it. So it is like an opening which is made and they will say that if you want to take the VRS go ahead and there is a cash flow which is created for the VRS which will actually prove that the future cash flows are positive because there is savings in terms of expenses and there are future revenues. So to answer your question typically the quantum of provision is high in the quarter in which they accept it after that there is a substantially lower quantum but then on a monthly basis there has to be provision which has be made till the time they retire because whatever needs to be paid out to them after their retirement has to come out of this provision which has been created.
Chetan Vadia:	Okay. Sir in that case, suppose all the 20 people accept the offers then what will be the amount?
Srikar Reddy:	So the total amount all of them accepted would be above 2.4 million.



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Chetan Vadia: 2.4 million.

Srikar Reddy: Out of which I think we have taken about 600,000 this quarter. The rest are not added as of now.

Chetan Vadia: Okay now my second question deals in the TUI InfoTec what is the outlook of this business for CY2012?

Srikar Reddy: Yeah that is what, so basically what we are doing is the comprehensive restructuring plan we want to get the company in the right size so that we start delivery services to our customers which are market competitive and of the right quality. So that is point number one, so both for internal and external clients we have to cut ourselves to the right size so along with it we are having a plan which is more aligned to using our infrastructure there to be able offer in our infrastructure services on the cloud which is all the three infrastructure services, i.e. Infrastructure as a service, Platform as service and Software as a service. We have actually had a couple of deals last quarter, one with a client where we are offering storage as a service and to another client we are offering software as a service where we are hosting a very popular service management tool as a platform and we run that as a service for them. So do see, we can leverage these local data center and hosting services to be able to offer the services. So it is dual strategy get to the right cost and generate through a offer and using Sonata strength more services to both the internal customers and to the external customers it is comprehensive strategy.

Chetan Vadia: Okay then from which quarter do you see the turnover happening for TUI and for end of the financial margins and profitability

Srikar Reddy: We normally don't make forward looking statements. So we do think this whole process will take us at least 3 or 4 quarters.

Chetan Vadia: 3 or 4 quarters. Okay yeah that is it from side I will hold up for more questions.

Moderator: Thank you. The question is from the line of Mr. Chetan Vadia from JHP Securities, please go ahead.

Chetan Vadia: Sir, my second question is to do with the Domestic Product and Services, although you have achieved a high sales of growth in this quarter but is your



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margin in this domestic debt you are expecting in the subsequent quarters and what is the outlook for this business in the CYFY12

N Venkatraman: Chetan this is Venkat as far as domestic products are concern our net margins are in the region of anywhere 2-4%. So essentially that is what we make as net margins are of our overall costs. On the outlook even though we are not making forward looking statements, I can say that in that business we are possibly in the top 2 in the country today, we are market leaders and so you can say that almost every deal which is beyond a particular size comes through Sonata and it is highly competitive nevertheless we are there in the market.

Chetan Vadia: Any new initiatives in this area?

N Venkatraman: Like Srikar said, on the services side we would be adding non-linear growth models. We have started serving certain markets like Singapore, in addition to India from this business segment which is domestic products and services. So we have had a very large customer vendor, I can't give you the name but we have got about 7-8 people billing to us this large corporation in Singapore and that is likely to step up. Second is we are partners with almost all the large ARP players in the market whether it is SABR or IBM whoever it be they are now taking us into their businesses across Asia-Pac it was earlier only India but now they are taking us to implementation or opportunities across Asia-Pac. So what I am saying is on the product business we are pretty much well covered as far as India's geography is concern. On the services which we deliver from this segment we are going to see growth from coming from there and the last aspect is we are trying to set up a couple of non-linear growth platforms so that we are able to leverage on the great partnerships that we have with product companies in India so that we can deliver across the world may be from India or the non-linear growth platforms.

Chetan Vadia: Okay I will take that. Sir my last question to you, for which the change of management like Mr. Sanjay left this quarter so any more changes management is on the pipeline?

N Venkatraman: What you call a crystal ball gazer then I don't think even the HR department does know who is going to quit from the company?



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Srikar Reddy: No I think as Venkat said, we have a very healthy employee morale and motivation and the team which is here is completely aligned and they are all very eager and keen to catch going forward and they are all very keen along with me to build a great company and we are using great platform. So I do believe we have one of the best talents in the industry for a company of our size and I think we can elaborate this to make a great company.

Chetan Vadia: Alright sir I will take. That is it from my side.

Moderator: Thank you. There are no further questions at this time.

Srikar Reddy: So thank you we will put in the call to a close. If you have further questions please feel free to write to us we have our investor email ID on our website or you could write me, means to Mr. Venkatraman. Thank you.

N Venkatraman: Thank you very much for participation.

Moderator: Thank you. On behalf of Sonata Software Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
