



“Sonata Software Limited Q3 FY-15 Results
Conference Call”

February 09, 2015



MANAGEMENT: **MR. P. SRIKAR REDDY – MANAGING DIRECTOR & CHIEF
EXECUTIVE OFFICER, SONATA SOFTWARE LIMITED**
**MR. N. VENKATRAMAN – CHIEF FINANCIAL OFFICER, SONATA
SOFTWARE LIMITED**
**MR. R. SATYANARAYANA – HEAD - FINANCE & ACCOUNTS,
SONATA SOFTWARE LIMITED**
MS. PRIYA JASWANI – COMPANY SECRETARY
**MR. ARUN SRIRAM - HEAD - CORPORATE MARKETING, SONATA
SOFTWARE LIMITED**

Moderator

Ladies and gentlemen good day and welcome to the Sonata Software Limited's Third Quarter Results Conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy. Thank you and over to you, sir.

Srikar Reddy

Thank you Inba and good morning everybody and welcome to the Analysts call post the announcement of our results Quarter Three of the Financial Year 2015. I am today in our Hyderabad office and the rest of our team is based in the Bangalore office. So I have with me on the call today Venkatraman, we all know the CFO of our company and Satya who is the Head - Finance & Accounts; Arun – Head of Marketing and Priya – our Company Secretary. Before I ask Venkat to take you through the detailed analysis of the results which we announced which are also posted on our website like to continue to reiterate that the strategies which we have been speaking about have continued to work reflecting in the figures. We continued to see qualitative improvement in the way we engage with our existing clients, the way we are able to go to market, the way we have to build capability, new technologies, build our vertical and domain capability, attract top talent, manage our margins. So the focuses are continuing to yield results.

And as I mentioned in our last call our journey towards becoming a more of a technology and solutions company continues to be on track as we focus our services towards more and more what we call IP lead services as we either continue to build or acquire platforms, as we mentioned one of the platforms we acquired last time was Rezopia in the month of August so we continue in that direction as we go forward. And our focus are these nine things which I mentioned last time too which is how do we become strategic to our customers, how do we go after and get new strategic accounts, how do we gain leadership in our specialized horizontals, how do we build solutions which will enhance our vertical capability, be a top quality destination for top talent to come and work with us, focus on margins, strategic M&A, focus to continue to transform our India business, I think that we have seen also in the results. So that is the journey we are on and we continue to stay on course in the journey which we have set for ourselves. So that is the high level qualitative introduction to the call. I will now hand over to Venkat to take you through the detailed financials before we go to answering questions which you may have. Thank you.

N. Venkatraman

Thank you Srikar. Good morning to all of you. Our results have been on our website for the last couple of days so I hope you had had a chance to go through it. Nevertheless I thought I will quickly take you through a few pointers on the metrics.

This quarter has been particularly good for us and as you may have seen from our quarterly press release almost all growth parameters are positive, normally we have some changes on the top line with the product business but this time there has been absolutely no changes and we are positive and that to in double-digit in all the growth parameters. On a consolidated basis our EBITDA is at an all-time high again at 52 crores which is about 60% year-over-year growth. PAT is 36 crores which is again all time high, 65% on a year-over-year basis. Interestingly ROCE, one key metric that we follow at the company is also at an all-time high at 31% of the consolidated level, return on net worth is about 40%, cash balance continues to be at a comfortable 211 crores. Headcount on a consolidated basis, we are just shy of 3,000, the exact numbers are about 2,960 so that is also a new high for us.

Coming to the segment of international services, as you all know we have two segments one is the international services, the other is the domestic products. On the international front where it is predominantly or primarily export of IT services, revenues in rupees was about 156 crores, in dollar terms we have grown 3% sequentially, 22% on a year-over-year basis, EBITDA was at about 41 Crores, EBITDA percentage was about 25% before FOREX and 26% of revenues after FOREX, again these are high numbers. As I have been saying in the previous calls we need to make those investments and we hope that we will be able to maintain healthy revenue growth trends over the next and the forthcoming quarters. So EBITDA is important but we will also continue to invest in new technologies and the investment that required to propel growth.

Utilization is at 85%, very healthy, continues to be at a high. One significant reduction has been on the revenue concentration within the top 10 customers so we have tracked those very closely, it was at 75%-76% in the earlier quarters, we have come down to 70%, so that is showing that our accounts below the top 10 are beginning to kick in, the new accounts that we acquired over the last couple of years was also beginning to perform. Retail plus CPG contributes about 17% of our overall revenues and travel continues to be one of our mainstay verticals in addition to ISV, travel continues to about 30% of our total vertical revenues. Return on capital employed in the international services was at about 29% and ROW about 32%.

So all in all a very good growth parameters, a good set of results I can say for the services business.

Coming to the domestic business, as I have been always being mentioning this is not a very new growth business, we get very focused on the parameters of EBITDA, PAT and most importantly return on capital employed metrics. Despite that our revenue has been about 314 crores this quarter, it is about 21% QoQ growth, like I have said in the past it could have been a few bunching of sales that could have happened in this quarter. EBITDA was at about 11 Crores which is a 22% in a significant growth on a sequential basis and 43% on a year-over-year basis. EBITDA was at about 4% same as the last quarter of revenues but compared to the same quarter last year it has improved at by 1%. So as we have said in the past our focus is to improve the EBITDA percent and take it up on a quarter-on-quarter basis to best extent possible.

PAT was 7 crores, which is a growth of 19% and 66% quarter-on-quarter and year-over-year basis. Again, PAT as a percentage was 2% of revenues, it was same as last quarter but compared the same quarter last year they have improved it from 1.5% to 2%, so that is a significant jump to look at it as 25% improvement in the profitability percentage. During the quarter again we received 1.5 crores of interest on IT refunds so that is a onetime kind of an event. We have been pursuing IT refunds and trying to resolve all the pending PAT litigations over the past couple of year and with this I think we have almost regularized, we don't have any significant or material amount of TDS refund or income tax issues pending. So for those of you who have been following us closely this is the one of the best for us in the past that has impacted our returns, but right now I think they have brought it to a certain stage where it continues to no longer be a problem for us. DSO in the current quarter was at a high of 82 days, it is particularly because we had our one customer where we had given the maximum credit on request and we continue to focus on collecting them.

Overall, the performance has been I would say great but I would temper it with the fact that yes, we have to continue to make investment like Srikar said and make sure that the growth trajectory continues both on an organic and inorganic basis.

I will turn this over to the coordinator or the person for opening up the call for questions. Thank you.

Moderator

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Manish Ostwal of Nirmal Bang. Please go ahead.

Manish Ostwal

My question in domestic segment of profitability, you have seen 4% EBITDA margin, so one is could you throw some light in terms of profitability is why so low and

secondly what kind of measures we are taking to improve the profitability and what is your long-term objective to achieve profitability in this segment?

Srikar Reddy

I think let me just explain to you high level the business and then I will ask Venkat to take you through some of the numbers. The domestic business comprises of us reselling somebody else's product, so I think our focus there is what we call return on capital employed and working capital management and both we have been doing exceedingly well. We have also said that it is strategic for us because it gives us access to technology and access to a lot of relationships. So while the focus continues to be on this and we did mention about transforming this business as we go forward into more cloud consulting and deployment technologies, niche SI kind of stuff but the percentage of profits to revenues would be there or thereabouts. So I do not see that will significantly change in the near to mid-term kind of stuff. So I will just hand it over to Venkat to further answer the questions.

N. Venkatraman

Thanks Srikar. Yes, like Srikar mentioned this is a top line intensive business so what happens is you have a huge top line because we are in a way buying the product and reselling it, the whole point here is the focus will be on the profitability and return on capital employed so out of 365 days I work on almost kind of 0% capital for almost 300 days in a year. So the whole idea is to see how the returns of capital do the business on a risk free basis, improve our metrics of return capital employed, manage receivables as this is a real gain in this business in addition to obviously like Srikar said gain market share, be the leader out of the multiple principles that we represent we are in a leadership position with many of them so it continues to be a very strategic business to us. But the whole aspect of improvement of profitability has been because of entire re-strategizing and repositioning of the business, so with such a huge top line it will as a percentage of top line it will show up in the second or the first decimal which is why I had to highlight the increase in profitability from 1.5 % to 2 % of Revenue, I am still looking at a 25% improvement in profitability rather than a 0.5% point improvement.

Moderator

Thank you. Our next question is from Chetan Vadia of JSP Securities. Please go ahead.

Chetan Vadia

Sir in the initial opening remarks you said that the investment would be requiring new technologies, can you quantify as to what will maybe the percentage turnover that we have been investing in that?

Srikar Reddy

I can ask Venkat to answer in terms of our current investment in all these technology development and then I see that increasing as we go forward, as we invest more and more in creating platforms and IP, but I will ask Venkat to answer the question in terms

of our current level of investment in competency development that's what we call it internally.

N. Venkatraman

The investment is onsite pre sale capability, onsite consulting capability that we have even though we do not track it separately because it is captured in five competencies but there are close to about 100 plus people inside the competencies who are working on coming out with new solutions for our business. So it is kind of a shared kind of a model that we have where there is an element of them working on the customer as well as working on something called internal projects, so they are working on both of them and we are close to about 100-120 people working on internal project, so that is what some investments that we are talking about. But investment in new geographies and sales teams in the product management teams, these are all captured inside the business and with profitability target for them are in addition to the investment that is made into these. So yes, we will start tracking this as a separate metric or a number and we try to see if we can report that on a consistent basis going forward.

Chetan Vadia

Okay. And sir second question to you, in the earlier con-call you had said that you had opened offices in Australia and Singapore as well, so how are those geographies doing for you and any thoughts of opening any more offices in geographies where you are not present right now?

Srikar Reddy

No, let me answer that. In Australia I think we are seeing good traction, I think we have opened about five or six new customers and hopefully we will start to see the benefit of these going forward. So I should say that we are very happy with the progress we have made with our Australian presence. We continue to look for newer geographies where we believe our solution footprint makes sense in terms of the verticals we have and we have a very solid alignment with the strategic partners we work with. So that is a continuous process and then we are currently looking at two or three opportunities and hopefully we should be able to share something with you by the next call.

Chetan Vadia

Okay sir, I take that. And sir my last question before I join back the queue, in the eight quarters now that we are done away with TUI Infotech and we have been consistently delivering on the financial front, so are you working in kind of two to three year target as such in terms of revenues and chalked up existing..

Srikar Reddy

Yes, we have a plan in internally and as we said that we don't share futuristic numbers, we do not do that. But we have an internal plan which is obviously looking at where do we want to be both quantitatively and qualitatively as a company and what do we need to do to get there and we continue to review it, we just finished our quarter and we

continue to review it every quarter and then more deeper every half year of where we are and what we need to do.

Moderator

Thank you. Next question is from Sangeeta Purushottam of Cojito Advisors. Please go ahead.

Sangeeta Purushottam

My question really relates to margins and FX, we have seen very healthy margins through the year, how just it is an impact of pricing, and how much of it is because of better FX realization, number one. Secondly, if you could just shed some light on how much of the revenue is dollars and how much is in other currencies like euro or pound and how do we see the FX position going forward? So that is part one. The second question relates to what is our CAPEX going to be next year and what do we see our cash position at the end of this year?

Srikar Reddy

Okay, I will just give a very high level answer and then hand it over to Venkat in terms of explaining to you various numbers. Our CAPEX continues to be, we are not looking at any extraordinary CAPEX next year, and it continues to be in the same ballpark of what we have been spending so far, so we don't see any extra blip on that. Having said that I will ask Venkat to answer your questions on FOREX and distribution of revenues across currencies and how we are hedged for the future and so on and so forth. Venkat, over to you.

N. Venkatraman

Sangeeta, the way it is I have been reporting EBITDA before FOREX so that you can see the relative consistency with which we report our numbers. As far as P&L impact on the restatement and realized loss and profit goes, we have got about 1.5 crores of exchange variation which is positive for us this quarter compared to a loss of 1 crores. So if you look at a swing it is about 2.5 crores in total quarter-over-quarter sequentially. So I would say that our number of about 156 crores is not very significant. The other aspect is, in terms of dollar growth I have given you the numbers about 2% on a quarter-over-quarter basis and 22% year-over-year basis, so that takes into account the dollar growth perspective as well.

Taking the second part of your question I understand that you are looking for how we are covered or hedged, we are hedged about 82%-83% for the next 12 month, we do a vanilla forward for 12 months on a rolling basis. About 83% of our next 12 months net receivables in US, GBP and Euro are covered and we have average rate of about 65 on the dollar and about 105 on GBP and about 85 on the Euro. As we stand now we seem to be okay or better but one can only talk about it as each month progresses. So that is on the basis of our revenues. As far as revenues in respective currency, give me a while

but a significant number is about 60% is from US, I am giving the business by geography and the split of business would typically reflect the same kind of a split but like to give you the exact number so I could in touch with you separately and give you those.'

Sangeeta Purushottam And Venkat what about the cash position by the end of the year?

N. Venkatraman The cash balance is about 210 crores plus in terms of cash. And like Srikar mentioned we don't see anything out of the ordinary in terms of CAPEX, we generate about 80 crores on an annual, last year we generated about 83 crores of cash and YTD this year we have generate about 52 crores of cash before dividend and so continuous trend as in the last year we should generate about 80 crores plus this year as well in terms of cash.

Sangeeta Purushottam And you were expecting some money to come in from which was held in escrow or something from that TUI sale, right, there was a little bit which was pending, has that come in?

N. Venkatraman Yes, that is about EUR4 million that will come next year.

Moderator Thank you. Our next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu Sir, top 10 clients there was a degrowth this quarter of around 4%, so was it anything because of seasonality? And second, what is the outlook in cross selling of services in the top 10 accounts?

Srikar Reddy Okay. I will ask Venkat to answer the first question. As I said our strategy is very deep account management processes in terms of identifying opportunities to cross sell services where we believe we have a competitive story, so that is a continuous process of our account management. I don't think we track it but we can look at it and share with it next time in terms of, we track it internally but I don't think we can give you that information in terms of when we do the account management we track in terms of saying how many new service lines are we adding and how are we growing the service line then, our people are incentivized and compensated based on adding new service lines kind of stuff. So maybe next time around we could share that but that is the core account management process and metric we track. I will ask Venkat to share the information on the reduction if any on the top 10 accounts.

N. Venkatraman I would not say that we have reduced any account in particular, this was because there have been one or two accounts which are below the top 10 which has started firing

which has started taking over and growing nicely over the last one year and this is one of the reason why this change is, it is not particularly that one of the top accounts or few of the top accounts are actually stopped growing or are degrowing, so that is not the idea. Idea is we have got nice list of active accounts about 70-(+70) accounts and there are a couple of them below the top 10. Because we look at our fortune 500 clients we have got about 19 fortune 500 clients and like Srikar mentioned the focus has been to see how to make the accounts below the top 10 grow and fire at the same pace as the top 10. So that's what really changed so it is few accounts after the top 10 which have grown and on a percentage basis helped us bring down the concentration.

Madhu Babu

Okay. And sir secondly, I mean excluding the OPD business how is the positioning in this SMAC and infrastructure management services? I mean just wanted to know which are the services which are giving the incremental revenue growth.

Srikar Reddy

I think we mentioned that some of the key focused services for us is based around dynamics, Microsoft Dynamics AX, SAP hybrids, mobility, and analytics. So while we see these original bread butter application development and maintenance service continues to steadily grow, we are able to make a fairly fundamental difference with these services and we will see a growth in the services I just mentioned.

Madhu Babu

Okay sir. Last question, what is the cash flow for this quarter because there was a reduction in net cash position, how much of that is because of dividend and...?

N. Venkatraman

Yes, our cash flows like I mentioned it's because we brought the product business also into that, there can be slight variations on a quarter-on-quarter basis but we look at on an annualized basis. Last year we did about (+80) product with dividend, this year YTD has been about 50 plus crores before dividend and we have paid close to 29 crores as dividend up to date, that is before dividend tax, so if we include dividend tax that is about 33 crores has been paid out as dividends until date.

Moderator

Thank you. Our next question is from B.N. Bhatt, he is an individual investor. Please go ahead.

B. N. Bhatt

Actually after announcement of June result in 2014 in the month of August, that analyst call I had participated and asked one question to you saying that, see our equity base is only 10 crores whereas the reserve is more than 300 crores, why the company is not at all coming out with investor friendly measures like issuing bonus shares. But you said that the matter will be taken with the Board and appropriate action will be taken. My question is whether you have taken up the matter with the Board? If yes, beautiful. If

no, why these investor friendly measures have not been taken by the company when in fact you can see for the last one year other major IT companies are issuing bonus shares to all the investors.

Srikar Reddy

Thank you Mr. Bhatt. I think I didn't say we will take it up with the Board, I said it is a Board decision and board will take that decision. So having said that, I think we believe we have been investor friendly, you see that our top line has been pretty decently in the last 18 months by paying good dividends, I am not too sure how much more investor friendly we should be. But yes, I think we are investor friendly, we understand that but some of these decisions as I said are little more deeper than they seem to be, they are not very straight forward, yes.

Moderator

Thank you. Our next question is from Hardik Verma of ICICI Direct. Please go ahead.

Abhishek

Hi sir, this is Abhishek. My question is regarding margins and to Venkat, our margins are higher relative to our stated guidance or our aim to where we maintain at. Could you help us to understand as what is a sustainable margin range going ahead probably in '16?

Srikar Reddy

Okay. I think we did answer this question last call but I will hand over to Venkat to re-answer that question.

N. Venkatraman

Yes. So Abhishek, as I have been saying during this call as well and the earlier calls as well, we have to continue to make those investments to keep track of revenue growth that the revenue growth percentage has typically been showing. So 25% is a healthy margin, that said we will continue to invest maybe somewhere around between 22%-23% is what I would think is a good number to target on a consistent basis and reinvest the rest on building the business as we go forward.

Moderator

Thank you. Our next question is from Siddharth Vora of Motilal Oswal Securities. Please go ahead.

Siddharth Vora

Sir I just noticed your performance that on your onsite offshore ratio has gone from 60:40 to 70:30 over the last five quarters, can you just throw some light how has that been or it is just because of maturing of various contracts?

Srikar Reddy

Okay. I will ask Venkat to validate the number and give you the reasons why the movement has taken place.

- N. Venkatraman** We are currently at about 70:30 and it was about 68:32 last quarter and this was at about 64:36. I would not say that these were conscious decision maintain a particular ratio but I think 65:35 to 70:30 is what we are seeing as a sustainable number, because anything beyond that as a way of creating certain stress in the profitability kind of position. But that said, in a particular customer we are expected to do something for example in a new market like Australia when we expected to land people onsite to get some more understanding the business we did not hesitate to do that, this is not something that we keep track of on a basis of saying hey! Should we do more of onsite or should we do more of offshore, it is a profitability-driven business model. More importantly like Srikar mentioned it is all about account management, we have got deep relationships with the accounts and accounts lead thought process so a particular account and a particular reached us who has more people onsite or for the next quarter needs more people offshore we would do what it takes to make sure that the project and the account is a success. That said, we are not doing business onsite in terms of trying to see how to ramp up top line but that is not the game it is all about how to add value to the customer. Does that answer your question Siddharth?
- Siddharth Vora** Yes sir partly because that 70:30 would be one of the primary driving forces behind your margin improvement, can I say that?
- N. Venkatraman** Last quarter it was same 25%, when we were at 64:36 also it was at about 24%-24.5%, so I would not say that because some of the services that we offer like I have said in the past our billing rates have been quite decent or rather high because the kind of services that we offer are quite niche and they are valuable, they are valued by the customer and the accounts are that we worked with. So we get good rate whether it be onsite or offshore which translates to improvement in margin I would say. So it is not when I do unlike the traditional IP business or when I do business onsite it is such a very vapor thin margin and this thing is basically high number when it is offshore.
- Siddharth Vora** Okay. And you said there is nothing fundamentally shifting in the business which is giving you an opportunity to have a higher business offshore.
- Srikar Reddy** Nothing has changed particularly over the last quarter I would think or nothing comes to my mind.
- Siddharth Vora** Okay. And sir seeing your hedged positions you might be making quite a fair bit of gain in the next 12 to 14 months, any idea how you plan to invest that?
- N. Venkatraman** I didn't get the question Siddharth.

- Siddharth Vora** Sir your hedge positions are you hedge for 83% if your next 12 monthly receivables if I am correct.
- Srikar Reddy** That's right.
- Siddharth Vora** So you might be making quite a hefty gain in that over the next 12 months or so. So what are your plans in terms of how you invest in terms of this gains, in terms of reinvestment of business or how you think to utilize that?
- Srikar Reddy** Good question of counting the chickens, yes our hedge position is reasonably comfortable, like I said as we stand today it looks comfortable but three months from today the situation can change given the way things change so drastically. Our advisors continue to tell us that the rate fluctuations will be very volatile, the volatility can be very high is what they say. So I would wait for that to happen, fructify and then see there to deploy the money in terms of investment to that.
- Siddharth Vora** Sir so you will be hedging primarily in USDs or in other currencies as well?
- Srikar Reddy** Three currencies of USD, Euro, and GBP.
- Siddharth Vora** Okay. And would be in the proportionate issue of your business bookings?
- Srikar Reddy** Yes, it has been the same percentage of proportion like I answered earlier in the proportion of our business over the years.
- Moderator** Thank you. Our next question is from Prakash Buva, he is an individual investor. Please go ahead.
- Prakash Buva** Can you know as to how much of man power we are going to add domestically and internationally and particularly to which branches because hiring of manpower? And second question is about the realization rates per hour that we are getting this quarter and how do you look at them for the next couple of quarters, the growth in realization rate and their deployment of manpower?
- Srikar Reddy** Manpower growth I think will be in the same pattern as what we have been showing in the last four quarters, we have two large locations Hyderabad and Bangalore, so the split would be similar. I think we have just taken a new facility in Bangalore of about 500 seats I think, Venkat can confirm so that is the high level summary of our growth plans.

Prakash Buva And realization rates?

Srikar Reddy Right now we think they will be constant of where we are today, we have not factored in any increasing realization rates.

Prakash Buva They are almost the same?

Srikar Reddy Yes.

Prakash Buva What is the additional points of excellence that you have added as compared to previous two quarters what is the additional growth drivers or the real merit points with which we can look at Sonata?

Srikar Reddy Yes, as I mentioned in the beginning of the call I think it is across the board, we are looking at about nine parameters on which we mention our business, one is we have an account dashboard how strategic are we with our current client. So we see a needle moving forward there in terms of we have a 14 point parameter in terms of value ad, new services added, quality of people, relationship depth and breadth and all that kind of stuff. So similarly is our GTM working well in terms of us being able to access new clients, convince them, convert them, and grow them kind of stuff. Our technology capability as I said we are moving more towards solution-led kind of stuffs, are we creating or strengthening our existing platforms and services so there is a continuous metric on that. So it is not just one or two areas and our ability to get talent and motivate them, get better talent and then are they geared up for driving the company to the future and all that kind of stuff, so it is not just one thing which will center on one level of excellence which is going to take us forward I think as an organization it is a focus on at least 8 or 9 key parameters. And that is a continuous focus, it is not a one-time and we will continue to do it as I keep saying as long as we exist.

Prakash Buva Yes sir. And one of the nice points raised by one of the analyst was about the bonus issue, that indicates the confidence of the management in the future I believe apart from giving the high dividend no doubt it is very commendable, we are paying very high dividend, but are we looking at giving bonus shares because that gives us long-term, three years, five years confidence in the company I feel so. And secondly that is the coming in proportion to the turnover, the equity capital is coming in proportion to the turnover that is what I feel.

Srikar Reddy Sure.

- Moderator** Thank you. Our next question is from Sachin Kasera for Lucy Investment. Please go ahead.
- Sachin Kasera** Few questions, one was on this currency hedging, could you tell us at what levels are we hedged on an average for the next 12 months?
- N. Venkatraman** About 65 is what we have for the dollar, 105 for the pound and 84 or 85 for the euro.
- Sachin Kasera** Okay. My second question was, if you can give a mix of the revenue between dollar, euro, and pound, how is that split up?
- N. Venkatraman** 56% would be about dollar, balance is about I think euro would be about 8%-9% and GBP would be about 37% to 30%.
- Sachin Kasera** Sure. Second question was on the recent quarter, will it be possible for you to share what was the growth in constant currency in the IT Services business?
- N. Venkatraman** We are doing this in dollar terms, I know this is a question which has come in that past so we are trying to get that number as we go forward in the constant currency thing. So once we have that on a stable basis we have that put out to the public.
- Sachin Kasera** Sure. But considering almost (+30%) business comes from euro and pound, is it fair to assume that the constant currency growth would have been much higher than the reported dollar growth?
- N. Venkatraman** Yes, that is what I would think because if you have grown 2% in dollars and constant currency is pound and euro, both of their shares have gone down, in constant currency if I do it, it should be higher.
- Sachin Kasera** Okay. And this growth includes any extra contribution from the recent acquisition in the sense can you split the growth between organic and inorganic sir for the quarter?
- N. Venkatraman** Like I mentioned in the past, it is not significant, it is not material if I can say so in terms of what is there in the last quarter is there in the current quarter.
- Sachin Kasera** Okay. One question on the utilization, I believe we are close to around 80% as per the presentation?
- N. Venkatraman** That's right.
- Sachin Kasera** So how do we see that in the next few quarters?

- N. Venkatraman** We have been consistent with that number for quite a few quarters now so we have pulled that chart out in to the public domain, we are at about 83-85 kind of a number for the last many quarters. It is essentially billability will be few percentage point below those utilization which really matter in terms of revenue perspective. So that's where the difference is in terms of what I accounted as investment as we make in the new services or practices that we talked about. So billability has been also substantially on the higher side. So I think we have done this for six quarters now, in short I think we should be able to maintain those numbers.
- Sachin Kasera** Sure. Can you also share what is the concentration from the top number one client and the top five clients, is it possible to share?
- N. Venkatraman** We do not share that information, we give the top 10.
- Sachin Kasera** Can you at lease share the top five sir?
- N. Venkatraman** We have not been sharing in the past so let me do rain check on that, is that okay?
- Sachin Kasera** No issues sir. And finally, what are the thoughts on the further acquisition, are we looking in terms of getting some larger tickets size acquisition going forward and how has been integration of the recent acquisition been for the company?
- Srikar Reddy** Okay, let me answer the question. I think the integration has gone up extremely well, we have got the team now, and we have actually starting to engage with some of their accounts in Australia and the US and to see what else we can do with them. We have put a new product council in place and starting to invest more in rapidly adding functionality to the platform which is one of the reasons why we acquire it so that we can put more investments into doing more and adding more functionality to the platform. So that is going well and the teams are able to contribute to our other businesses. So I think I am very happy with the story so far. And yes, I mean I think I said that we continue to look for assets which shall align to our growth plan. As I keep saying these are strategic acquisitions and M&A is not our strategy. So we see that as a key driver for our growth and we are continue to look for good assets in this space which will help us grow. So yes, as we keep saying we are talking to people as we speak but what I have learnt is that these are some highly not controllable processes.
- Sachin Kasera** Sure. Will it be possible to share at least that you have mentioned the number of customers you have which are more than \$1 million, can you at least tell if there are

any customers which are say more than \$5 million or \$10 million or something like that to just get sense of how big some of our key customers are?

Srikar Reddy I think let's just relook at our presentation so instead of just doing it on a piecemeal basis, let's get that and give us your feedback and we will try to at best organize our information sharing in the best possible ways so that you get a better look into our business.

Sachin Kasera Sure. And you mentioned on the dollar per hour it has more or less remained constant but can you share that number what was the per hour rate for the quarter?

N. Venkatraman I didn't get the question, dollar...?

Srikar Reddy He is saying what is the dollar billing rate or something like that.

Sachin Kasera Yes, performance hour rate.

N. Venkatraman Our average offshore has been about 24.

Sachin Kasera Okay. That is for the offsite you mentioned?

N. Venkatraman Yes, offshore business. Onsite it is primarily by geographies where you got one rate for UK, one for US, one for Australia so it would be best, 70% of my business comes from offshore so I think the offshore rates of 24 is a number that we could drive the model with them.

Sachin Kasera Sure. And just last question for you Mr. Reddy, if you could give some signs of how do you see the outlook for the next two, three quarters across geographies and the type of feedback you are getting from your key clients on the next few quarters?

Srikar Reddy The outlook continues to be optimistic, as I said at the beginning that whatever we have done so far I think are appreciated and we see that the value addition we are doing to our client's businesses continues to be high. So that is about it and as I said we don't give any quantitative kind of this thing. So yes, I think best is to leave it at that.

Sachin Kasera But you remain positive and confident on the growth outlook?

Srikar Reddy Yes, me too absolutely, that is what I think keeps us going and keeps us alive.

Moderator Thank you. Our next question is from Ravi Menon of Elara Securities. Please go ahead.

- Ravi Menon** Just wanted to get clarity on what is the incremental revenue from the acquisition this quarter Rezopia because last quarter we just had a month from that.
- N. Venkatraman** Yes, Ravi so like I mentioned it is not a significant material number because it was running business with a run rate of about \$1.6 million to \$1.8 million on an annual revenue run rate, that continues so there is nothing significant. But we have been using the IP and the platform like Srikar mentioned into our other customers and business which was purpose for which we acquired interest in the company and that lead to incremental revenues in the business, in the other travel vertical that we are talking about, so that is a part of a normal organic growth I would think.
- Ravi Menon** Right sir. And do you think that there is any conflict from any OPD business that you have, any customer who has something that is similar to what Rizopia does?
- Srikar Reddy** No, we have no OPD customer who we do work for who has a travel platform.
- Moderator** Our next question is from Vipul Shah, an individual investor. Please go ahead.
- Vipul Shah** My question is, what is contributing to higher growth, which service lines or which verticals? And can you give me vertical wise revenue breakup, is it possible for you?
- Srikar Reddy** Sure. I think Venkat just gave it in the beginning of the meeting, he can share you again that information.
- N. Venkatraman** Yes. The vertical wise the revenues Vipul are there on the website but I will quickly it is about 6% retail, 11% PPL, 30% is travel and 38% IFC.
- Ravi Menon** Okay. And what has lead to growth, which verticals have lead to this robust growth if you can share?
- N. Venkatraman** Again it is about 27% in PPL, travel has gone to about 30% and then you've got retail and CPG if you put together it is about 16% has gone to about 17% this quarter.
- Moderator** Thank you. Our next question is from Siddharth Vora of Motilal Oswal Securities. Please go ahead.
- Siddharth Vora** Just wanted to question the utilization rates which are now more constant o 83%-85%, will you say that is more of a functions because of higher deal flow and business which we have been getting or that has been some kind of a shift in terms of the amount of

trainees and laterals you hire now which can take a much higher utilization load in terms of that?

Srikar Reddy

I think our utilization continues to be high because our utilization is like that we are utilizing people in meaningful work. So and I think we differentiate both, Venkat correct me if I am wrong between utilization and billability. So those are the two metrics we track. Utilization will continue to be very high, billability is maybe a metric where as we invest more could be a little over.

Siddharth Vora

And sir which will be the quarter in which you take freshers in terms of...?

Srikar Reddy

We take them continuously.

Siddharth Vora

On a continuous basis?

Srikar Reddy

On a continuous basis yes, we take them on a continuous basis. We do campus and off-campus, so then we stagger the campus and then we have a staggered of campus induction of fresh graduates.

Siddharth Vora

And any split you maybe be having in terms of laterals and freshers?

N. Venkatraman

I don't have that number ready Siddharth so maybe we can connect after the call and I could dig out the number for you.

Siddharth Vora

Definitely sir. And if I assume your onsite billing rates to be 3:1 to offshore, that would be a good assumption?

N. Venkatraman

Onsite billing rate to be?

Siddharth Vora

3:1 of offshore rate.

N. Venkatraman

Yes.

Moderator

Thank you. Our next question is from Sachin Kasera for Lucy Investment. Please go ahead.

Sachin Kasera

Sir one question, you mentioned that you are looking to add 500 seat capacity in Bangalore, how do you see the ramp up happening there in the sense you see that in the next three to four quarters?

Srikar Reddy Steady, as I said we will continue to see the same steady growth which we have seen we just, and obviously we cannot do it at 100 feet at a time so we just do it in a block and that's it. But the ramp up will be whatever we have been having over the last few quarters.

Sachin Kasera Okay. Because if I see our quarterly intake it has been in the range of 100 to 200 per quarter net intake, is that the band that we can look?

Srikar Reddy That is a good number to track, yes, a little bit there or thereabouts, yes.

Sachin Kasera Okay. The second question was on sales and marketing, if you can give us some idea on what have been the budgets in terms of how much you have spent on sales and marketing for the year YTD and some specific initiatives that we have done that have helped us sales and marketing deliver a much better performance?

Srikar Reddy I think one thing I think which we have done well is participating in very specialized, niche events in the verticals both in retail and travel and so that's I think at least for us has done well, enabled to both position ourselves as a provider of solutions to the vertical and being able to make some good connections. And we will continue to do more of that as we going forward, so that is one thing. Apart from that I think going forward our spend on digital and social will increase significantly, so that is the second area of spend where we will see some investment. So these are the two major areas of marketing investments we see as we go forward.

Sachin Kasera But YTD what has been as a percentage of sales has it seen an increase because....

Srikar Reddy Venkat, if you have the number please share otherwise we can share that with you.

Sachin Kasera Because in the previous call you had mentioned that some of part of the margin expansion gains you may like to reinvest in sales and marketing?

Srikar Reddy Right, and it is continuous, it is not that we will just do in one quarter is all I am saying. But yes, if there is a number Venkat, is there a ready YTD number that you can share?

N. Venkatraman Yes. It is close to about 1% of our revenue is what marketing cost is what we do.

Sachin Kasera Both sales and marketing or only marketing?

N. Venkatraman No, only marketing.

- Sachin Kasera** Okay. Would you have the combined number for sales and marketing?
- N. Venkatraman** I will share only marketing, it is around 1%, the sales, and marketing expenses including salaries would be a separate item.
- Moderator** Thank you. Ladies and Gentlemen, that was our last question. I now hand over the floor back to Mr. Srikar Reddy for closing comments.
- Srikar Reddy** Thank you Inba. Thank you all very much again for joining and very interactive and vibrant discussion. Thank you all for your continued support, look forward to your continued support as we work in building this company and look forward to meeting you again in the next call. Thank you all again.
- Moderator** Thank you members of the management. Ladies and gentlemen, on behalf of Sonata Software Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.