



“Sonata Software Limited Q3 FY16 Earnings Conference Call”

February 10, 2016



MANAGEMENT: **MR. P. SRIKAR REDDY - MANAGING DIRECTOR AND CHIEF
EXECUTIVE OFFICER, SONATA SOFTWARE LIMITED**
**MR. PRASANNA OKE - CHIEF FINANCIAL OFFICER, SONATA
SOFTWARE LIMITED**
**MR. R. SATHYANARAYANA - HEAD (FINANCE &
ACCOUNTS), SONATA SOFTWARE LIMITED**
**MS. PRIYA JASWANI - COMPANY SECRETARY, SONATA
SOFTWARE LIMITED**

Moderator: Ladies and gentlemen, Good day and Welcome to the Sonata Software Limited Q3 FY16 Results Conference Call. As a remainder, 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 would now like to hand the conference over to Mr. Srikar Reddy. Thank you and over to you, sir.

P. Srikar Reddy: Yes, thank you, good morning, everybody and welcome back to the Analyst Call post the announcement of our Q3 Results for Financial Year 2016 yesterday. I have here with me Prasanna who is our CFO, whom we all know and Sathyanarayana, Head of Finance and Accounts and Priya Jaswani our Company Secretary.

What I will do initially is just take you through the qualitative highlights for the quarter and the qualitative outlook for the company looking into the future and then we will have Prasanna and Sathya take you through the detailed financials for the quarter and we will follow that with Q&A.

To start with we believe that our results have been in line with the expectations we set in terms of our performance for the quarter, we have seen a fairly decent growth both in terms of top-line, EBITDA and bottom-line both on a consolidated basis and individual operating line basis. We have seen higher than normal growth in our India business in top-line but as I keep reminding all of you that business is more managed on a gross contribution and gross margin basis than on a top-line, so, that was quite healthy growth in that business last quarter.

The significant last quarter event I had touched upon it briefly during our last analyst call was that we have just announced the acquisition of I.B.I.S. a US Atlanta based dynamic AX Partner with IP for distribution industry globally. So I thought I will touch upon on that a little more on this call to give you an analysis what it means to us as I have been talking about for a long time the Microsoft Dynamics AX practice have been a strategic focus for us over the last many years attempt being to consolidate and grow that business and the I.B.I.S. acquisition helped that strategy basically three fold. One, it gives us a front-end in the US market, people with the domain expertise sales and people with solid connection with the US Dynamics ecosystem. Secondly, it gives us a very strong B2B industry led IP Apps to be one out of 18 global ISVs for the Dynamics AX and one of the two leading one for the distribution platform so that is alliance with our strategy focus on the as we call distribution CPG vertical.

We also believe that with this acquisition we will have a full end to end story in terms of both B2B with our own Retail omni-channel commerce IP and with the distribution IP we will complete it with a B2B commerce solution so that is really could be an end-to-end solution available to and what we see as a trend of manufacturers and Retailers doing good B2C and B2B, apart from that it gives us an opportunity to access the current client base of IBIS and meet at the unmet needs of those clients based on the fact IBIS does not have a full-fledged line service capability and last but not the least is to be able to take the IBIS globally that will basically been to the US market take as rest of our market so to that extent I thought I should touch upon and

brief a little bit more in detail to explain what an acquisition means to us in terms of our strategy of being digital transformation partner for our clients in the Retail, travel, distribution and ISV segments.

Our strategy continues to be based on what I already spoken about is to be the digital transformation partner in the fourth verticals based on some solid core IP and very specialized services around modern technologies digital technologies like analytics, cloud, social, omni-channel commerce and mobility, all are investments so far in terms of M&A and investments we continue make internally in creating IP at being focused on executing on the strategy and what we will continue to do.

We have also I mean as I mentioned continue to invest in both marketing, branding, brand building, we have also strengthen our management team as we speak two of the more I would say prominent hires have been, one Mr. Omprakash Subbarao who has joined us from Accenture he is going to drive our digital strategy, and other Mr. Rajiv Puri from Mindtree who is now going to head all our US business. Om is going to be based in Bangalore and Rajiv is going to be based in New Jersey. We continue to do that at a qualitative level. Last quarter, I think we have seen some good success both in the Retail vertical in terms of wins and in the Dynamics AX space. We have also opened some of new account and our focus now would be to really take all these newly opened account which I think would number above 15 to 20 over the last 12 months and actually have a very-very solid strategy to mine and grow these accounts. So let us say we have been a little slow on and we will be focusing on that. So, at a high level as I said I think today we have a fairly complete platform in terms of the client base alliances, IP, strategy in terms of growth, IP led growth, management, etc., and so we believe that we have much stronger platform today to execute on our growth as we go forward our strategy is now quite clearly define so it is just we made the investment, we will continue to make the investments but it is just going to be more execution focus now to take this platform and start driving results from each of the revenue streams from existing customers the growth accounts and then the new accounts kind of stuff and also leverage and integrate the two new acquisitions mobility platform and I.B.I.S. and then integrate it with the overall organization and strategy so that is going to be our focus.

So at this stage I hand over the mike to Prasanna who will take you through the more detailed financials and then we will take some questions which you may have at the end of it. Thank you all.

Prasanna Oke:

Srikar thank you and a good afternoon to all of you. Our results have been posted up on the website as also the updated Investor Relation desk, so would have access that. In the meantime let me provide you some key highlights of the quarter three. On a consolidated basis for quarter three FY15-FY16 we recorded the highest EBITDA and PAT for the quarter for the company. Our revenue stood at Rs.522 crores with a sequential growth of 31% and 12% growth on year-on-year basis. Our EBITDA stood at Rs.62.7 crores, a sequential growth of 7% for the quarter and 21% over the previous year. Our PAT was Rs.40.2 crores sequential growth of 2% and 13%

year-on-year. Our total cash and cash equivalents at the consolidated level stands approximately at Rs.258 crores.

Going in two splits of our business which is the International services business, International IT services business for quarter three FY15-FY16, we recorded the highest revenues and PAT. Our revenue stood at Rs.181.5 crores, this is a quarter-on-quarter growth of 6% and a year-on-year growth of 16%, and this contributed about 35% of our consolidated revenues. In terms of US dollar revenue stood at \$ 27.4 million during the quarter with Q-on-Q growth of 5% and year-on-year growth of 10%.

Revenue growth in constant currency terms Q-on-Q 6%, Y-on-Y 13%. Our revenues from digital components that we have been mentioning for the last three quarter stands highest among last three quarters at 29%. PAT stood at Rs.31.6 crores and it contributed 79% of our consolidated PAT.

During the quarter we added six new customers, two came in from Europe, three from the US and one from Australia. Our average DSO for the current quarter is 46 days and at quarter end DSO stands at 52 days this is an improvement over the previous quarter.

Looking at the side of Domestic product and services our revenue stood at Rs.344 crores, PAT stood at Rs.8.6 crores with a Q-on-Q growth of 3% and a year-on-year growth of about 26%. We continue to focus on the collections also here and quarterly average of 48 days, quarter end DSOs of 55 days.

This is, in short, what we have in terms of numbers and we will take the questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Harit Shah from HDFC Securities. Please go ahead.

Harit Shah: Sir, I had a question on your acquisitions, can you give break-up of the acquisition contribution this quarter it would be in the range of \$1.5 million plus or is it more than that?

P. Srikar Reddy: Yes, it is about \$1.5 million.

Harit Shah: Okay. So therefore, if you were to adjust for this that means your organic growth is kind of a flattish so actually if I remember clearly in the last call you had mentioned that from this quarter in the first-half you did mention issues with the customers in your OPD business but now in this quarter or in the second-half you had mentioned that you can get back to a 3% kind of sequential revenue growth trajectory on an organic basis. So then what went in this particular quarter? why were you not able to achieve that and when can we possibly expect organic growth to come back?

- P. Srikar Reddy:** I think one of the things which also affected us like anybody is that a lot more kind of vacation time which we have not factored in and little slower let us say not ramp-up but on boarding of resources which we had. So having said that, Yes, I mean it is fairly micro kind of this thing so and as I did mentioned in my opening this thing, so, our focus is to grow the accounts which we have acquired and that is what we believe can help us sustain the organic growth.
- Harit Shah:** So in Q4 FY16 is it usable then to assume that you can get back to an organic revenue growth trajectory or will that be delayed?
- P. Srikar Reddy:** Yes, that is this thing but at some point I think we have to start now starting to integrate everything into one unit at some point I mean we cannot look at each of them separately and start looking at growth totally because it will an integrated opportunity and operation kind of stuff whether you want to do it after one quarter or two quarters really does not matter so, we start seeing these in holistic fashion and not as individual fashion.
- Harit Shah:** Okay. So just another question regarding your OPD business now on a year-on-year basis it is down by about 16% so what exactly are the major headwinds that you can facing, can we expect this to recover in FY17 or may be over the next two quarters - three quarters how does the picture look on that front?
- P. Srikar Reddy:** As we mentioned that is because of the downward movement of one of our large clients that is what affected that and so I guess we got back some of it and Yes, I think I am not too sure whether we give you a break-up of clients by vertical which we have acquired every quarter but I think in the last quarter I think out of the six clients I think two clients are OPD clients.
- Moderator:** Thank you. The next question is from the line of Madhu Babu of Centrum. Please go ahead.
- Madhu Babu:** Sir, IT services adjusted margin is very strong this quarter 23% I think 300 basis points improvement this is despite onsite revenue from onsite increasing so what is driving this margin expansion in IT services if you adjust for that FOREX and other income the adjusted IT services it would have margin so almost 23% this quarter.
- Prasanna Oke:** Right, Madhu as we said that even as we are integrating we are looking at making the investments obviously we were helped little bit by the FOREX but we continue to be able to maintain strong control on the cost platform even as we are making the investment so, I think that is where we are at this point of time as we mentioned that it is, it is strong we want to invest more and we are looking at adjusted margin in the early 20's.
- Madhu Babu:** Okay. Sir and going into this year our top ten clients are 72% of revenues so how is the outlook in majority of the accounts are we seeing growth in top ten accounts and what are the drivers for the same?

- P. Srikar Reddy:** Yes, it has been obviously if everything has grown we would have shown up in the total revenue of the company so there are some flattishness and some are growing and then there are some other somewhere else there could be a little slow down but the drivers of growth I think are continuing to be whatever is popularly called digital kind of services or even modernizing even the existing service portfolio I mean so there is tendency to even look at delivery of current services even like testing or whatever it is in a more integrated platform in a modern kind of an engineering process which is now called DevOps or CloudOps of whatever it is so, this is at least from our portfolio of customer this is what we see is driving demand.
- Madhu Babu:** Okay, sir. And next year NASSCOM is getting somewhere around 10% to 12% growth so organically if you remove this I.B.I.S. full impact so are we comfortable with delivering a 10% kind of growth?
- P. Srikar Reddy:** That is our expectation.
- Madhu Babu:** Sir and last one more just on the travel what we had laid to the strong growth 12% quarter-on-quarter growth in travel?
- P. Srikar Reddy:** We had one large client who scaled-up well through our Rezopia acquisition where the client bought the Rezopia platform and it is very typically example of what we have been talking about IP led services growth because the client's bought the platform and he wanted to further build a lot more on that platform so that whole thing has now come to us so, it is a very good example of what I have been talking about as an IP led growth.
- Moderator:** Thank you. Our next question is from the line of Mohit Jain of Anand Rathi. Please go ahead.
- Mohit Jain:** First is a repeat of what you mentioned but I could not understand clearly, so in the OPD segment are we saying that this is the bottoming quarter or do you expect few more quarters to remain flattish and then start seeing growth again?
- P. Srikar Reddy:** I mean, I could guess we have seen the bottoming out of that, yes.
- Mohit Jain:** Okay. So this is probably 3 rd Quarter is the bottoming out and we should see growth going forward?
- P. Srikar Reddy:** Yes.
- Mohit Jain:** Sir any outlook on the on the IT services business for FY17 what kind of growth are we targeting now?
- P. Srikar Reddy:** I think somebody just asked that question, the industry is going to grow at 8% to 10% kind of stuff and so I said yes, that is what we are also we expect to achieve.

- Mohit Jain:** So your number should be remarkably higher than the industry given our size and the focus on certain verticals?
- P. Srikar Reddy:** I completely agree with you, I think I would be rather be cautious. See I think there are two issues, one is what we are trying to achieve and what I want to say kind of stuff, so I completely agree with you that the platform we have should drive you higher growth but I think only that can be predicated very clearly when there is high level of predictability to that kind of stuff so, I would rather stay cautious rather than say. But I completely buy your argument.
- Mohit Jain:** I was under the impression NASSCOM growth does to impact...
- P. Srikar Reddy:** Keep it with your argument that the platform and other things and the verticals and everything else we have, should not drive higher growth.
- Mohit Jain:** Plus our growth will be dependent by the top ten client budgets which I guess would have got finalized by now.
- P. Srikar Reddy:** No, that is what I am saying, I mean, I have said this long back, there are no long contract somebody is giving out kind of stuff so everybody is while they are being bullish nobody is putting down and committing any long-term kind of stuff so I think that is what we need to be aware of kind of stuff to say that it is not that there are long-term contracts drawn up and they are leading to whatever is the fulfillment of growth kind of stuff, there is dynamism in the marketplace and we need to be aware of that.
- Mohit Jain:** Okay. Second is on your IP split, if you are splitting IT services revenue then what part of margin expansion came from IP sales in this particular quarter?
- P. Srikar Reddy:** Purely IP sales has not been much at all I mean where we have license new this thing I mean the customer had talked about the IP is sold almost nine months back so that got deployed. We can start showcasing separately our I mean because this IP actually is more of a monthly subscription based kind of revenues, they are all SaaS model so we can start showing that separately, saying how much is the IP revenue in the total that is pure license revenue from IP kind of stuff. The other one is really as I said the services because of the IP that is normal services it is not but the customer is paying us for the IP.
- Mohit Jain:** Okay. Because margin we speak about it every quarter, almost you always tend to guide for early 20's but then it trends up this quarter also it is quite positive on the margin front in IT services. I was just surprised what is driving this kind of margin expansion? And should we now guide towards the current level of margins going forward?
- P. Srikar Reddy:** No, I do not think so, I think let us be cautious.

- Mohit Jain:** Okay, all right. Sir, lastly on the domestic business the margins are stable but the growth has come off so is there any impact of your growth because of cloud sales or anything else?
- P. Srikar Reddy:** No, as I said in the domestic business it is purely function of few deals can really scale up the top-line so last quarter I think we had a few large deals but then the large deals come with a little lower percentage margin so, the absolute margin may not have grown up significantly kind of stuff. So I think the overall average gross margin of that business will grow very steadily I mean it is not going to be any kind of dramatic stuff.
- Mohit Jain:** I was looking at the revenue growth every quarter on a Y-o-Y basis and that business showed a lot of volatility even adjusted for seasonality so just curious to know about your thoughts.
- P. Srikar Reddy:** Yes, you are talking about the domestic business, right?
- Mohit Jain:** Domestic reselling business.
- P. Srikar Reddy:** Yes, correct. So that is what I am saying, so it is really based on the deals. It is not like the same deal is coming up for renewal or whatever it is, there are deals we switchover from one partner to another and so on and so forth so that is why I am saying that it is not a seasonality kind of stuff it is really deal-based. So that is why I said I would not be able to predict a top-line kind of a seasonality curve consistently over 12 months to 18 months.
- Mohit Jain:** Okay. And any progress on the cloud base reselling part which you were trying to achieve few quarters back?
- P. Srikar Reddy:** Yes, we continue to do that and then today I do not think we are showcasing it but we will present in the next this thing saying at what percentage of our revenues today are from I mean basically if I moved from on-premise licensing to cloud licensing software. We will share that in the next thing but I guess I think today we have moved on to about 20% that is my guess.
- Moderator:** Thank you. Our next question is from the line of Ravi Naredi of Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, in compare to September 2015 net profit margin has reduced by 200 basis points and while the turnover rises 31% but net profit rises 2% only what is the reason sir?
- P. Srikar Reddy:** This is you are still talking about the domestic business, right?
- Ravi Naredi:** Total overall.
- P. Srikar Reddy:** Okay, split that into two businesses so that is why I said the domestic business is a purely absolute gross margin business so do not look at top-line I mean I have been saying this continuously in all my call. You look at the international services – there you can ask for consistency or explanations about margin variations. In the domestic business please do not look

at the top-line just look at the absolute margin and that is what I have been saying that we measure.

Ravi Naredi:

And second sir, what is the reason of so low margin in Indian business?

P. Srikar Reddy:

That also I have explained that the gross margin is about I guess 8% to 10% totally and then after operating cost it becomes about 3% or 4% or whatever it is. EBITDA is about 5%, so that is a nature of the business so. So some you have been in the past so I say this is business apart from it being strategic that it gives us access to a lot of technology and relationship, the business is measured on what we call return on capital employed and return on net worth and the business is mainly almost negative capital employed kind of stuff almost and second is that the business has to be controlled more from a risk perspective in terms of basically AR kind of thing and that we have been doing very well I think. Our write-offs over the last five years to eight years have been less than 0.1%.

Ravi Naredi:

Okay. And sir, almost what are you planning turnover or any profit wise planning for three years' projection can you give?

P. Srikar Reddy:

We do not give forward-looking statements so unfortunately I cannot share that.

Ravi Naredi:

And how many current employees we are having at present?

P. Srikar Reddy:

We have put that in the investor desk, I think there are about 3,200 and something.

Ravi Naredi:

And what is the planning for next one year?

P. Srikar Reddy:

It is a purely functional business growth so that is why we are saying we do a quarterly plan and then based on that we hire so need based. It is not that we are hiring and then waiting for business so it is really a function of the business growth.

Ravi Naredi:

Okay. And sir, last question, we are in the tourism sector, France is the highest tourist attraction in the world and in Southeast Asia Thailand attracts highest tourist, why we do not have any offices in there?

P. Srikar Reddy:

See our software product are meant for what I call source markets that means where people travel out from not where people travel into whereas what you mentioned are destination market. Our software today does not cater to what I call destination management agencies so that is what incoming people do. We are basically outbound package selling, if you are talking about tourism our solution today is more cater towards outbound not inbound.

Moderator:

Thank you. The next question is from the line of Madhu Babu of Centrum. Please go ahead.

Madhu Babu:

Sir, the cash I think that is net off of any debt. Have we taken any debt for payout for this or Rs.258 crores?

- P. Srikar Reddy:** We borrowed for the acquisition of I.B.I.S. because we mentioned the reasons last time so, there is a borrowing of \$8.6 million in US currency.
- Madhu Babu:** So this cash which we have shown in the release Rs.258 crores that is net cash.
- P. Srikar Reddy:** Net off that borrowings.
- Madhu Babu:** Okay, so net cash is 258 crores?
- P. Srikar Reddy:** Yes. I should mention that a lot of people who earlier wanting to know that we have got our 4 million Euro from TUI so I think some of the people who are aware of this transaction when we sold it there was €4 million deferred payments we got that last quarter.
- Madhu Babu:** Okay. And just on these acquisitions – Halosys how is the annual run rate going to span out and I.B.I.S. what are the synergies I mean initial because that would strengthen on the dynamic side.
- P. Srikar Reddy:** That is correct.
- Madhu Babu:** Okay. And Halosys just can you give briefly because that is small acquisition?
- P. Srikar Reddy:** Halosys is much smaller and its revenue base was really very small less than about a \$100,000 kind of stuff. So it will take time, I did not say that. These are all strategic investments. It is not that we buying for size of customers or something we are buying it for ensuring that our strategy works in some place. So the real value of this should show up in two years to three years' kind of stuff. Otherwise, Yes, we have closed about two deals now because of the Halosys platform in the mobility space. Hopefully that will scale up over the next 12 months' kind of stuff but we would not have got those customers if we did not have the Halosys platform. So that is why I call it as strategic kind of acquisition and so sometimes what happens is we directly attribute some revenues to Halosys and I mean the indirect revenue is something you not see in the Halosys P&L.
- Madhu Babu:** Okay. And Retail CPG that continue for last three quarters, mainly is that because of this Dynamics and Hybris and all this technology, traction in those areas?
- P. Srikar Reddy:** Yes, we have seen some good traction with Retail especially in the last quarter with Hybris we believe that the distribution size will also start showing traction.
- Moderator:** Thank you. The next question is from the line of Shubhankar Ojha of SKS Capital. Please go ahead.
- Shubhankar Ojha:** Sir, two questions I have. What is the CAPEX plan for these two businesses separately the product business as well as services business and secondly, I mean these two business are so different I mean in terms of the ROCE, in terms of the margin profile, and CAPEX requirement so, do you have any plan to separate these two businesses and list them in the exchange?

P. Srikar Reddy:

I will answer the second question and then I will ask my colleagues to answer the first question. I have answered this question many times in the past that dealt with and shown separately so you do not have to get mixed up what is the what. I have also told about that there are synergies between both the businesses because we access to technology and because of the access to relationship so that is how some of the relationship we got and alliances we got which are driving today would not have been possible. So there is strategic alignment to both the businesses. I completely agree with you that both the nature of the businesses are very different but I think today we have learned the art of managing both the businesses because one business has been really managed by the team which has been managing such a business now probably the most experienced team in the industry I would guess who is managing this for the last 20 years - 25 years kind of stuff. So to that extent end of the day I think the core competency is there to manage both the businesses and we see a lot of synergies in both and it is not really affecting anything in terms of our ability to invest or grow or whatever it is. So, both are great businesses I think there are huge amount of synergies so we will continue to do both the businesses.

Prasanna Oke:

Yes, Shubhankar, just to answer your question on the CAPEX, again it will be largely growth related. As you are aware in the last quarter, that was the quarter three, we had kind of 400-seater additional facility out in Bangalore that got operationalized at the beginning of the last quarter. So with reference to the CAPEX as and when we needed to manage the growth, to manage facilities we will continue to spend at. No specific CAPEX plans apart from that.

Moderator:

Thank you. Our next question is from the line of Abhay Moghe of Bajaj Allianz. Please go ahead.

Abhay Moghe:

So I have a few questions. First on the effective tax rate for the next quarter and FY17 where we can look at on the consolidated basis and second on the margins front on the consol basis not on the separately but I understand both the business are separate but do you see that there are very limited margins levers even for say IT services businesses because you may have to invest more and only the revenue growth could be a lever which may support margins? And thirdly on the cash, depending on what had been the previous dividend payouts and some CAPEX is already done, do you think that you would go more for acquisitions or there is some other plan you have on the balance sheet?

P. Srikar Reddy:

I will answer your question two and three and then I ask Sathya to answer you on the effective tax rate for next year. So I think your question on margins both the businesses are different so I guess we cannot give a combined business margin because I said the top-line of one business is really highly variable kind of stuff so let us look at both the business separately and then I completely agree with your analysis that the levers in improving the margin on the IT services is now purely top-line, all the levers are exhausted and as I said based on investment effectively it could be a little lower. So I absolutely agree with you that the major lever we have is the top-line growth there and the third question was on cash so I think we have been generally saying that we will continue to maintain the dividend policy we have so we continue to distribute a reasonable percentage of the surplus as dividend. We continue to look at M&A as a source for

growth and consolidation and strategic fit into us so we will continue to that. So I guess that is the answer so it is both dividends and continue to look at acquisitions.

Abhay Moghe: Just to follow-up is there a possibility that the dividend payout would increase? Any remote possibility for that or you think the current percentage is fine?

P. Srikar Reddy: I cannot really comment. It is completely Board's decision, so I guess we can only talk about it after attending Board Meeting.

R. Sathyanarayana: Consol basis tax rate is 32% basically domestic business the tax rate is 34% and Indian tax rate after taking the SEZ benefits will be around 28% but we have business in US where the tax rate is 40% so it comes to 30-32% for the international business.

Abhay Moghe: Okay. Sorry, so consol would be around 28%?

R. Sathyanarayana: Consol is 32%.

Abhay Moghe: 32%. So next year it is possible that it would be around 32%?

R. Sathyanarayana: Yes, 30-32%.

Moderator: Thank you. Our next question is from the line of Chetan Wadia of JHP Securities. Please go ahead.

Chetan Wadia: Sir, my question is on the domestic business I think services that you are providing for the international clients always there for the domestic customers as well so what kind of corporate that you are trying to get in the domestic market and there are Indian companies who have international operations where we have our offices and base so how are you planning to attract them?

P. Srikar Reddy: Our services business is global services, we include the services we do with international clients in India apart from some part where the contracts are really within India with Indian clients and in Indian rupees. We will show that also in our SITL business so there is certain component of services which is reflecting in the SITL business so to answer your question we already have a strategy of selling services in the Indian market it is not that we are going to do new kind of stuff.

Chetan Wadia: So what kind of growth you can see in the domestic market?

P. Srikar Reddy: It is the same actually. Market growth is a little higher in the domestic market as compared to the international market I think the domestic market is growing at about 8% to 10% wherein international market net spend is growing at about 2.5% kind of stuff.

- Chetan Wadia:** Okay. And sir, secondly on the domestic product business you said this is a kind of a 5% EBITDA margin kind of business and you are slowly reaching there the kind of peak margin that you can achieve so then the question comes from the scalability of the business where do you see the business from let us say two years down the line?
- P. Srikar Reddy:** I think yes, as I said the market is growing about 8% to 12% so we continue to get our own share of the market we should grow that rate. We have been doing that so that is our proportion of the market.
- Moderator:** Thank you. Our next question is from the line of Prakash Bhuva, he is an Individual Investor. Please go ahead.
- Prakash Bhuva:** Mr. Reddy we have been very disappointed and discouraged by the flattish performance of the last three consecutive quarters, a long period of nine months. Secondly that you have been making acquisitions, building platforms, talking technical jargons, and polishing the apple. It is only stretching the expectations of the investors with passing quarter after quarter we do not see that much growth in the company. Do you think that 12% growth is very sufficient? Are you satisfied? I think marketing division require vitality and the force. It is like a tiger without teeth because despite the travel events and the exhibitions from pillars to post client catch-up is far less than expectations. We have added only 6 clients so what is your exactly growth plan for the company? Is it a very strong and robust growth plan in terms of top-line of the international business and the profit margins and the payout for the shareholders? Second question is about dividend. You have promised to pay some dividend in the AGM for three times in a year so is there any possibility of dividing the dividends into three times in the year, thank you.
- P. Srikar Reddy:** No, I think we have answered this question earlier also Mr. Bhuva, the whole team is more eager than the shareholders to drive growth of the company so I do not think there are any issue of lack of intent or purpose and as you said that Yes, we have taken time to build this platform and we believe that the energy is there to grow the company at much faster growth rate but it is not proper to tell you that we will do something else kind of stuff so we would rather be cautious rather than we unnecessarily not give the right kind of picture. So I think you should all be very clear that there is huge amount of energy and intent to actually drive this company to greater heights because that is what gives everybody a huge amount of professional pride. I do not think you should have any questions about that. And I do not think we ever said that we will give three dividends so I am not very sure where you got that from.
- Moderator:** Thank you. Our next question is from the line of Nikunj Mehta of Corporate Data Base. Please go ahead.
- Nikunj Mehta:** Just a query on the IT refund, could you just update us on that is the amount pending or did we receive anything this quarter?
- R. Sathyanarayana:** This quarter we have not received anything, we have an advance tax of about Rs.35 crores.

Nikunj Mehta: Rs.35 crores is pending?

R. Sathyanarayana: Pending.

Moderator: Our next question is from the line of Amish Kanani of JM Financials. Please go ahead.

Amish Kanani: Sorry, I missed the first five minutes of the opening remark so pardon me if I am asking a question which is repeat or you already addressed in the first five minutes of the call. In absence of you giving us guiding us the overall growth trajectory of the business at least if you can tell us the key verticals, how is the demand environment and how is the business query pipeline or order pipeline kind of shaping up so that we get some sense of the growth which is likely?

P. Srikar Reddy: There are four key verticals which we said is Travel, Retail, Distribution and ISVs so those the four key vertical. Our pipeline continues to be a lot more healthier than the way we were. Our deal closure has been better. As I said at the beginning of the meeting that we need to focus on ensuring that we do a faster growth in the accounts we are opening kind of stuff so we need to do a better effort, better focused, that so, Yes, so to answer your question in a very basic fashion the health of the business looks better in terms of pipeline and opportunity than what it was let us say six months ago.

Amish Kanani: Okay. And this is across all the four key verticals that you mentioned?

P. Srikar Reddy: Yes, one is more just from the I.B.I.S. acquisition which is a distribution vertical kind of stuff so that will help start driving that work.

Amish Kanani: Okay. And sir, all the hirings that you have done in the past do you see that as a headwind to the cost or you think you will be able to absorb that and the growth will take care of those cost?

P. Srikar Reddy: You are talking about sorry, which one?

Amish Kanani: The key high level hiring that we have done...

P. Srikar Reddy: Yes, all that has been factored in. We have said that we will invest, we have invested and it has been factored into everything we are forecasting.

Amish Kanani: Sure. So margin ability to defend and grow the margin and take it to a level as expected, you think this be...

P. Srikar Reddy: Yes, as we have been saying the margins will be possibly a little higher and could be lower but it still continues to be higher but we still would be rather caution on the margin.

Amish Kanani: Sure. And sir, what is the stated level of margin that you wanted to take it to, some aspirational level margin that you had mentioned?

- P. Srikar Reddy:** Yes, we have said that 21% is a good margin kind of stuff in the international services.
- Amish Kanani:** In the international services?
- P. Srikar Reddy:** Yes.
- Moderator:** Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Srikar Reddy for closing comments.
- P. Srikar Reddy:** Right, okay, thank you all very much and as usual very highly interactive and insightful discussion. Thanks for your support and look forward to seeing you all again soon either physically or in the next call. Thank you again.
- Moderator:** Thank you. 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.