



**Sonata Software Limited
Conference Call**

Sonata Software Limited Conference Call FY 2014 (Q1)

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CORPORATE PARTICIPANTS

Srikar Reddy

Managing Director & Chief Executive Officer

N. Venkatraman

Chief Financial Officer

Sathyanarayana R.

Head – Finance & Accounts

Swati Sengupta

Head – Corporate Marketing and Communications

Priya Jaswani

Company Secretary

Moderator

Ladies and gentlemen good day and welcome to the Sonata Software 1st Quarter Earnings Conference Call. As a reminder all participants' 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy. Thank you and over to you.

Srikar Reddy

Welcome to the analyst call after our results announcement for Q1 FY 14. I have with me Venkataraman Narayanan – Our CFO and R Satyanarayana – Head of Finance; Priya Jaswani – Our Company Secretary; Swati Sengupta – Head of Corporate Marketing. So now this is the 5th Quarter we are having after I have taken over as the CEO. As you may have possibly noticed we have been making steady progress quarter-on-quarter on various parameters and dimensions. As we did mention at the beginning, about a year or year and a half ago, on what our focus is and what we plan to do and where we want to invest and how do we take the company forward. The results of this quarter have been

fairly gratifying in terms of various parameters including both the top line in rupee and dollar terms and margins in our international services business. Similarly in our domestic product business though there is a one-time income this quarter, on account of interest on IT Refund received, overall there has been significant growth there in terms of both margin and revenue in this. I have continually said because of our focus on things which are fairly simple and rudimentary, one was our focus on our existing clients in terms of how do we drive growth with them both from our existing service base and new services. Our focus on expanding our geographical footprint and strengthening our sales engine, investment in people, process, new technologies like social mobile cloud, big data, analytics and so on and so forth; focus on working with our alliance partners and go to market with them and investing in talents, hiring new people, we did mention last time that we have strengthened our sales and marketing teams by hiring talent from the premier management institutes of the country, they have all come on board this quarter. So these continue to be our focus areas and we believe that this has been working for us in driving the growth as we go forward.

Apart from the numbers which Venkat will cover in greater detail, some of the significant events that took place in the last quarter include addition of a new head in Europe; we have hired Rajeev Rege who is the sales head of Europe. He has earlier been with Infosys and Accenture, and he has come on board in the month of May so he is now firmly in the saddle and we do believe that with Rajeev's addition, our focus in Europe would get a greater boost and we will start seeing the results of that in the near future. Apart from that we continue to focus on what we have been saying, ie. investment and building capabilities in new technologies. We have started to verticalise our operations, we have created a couple of new groups in our organization, one to focus on verticals and two to drive our solution and bid management processes in a better way. We believe this will boost and ensure our ability to deal with even larger opportunities, a lot better. We continue to see traction with our existing clients. I think we have expanded in most of them in terms of the new service line and that will be a continuous focus as we go forward and some of the go to markets we have initiated last quarter have developed into pretty good pipeline. I believe we will see some results out of that in the coming quarter. At this stage I will now hand over the mike to Venkat to take you

through other detailed financials of the company and after that we would be open to take any questions that you may have.

Venkataraman Narayanan I will try to take you briefly through our results that we have published yesterday and are available on our website, including the investor presentation which includes key metrics of the two business segments that we have and I hope you all would have had a chance to look at it. Just to quickly summarize our results; it has been a good quarter and we have seen revenue growth. We added about six customers in our international services business. In the domestic service business one of the key attempts that we were trying to make is to get our refunds, which we managed to get from the income tax department last quarter, so that is about Rs. 75 crores. We had an interest on the same so the Rs. 75 crores include interest of about Rs. 6.8 crores which has come in as an exceptional item into our domestic business and all of this put together with the good revenue growth that we saw in our international services business, has helped us post a good consolidated result. As I have been doing in the past we will analyze the results into two key segments that we work in. These are two separate engines which work completely into different market segments and have to be looked at separately, so that you can understand our consolidated financial better. The first segment is international IT services business which is essentially the software development work that we do for our customers, and the second segment is the domestic product & services business, the services component that is relatively small but a large component of 98% or 97% comes from the IT Software products that we sell in India and APAC.

In the international services business we had rupee revenues of about Rs. 102 crores which is for the quarter which is a 16% jump over the previous quarter and a 27% jump over year-over-year in the same quarter last year that is in rupee terms. We did have some upside on account of the US dollar, the way it has depreciated; nevertheless we have also grown volumes because the volume growth was 9% on a sequential basis and 23% on year-on-year basis. So it is the combination of both volume and rate which has really helped us this time. In the international services business we returned an EBITDA of Rs. 12.23 crores which is again 21% over last quarter and 26% year-over-year and on a PAT perspective it was Rs. 8.24 crores, again we have almost doubled it on a sequential basis

and on a year-on-year basis it is 55% higher. In this business we have ended the quarter with close to Rs. 160 crores of cash. We have 2,461 employees and that is an addition of 86 people, our Debtors number of days outstanding is about 74, it is nothing much of a concern there and one of the key metrics that has changed or has changed over the last quarter is the onsite offshore mix in terms of revenue. We were always tracking a 60:40 split which is offshore onsite now. We have actually moved it to 57:43 so there is a slight increase on on-site revenues, that is primary because our development center in Seattle is almost kind of taking off so that is one of the reasons.

We had six new customer additions during the year and rupee realization rate on an average was about Rs. 53 and our utilization of people or staff cost at a healthy 80%, so all of this has added to the good results that we have seen in the international services business that I just talked about.

The second business that we are engaged in, is a segment that I would like to talk about, is the domestic product and services business. In this business we have touched a turnover or revenues of Rs. 310 crores which is a growth of 82% quarter-over-quarter and 52% year-over-year. In this business revenue is not our key focus as I have always been mentioning - it is EBITDA and PAT and as far as EBITDA is concerned including the one-time interest income on IT Refund of Rs. 6.8 crores we posted an EBITDA of Rs. 12 crores which is a jump of 91% quarter-over-quarter and about 268% year-over-year. Just for the sake of analysis if I were to remove the impact of the one-time interest we still would have been relatively flat; but this business is cyclical as you have seen in the past, Q1 of our domestic IT business is relatively weak, Q2 and Q3 tends to be better and on the PAT side we returned a profit after tax of Rs. 6.32 crores which is 120% growth over last quarter and about 600% plus year-over-year. So all said our EBITDA was about 24 Crores on a consolidated basis, which is a growth of 53% Quarter on Quarter basis and 108% over year and on PAT it was Rs. 14.52 crores, which is a growth of 108% over the last quarter and 134% in the same quarter last year. So the results have been good and we are quite happy about this.

The AGM was day before yesterday and the dividend which was declared has been confirmed by the shareholders' and that should be on its way out soon. The board meeting was yesterday and they have reposed their

confidence in our results and they have shown their continued support to the performance of the company. Thank you and I will turn it over for any questions that you may have.

Moderator	Ladies and gentlemen we will now begin with the question and answer session. Our first question is from Chetan Wadia of JHP Securities, please go ahead.
Chetan Wadia	Is there any Forex element in the current financial, Forex gain or loss?
Venkataraman Narayanan	Yes we have got about Rs. 3.2 crores of foreign exchange gain in the international services business which is on account of realization and the re-instatement both of which is present in the profits.
Chetan Wadia	And how about sales from the business from TUI Group, where do you see that thing happening in FY14?
Srikar Reddy	We cannot reveal these information on how much business we do with each clients because we have confidential agreement with our clients, so as I told you that we have strategic partnership with TUI and we are engaged with very strategic engagement with them and this engagement will run for the next three years and as we see that panning out, we will continue to see the engagement grow with them..
Chetan Wadia	You touched upon a new technology that you are in, in which you are going to continue investments and you continue to be positive so far. All the investment that we have made in the last 6 to 9 months which you continue ,what kind of revenue potential do you see from them in FY 14?
Srikar Reddy	I did mention last year it would be less than 5% and possibly this year we will touch between 10%-15% of our revenue from these areas, we have already seen traction especially in the cloud area and we are seeing some traction in the mobility. We are starting to see interest from some of our clients in the big data area, where we are currently talking to 3 of them with some kind of proposal. What it also has done is it gives us the opportunity to have a lot more conversation with our clients than normal because we are taking forward something which is a lot more contemporary and interesting in terms of how this technology can actually be beneficial to their businesses, because these are all new skills and people are still trying to

figure out what kind of business cases will they be impactful upon, so it helps us get a very high level conversation with our clients.

Moderator Our next question is from Atul Jain of Aditya Birla, please go ahead.

Atul Jain I have one question regarding the exceptional item, interest income on tax refund, I was wondering if there is a tax refund also in this quarter and where is it being reflected in the accounts?

Venkataraman Narayanan The tax refund is a balance sheet item. We have always shown receivables or recoverable in the balance sheet, so when we have received it, the recoverable has gone but when they gave us refund they gave us interest on it because they have been holding onto it for the last 3 1/2 years.

Atul Jain So basically the receivables are being debited and the cash has gone up?

Venkataraman Narayanan The cash is income free, because it is essentially on the domestic business and this was held up and we have some working capital loans which we have taken for our business all of which have been repaid, so we are kind of debt free in that business.

Atul Jain Your presentation says that you have net cash of Rs.179 crores, this is net of working capital as well, working capital debt for the long-term?

Venkataraman Narayanan No, we do not have working capital debt as of today, it is essentially that will be a mismatch between the creditors and the debtors if we adjust for that it is about Rs.160 crores effective cash.

Atul Jain Also regarding the divestment of 51% stake in the TUI Infotech in Germany, do we have any liabilities, any liabilities pending or it is totally as assumed by the purchaser?

Venkataraman Narayanan It is completely taken over which is what we have even mentioned in our press release when we announced the divestment, we did have a overhang over the liabilities, may be possibility of liability of €3.5 million which was waived off and all liabilities are being settled.

Atul Jain So no liabilities are pending whatsoever?

Venkataraman Narayanan Nothing.

- Atul Jain** Also that the acquisition has not really been successful this one so and given that you have cash right now, so is the company's focus is to conserve cash and grow organically?
- Srikar Reddy** No, our focus is also to look at inorganic growth, I think we have been mentioning it quite a few times in our past analyst calls. We are looking to grow and with assets which are going to be to strategically align to what we want to do going forward in both ways vertical or horizontal and geographical. So to answer your questions, we are quite keenly focused on, at this stage it may not be really add significant size but it is really to give competitive advantage to our offerings in the go to market.
- Atul Jain** What is your hedging policy currently?
- Venkataraman Narayanan** Our current hedging policy is 12 months forward with decreasing covers that we have but it is being reviewed and the board has recently recommended that we shorten it to 6 months because, if we are doing 12 month until a day before yesterday, going forward we will actually stay put because we have got existing hedges which will have to just expire or we will have to fulfill them, commit them, complete those contracts.
- Atul Jain** We have got a structural deficit problem, so the general opinion is towards depreciating rupee only?
- Venkataraman Narayanan** Yes, that was the basis on which we were also advised to make a change to our hedging policy which is what we have done.
- Atul Jain** So the benefit of the current depreciation is now above 60, so that will only come in after a year or so?
- Venkataraman Narayanan** We are not completely covered for the subsequent quarters so what we would have typically covered the subsequent quarters because we follow the process of 80, 60, 40, 20 kind a cover over the four quarters. As it comes to the nearing quarter we cover the open position. So now we actually stay put and we leave it at about 70% would be covered and about 30% would be open.
- Moderator** Our next question is a follow-up question from Chetan Wadia of JHP Securities, please go ahead.

- Chetan Wadia** Is there any impact that you see in the new immigration bill in the USA, any impact on us in the short-term or in a long-term?
- Srikar Reddy** Not really, as of today because of the way we are hiring local people in the US our current ratios are pretty good in terms of the locals versus the people who are dependent on a H1 and L1 visa, so I would say that it is fairly neutral for us that at this time.
- Chetan Wadia** My second question to you will be, I know you do not give forward guidance per se in terms of financials, if you were to kind of foresee FY14 in terms of consolidated basis both international and domestic then would you see the company in FY 14?
- Srikar Reddy** As I told in the beginning of the meeting, my belief is that qualitatively we as a company will be lots more competitive at the end of this year on various dimensions both in terms of the quality of our offerings, the kind of relationship that we have with clients, the talent that we have in our organization and the kind of services that we want to take it to market and the deeper relationship between us, so I do believe that the company will be a lot more healthier qualitatively by the end of the year.
- Chetan Wadia** One question on the tax liability, is there anything left to be credited from the government in terms of tax refunds?
- Venkataraman Narayanan** We would have another let us say about Rs.40 crores which is there, out of which Rs.20 crores-Rs.25 crores will be outstanding on our pending assets so effectively we could expect another between Rs.10 crores to Rs.15 crores of additional refunds over the next 6 to 9 months.
- Chetan Wadia** In the last con call you put an emphasis on the sales team, I think you had around nine people if I remember correctly. Is there more people added into that and where do you think the performance will be headed?
- Srikar Reddy** No additions to that, we have expanded in Singapore, we have put a person in Singapore in the month of April-May, and we are expanding in Australia. We have a representative office but we are going to have people there starting hopefully next month or latest by October, so these are the two new areas where we are investing in. Apart from that in our market in the US and UK at this stage we are quite flat.

- Chetan Wadia** Lastly you touched upon the on-site offshore percentage in the geography basis as well I think the rest of the world contribution seems to be gone up significantly, so is there some kind of consideration on the trend that we can see the quarter ahead or this is one off?
- Venkataraman Narayanan** We have given that breakup in our investor's presentation, essentially that is to do with one of our large customers giving us more work that is how the geographical percentage moves. The on-site offshore trend moves is essentially what I told you about, the office in Seattle.
- Moderator** We do have a question now from Pinkesh Jain of Way2Wealth, please go ahead.
- Pinkesh Jain** I want to know that what rate we realized rupee rate in the 1st Quarter?
- Venkataraman Narayanan** Rs. 53.
- Pinkesh Jain** What was the wage hike given in the quarter?
- Venkataraman Narayanan** The wage hike was on an average of about 6% to 7%.
- Pinkesh Jain** And these were effective from April, right?
- Srikar Reddy** We did a wage hike in two tranches, in January and April. In January for India employees and in April for employees situated at on-shore and few senior employees in India.
- Pinkesh Jain** Your other expenses also have shot up?
- Venkataraman Narayanan** The other expenses have shot up primarily because one is the visa expenses because the 1st Quarter happens to be when we have to file more number of H1 visas, this time we have filed a few more H1 visas, second is also on the front we had made a provision for one of the doubtful receivables, these two have fundamentally contributed to other expenses.
- Pinkesh Jain** Provisions for one of the receivables?
- Venkataraman Narayanan** Yes, doubtful receivables.
- Pinkesh Jain** Can you quantify that?

Venkataraman Narayanan That is about Rs.2 crores.

Moderator The next question is from Nikunj Mehta of Corporate Database, please go ahead.

Nikunj Mehta Just wanted to check that now with AGM has just got concluded, is the board even broadly considering or open to a buyback kind of situation because we have enough cash and even if we have inorganic plans, we could simultaneously do both if at all, so just wanted your view on that?

Srikar Reddy I think these questions have been asked again in the past in terms of what you want to do with the cash, whether we will give bonus shares and we will do buybacks and all that, so obviously some of the decisions board needs to look at and in this stage I think, we are all really focused on driving value and growth in the company, so that is what we are really focused on new market, hiring new talent, new offerings, new verticals for the margin improvements so we are all focused on how we can make better decisions and move the business forward apart from some M&A kind of stuff so can't really say what are the other corporate actions which are possible at this stage.

Moderator As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments.

Srikar Reddy Thank you all again for joining the conference, we really appreciate your support, you have been extending us and we continue to extend the same kind of support. We look forward to meeting with you again in next call three months from now.

Moderator Thank you members of the management. Ladies and gentlemen on behalf of Sonata Software that concludes this conference call. Thank you for joining us.
